

Armenia: Social Protection and Social Inclusion

Country report

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Abstract:

The report “Social Protection and Social Inclusion in Armenia” is prepared within the “Social Protection and Social Inclusion in Southern Caucasus” project initiated by the European Commission, DG Employment, Social Affairs and Equal opportunities, Directorate Social protection and Integration. The report is developed taking into consideration the objectives proposed by the EU under the Open Method of Cooperation. The report attempts to: (i) provide an up-to-date and relevant information and comprehensive analysis on current social protection and healthcare systems; (ii) highlight the key challenges, sources of risks and policy issues; (iii) outline country specific problems; and (iv) link the strategies of sustainable economic growth to social cohesion, equity and equal opportunities for all members of society by assuring adequate, accessible, financially sustainable and efficient social protection system and social inclusion policies.



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COUNTRY REPORT

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List of Abbreviations

AMD	Armenian Dram – national currency
ALMP	Active Labor Market Programs
BEEPS	Business Environment and Enterprises Performance Survey
CBA	Central Bank of Armenia
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
EC	European Commission
ECA	Europe and Central Asia
EPL	Employment Protection Legislation
EU	European Union
EBRD	European Bank for Reconstruction and Development
FB(S)	Family Benefit (System)
FSU	Former Soviet Union
GDP	Gross Domestic Product
GOA	Government of Armenia
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HHS	Household Survey
ILCS	Integrated Living Conditions Survey
IMF	International Monetary Fund
ILO	International Labor Organization
IOM	International Organization for Migration
LSG	Local Self-governance
LFS	Labor force survey
LSMS	Living Standards Measurement Survey
MLSI	Ministry of Labor and Social Issues
MES	Ministry of Education and Science
MTEF	Medium Term Expenditure Framework
NSS	National Statistical Service
NHA	National Healthcare Agency
OECD	Organization for Economic and Co-operation and Development
PSIA	Poverty Social Impact Analysis
PAYG	Pay as You Go
SDP	Sustainable Development Program
SESA	State Employment Services Agency
SLI	State Labor Inspectorate
SSSS	State Social Security Service
SMEC	Social Medical Expert Commission
SSPA	Social Snapshot and Poverty in Armenia
SME	Small and Medium Enterprises
SMEDNCA	SME Development National Center of Armenia
UNFPA	United Nations Population Fund
VAS	Vulnerability Assessment Survey
VET	Vocational Education and Trainings
VAT	Value Added Tax
WB	World Bank

Executive Summary

Introduction

The report “Social Protection and Social Inclusion in Armenia” is prepared taking into consideration the objectives proposed by the EU under the Open Method of Cooperation. The report attempts to: (i) provide an up-to-date and relevant information and comprehensive analysis on current social protection and healthcare systems; (ii) highlight the key challenges, sources of risks and policy issues; (iii) outline country specific problems; and (iv) link the strategies of sustainable economic growth to social cohesion, equity and equal opportunities for all members of society by assuring adequate, accessible, financially sustainable and efficient social protection system and social inclusion policies.

Armenia’s transition from a centrally planned to a market oriented economic system (formally – starting from 1991) has not gone smoothly because Armenia experienced a series of extra floats that seriously affected the economy. However, starting from the mid 1990-s, Armenia has been one of the fastest-growing transition countries. Moderate but vigorous economic growth in the initial years of the recovery (5% on average during 1994–2001) and double-digit rates annually on average in 2002-2007 (which due to global crisis slowed down to 6.9% in 2008 and has shrunken by 14.2% in 2009) is a result of steady pursuit of the market-oriented reforms. Although the high rate of economic growth for the population means a general increase of income, employment rate and improvement of other macroeconomic indicators, and the poverty reduction during those years was significant (it decreased from 56.1% in 1999 to 34.6% in 2004 and to 28.7% in 2009¹), the transition link between the growth and employment was weak. Along with the persistent unemployment, which, according to LFS data, comprises around one-fifth of the labor force - a dual labor market with large informal employment- under-employment or subsistence employment was a typical phenomena.

The social protection system of Armenia has improved essentially and plays an important role in providing social support to population and alleviating the extreme poverty. Social assistance is one of the few available tools to protect those who do not benefit from opportunities created by economic growth in the short or medium terms. However, reforms in the social assistance policy are critical in order to achieve sustainable results by establishing not only a large scale cash social assistance system but also active social assistance programs that ensure social inclusion of all. Promoting participation in labor market, for example, will enable fighting poverty and exclusion while providing satisfaction of the basic needs of vulnerable families and contribute towards the poverty reduction.

¹ In 2009 the poverty assessment methodology was revised to reflect the changes in composition of minimum consumption basket since 2004 (see Annex 3.1). However, to enable comparison over several years, NSS provided estimations on selected poverty indicators for 2009 based on the previous methodology as well. According to the new methodology the poverty incidence comprised: extremely poor 3.6%, very poor 20.1% and poor 34.1%.

Macroeconomic Overview

In the early 1990-s, a sharp rise in unemployment, real wage fall, tax base shrinkage, government suffering from persistent cash shortages generating large external and domestic expenditure arrears, were the factors resulting in a crucial decline in living standards and rising poverty levels that caused a large migration.

Reforms initiated in the second half of the 1990-s attempted to revitalize the economy. As a result, the economy rebounded at the end of century. However, it was clear that a number of imbalances still constrained the economic growth.

The start of the new century was notable for Armenia because of renewed stabilization and reform efforts. Comprehensive reforms were introduced in fiscal, banking and energy sectors and later aligned with the Poverty Reduction Strategy Program (PRSP), adopted by the Government in August 2003. As a result, the country outperformed other low-income countries and, in 2004, moved from the class of “low income” countries to the class of “middle income” countries.

This report is prepared next to the backdrop of the worst global financial crisis, which has hit Armenia particularly hard. Due to the crisis, the country’s economy has shrunk, poverty and unemployment have risen, and there is a feeling of uncertainty about what to expect and how to move ahead. This is especially because of the common misbehavior that crisis is born and went from the most developed economies with long devotion to market economy, restraints on the public sector, greater efficiency of the private sector, and strong systems of social protection.

The economic growth in Armenia has peculiarities that can be considered as sources of vulnerability of economic performance during shocks. The Armenian economy is described as: (i) narrowly based; (ii) lowly diversified by sectors; (iii) microeconomic biases with low share of small and medium-size enterprises, which would facilitate the entry of new firms and the growth of small enterprises and consequently contribute to faster job creation, employment growth and unemployment reduction; (iv) one in which remittances play an important role in economy and mitigate the impact of the transition on the welfare of households; and (v) an economy in which the share of informal sector is large – according to different analysts’ estimates the shadow economy in 2010 could be equivalent to about 35-40% of total GDP.

The impact of the economic contraction on the poor is accelerated by increasing rates of inflation, which requires continuing strengthening of social protection programs, as well as leaves room for further speeding up of the undergoing reforms in key areas of economic governance, with special focus on domestic economic competition, revenue administration, and further liberalizing trade services.

Currently the Government of RA is implementing social protection reforms; while trying to compensate for the fiscal deterioration the recent reforms promoted by the Government result in rising public debt. This in turn will feed into the view to the activities and policies of financial institutions.

Irrespective of current achievements in public finance management, the country still faces weaknesses that do not allow more efficient and transparent use of public financial resources, thus

reducing the outcomes expected from the implementation of state policies. Therefore, the further and deeper reform in the fiscal sector is needed.

Labor Market

Since independence labor markets in Armenia have gone through a profound transition affected by a systemic crisis of the economy during early 1990-s, economic and social reforms, and continuous economic growth lasting more than a decade - since the mid 1990-s up to 2008 (before the recent crisis caused the slowdown followed by the economy's decline). However, real unemployment has persistently remained at double-digit levels and, on average, roughly one out of four economically active people was unemployed. Moreover, about two-thirds of the employed depend on incomes from low-productivity agriculture and trade.

Demographic trends, such as reproductive behavior, migration patterns, along with the situation in labor market, influenced the economic activity rate causing an essential decline during the period of 1991-2009 from 81.4% to 52.3%². The employment structure by sphere of economic activity has been changed significantly as well, and in such a way that it became less diversified and more vulnerable to internal and external shocks. Subsistence agriculture emerged as a key factor mitigating the shocks of transition period, as well as the absence of policies for creating non agricultural jobs. Although the ratio of employed in subsistence agriculture of total employed was still high in 2009 (45.1% or 491.6 thousand people compared to 501.6 thousand in 2004), conditioning higher level of employment in rural versus urban areas. However, those engaged in agriculture are non-registered self-employed farmers with low productivity, paired with seasonality and low pay. Although jobs in the sector are not very promising from the perspective of poverty reduction, they still remain the main source of income for the rural population since the opportunity of non agricultural activity outside of Yerevan city is limited.

Since 1990 the private sector in Armenia has expanded significantly. However, the real job creation in the sector was not sufficient. From the mid to late 1990-s the main factor behind the emergence of private sector in Armenia was privatization. Although over the past few years the private sector has been the main engine for job creation in Armenia, it was not sufficient due to a number of obstacles preventing further business establishment, growth and formal employment in Armenia.

The greatest change since this transition has been the shift, although involuntary, from stable wages and salaried jobs to casual and less-formal jobs and self-employment. Moreover, the main cause of this situation is the lack of alternative employment, especially in rural areas.

Informality is another challenge for Armenian labor market; employment in the informal sector is mostly casual and based on personal and social relations rather than on contractual arrangements. Informal employment is usually low paid, instable and creates challenges for the future as well. People engaged in the sector do not accrue any social protection rights. In the case of unemployment or sickness, any insured pension rights will depend on social pension only, therefore putting an extra burden on a budget.

²The indicator is calculated as share of economically active population (establishment survey and administrative data) in total number of labor resources. Source: NSS of RA, Statistical Yearbook of Armenia, 2010, page 53 section on Employment (<http://www.armstat.am/file/doc/99461553.pdf>).

Self-reported unemployment rate is significantly higher in Armenia than unemployment rates recorded at employment services. Although there has been a noticeable improvement in Armenia's labor market, there still exists a large supply and demand gap. The unemployment rate in Armenia based on LFS 2009 data (using ILO methodology of defining the unemployment) amounted to 18.7% (vs. officially registered 7.0%).

Wages have fallen in Armenia in the early years of transition, and began to rebound beginning in the mid 1990-s. However, wage disparities by types of economic activity and by sectors of economy, as well as the gender pay gap, are significant.

Interventions both outside and within the labor market have significant potential to improve labor market performance in Armenia. In the early 1990-s, the employment policy in Armenia was mainly concentrated on passive measures such as provision of unemployment benefits. Starting from the early 2000-s the main priorities in socio-economic development and poverty reduction were tight with labor market issues and special importance was given to active labor market policies aimed at improving employment and reducing the rate of unemployment with specific focus on structural unemployment. Although the situation in the labor market is conditional to a range of external factors and the function of state employment services (as an agency implementing the state policy) is important (to match available jobs with job seekers), the agency has no direct influence on either labor supply or demand. Still, labor market interventions, in particular Active Labor Market Policies (ALMP), have great potential for improving labor market performance, enhancing labor supply (e.g. through training), increasing labor demand (e.g. through wage subsidies and public works), and improving the labor market mechanisms.

Education System

Reforming the education system and policy issues are important for Armenia as formation of and preserving the human capital serves as an important tool for improving living conditions and escaping poverty. Changes associated with transition have presented the educational system with a number of challenges.

The decline of public resources allocated to education (from 7%-9% of GDP in the late 1980-s through the early 1990-s to 2% in the late 1990-s and 3.5% in 2009), uneven private household expenditure on education across income distribution and households jeopardize the tradition of universal access to education. In addition to inequality of access, the quality of education is becoming unequal as well. Differences in access to good quality education between richer and poorer households and between urban and rural areas are significant.

Migration and Remittances

Armenia is a country with a long history of migration. Both regular and irregular emigration has been and continues to be an important phenomenon affecting the country. Since transition Armenia has experienced few migration streams due to various reasons, but the magnitude of the migration process has been difficult to assess due to lack of reliable statistics. The issue has been a subject of heavy discussions because the procedures for administrative registration of migration do not

allow for assessing the accurate size of emigration. The estimates of the real size of migration vary between 800 thousand to 1 million people.

Seasonal labor migration in Armenia as a phenomenon was began in the 1960-s due to differences between socio-economic development of different administrative-territorial units of the country and involved mainly residents of some high mountainous regions that had limited demand for agricultural labor (due to unfavorable climate) and underdeveloped industrial infrastructure. During the 1990-s the migration, whether it was emigration or long-term temporary labor migration for longer periods as “guest workers” for a few years, had a major impact on the labor supply in Armenia. On one hand it involved some emigration of better-educated, higher-skilled workers to other countries, thus influencing the occupational and professional structure of the labor force.

The direct consequence of labor migration is that remittances from abroad play an important social and economic role in Armenia. Particularly, private remittances from abroad play an essential role in reducing poverty despite the fact that they have declined in the income structure of population.

Demographic Trends

Along with social and economic transition Armenia experienced a continuous decline in population. The negative demographic developments in the 1990-s are explained by natural growth decline, an increase in mortality rate and population migration, leading to a decrease in population and to a significant change in its composition by age.

The demographic trends in Armenia over the recent decades have changed the shape of the age pyramid. Due to changes in the age and sex composition of the population of the country, like many countries in the world, Armenia faces the challenges of aging.

The ethnic composition of Armenia’s population could be considered as homogenous. According to 2001 Census data (data by ethnic groups of population are obtained only trough Census) 97.9% of the population are Armenians. Despite the relatively large number of communities of national minorities in Armenia, the number of persons belonging to those communities is small, and this does not enable them to have their own parliamentary representative, even from places of compact residence.

Territorial Disparities

Territorial disparities became a serious obstacle to the economic and social development of Armenia. Since the beginning of the 2000s regional development disparities have been increasing in parallel to the accelerated economic growth, and are mainly reflected in the growth of the economic role and significance of the capital city, Yerevan. Harmonized regional development of Armenia became one of the main priorities as the Government of Armenia announced in its Sustainable Development Program (SDP) program for 2008-2012. The regional development scenario proposed in SDP envisages the implementation of a targeted regional development policy and is aimed at promotion of increased economic growth outside Yerevan.

Social Protection System

The social protection system of Armenia plays an important role in providing social support to the population and alleviating the extreme poverty. Moreover, the social protection policy is aimed at managing social risks by the state via prevention, reduction, and regulation.

The functions of the state system of social protection are clearly defined, based on which, corresponding programs are provided for vulnerable population groups. These programs include: (i) state social assistance programs; (ii) social security programs; (iii) social protection programs; (iv) state social insurance programs; (v) employment programs; (vi) a system of allowances. In general, the social protection system in Armenia can be divided into social insurance and social assistance.

Social protection in Armenia is administered by the Ministry of Labor and Social Issues (MLSI) that is responsible for policy-making and implementation in all branches of the labor and social protection system except health care.

The social protection system up to 2008 was funded by the state budget (social assistance, social welfare services, and military retirement benefits) and by the Social Insurance Fund (SIF) (labor or insured pensions, unemployment and sick leave benefits). Beginning in January 2008 the SIF was reorganized into the State Social Security Service (SSSS), and all social protection programs are financed directly from state budget, although there exist contributory and non-contributory based benefits and services. Total public spending on social protection comprised 6.0% of the GDP in 2008 and 7.9% in 2009. There exist out-of-budget international donors' participation in different social assistance programs, however it is not included in data provided in this paper. Although the total amount of expenditure on social protection from the state budget increased 4.1 times in 2009 compared to 2001, the huge share of social protection expenditure (86-87%) is allocated to finance both social and insured (labor) pension provisions and poverty family benefits. The remaining small share of public finance for social protection obviously is hardly enough to assure other efficient and qualified social protection programs. Moreover, the share of spending on pensions grew. The share of spending on pension provision has increased from 54.1% in 1999 to 72.9% in 2009. Thus, the issue of financial sustainability of the social protection system, particularly the current pension system, is the matter of great concern.

The most important and costly social insurance benefits are pensions, unemployment insurance coverage, maternity coverage, and childcare benefits for children under 2 years old. Although the amounts of these benefits have trended upwards, their average size is still low compared to EU member states and some former Soviet Union countries.

The system of state allowances in Armenia was established in Soviet times by introducing a law on the "Allowances for Children from Less Secure Families" and since independence has undergone many modifications. In 1997, the new procedures were established to provide monetary compensation to certain groups of the population defined by the legislation, rather than based on privileges (as it was during the Soviet times). The Family Benefit (FB) was introduced in January 1999 only, and a major shift took place from "the categorical oriented to socially deserving members of society" system to a system focusing on protecting the poor. Previously, there existed 26 small, uncoordinated categories of cash benefits, allocated on the individual level, that were replaced by the FB system based on proxy means-tested targeting mechanism. FB administration

and targeting efficiency play a critical role while assessing the impact of the program. Therefore the further improvement is another matter of concern.

As for social services, they are being provided separately through state and non-state run facilities and steps are being taken to shift to providing services as a package. These services are aimed at satisfying the social needs of individuals representing separate vulnerable population groups in case of eligibility. Today, one of priorities of social assistance policies in Armenia is the transition from merely cash and non-cash aids to delivering comprehensive social services in packages. The packages of social services are supposed to be designed as social services deriving from needs of the clients and are to be based on a needs assessment (e.g. for disabled based on data of developed individual rehabilitation programs). The equity in access of social services provided, and assurance of equity in quality remains an important and high priority issue for Armenia.

Poverty and Social Inclusion

Thanks to sustainable economic development, as well as the measures undertaken to ensure growth of public resources directed to the social policy and increase of its purposefulness, there has been a significant reduction in poverty and extreme poverty in Armenia. Between 2004 and 2008 more than 350,000 people were able to move out of poverty. The percentage of poor dropped from 34.6% in 2004 to 23.5% in 2008. Extreme poverty declined even faster - from 6.4% in 2004 to 3.1% in 2008. As for the income inequality, it, measured by Gini coefficient, has declined slightly - from 0.395 in 2004 to 0.389 in 2008 (according to 2009 methodology Gini coefficient was 0.339 for 2008 and 0.355 for 2009). In the 1990-s and early 2000-s income inequality in Armenia was among the highest for transition countries with similar per capita income levels.

However, the economic crisis seriously affected Armenia's economic growth and the poverty reduction achieved during the above mentioned period. The crisis has had a serious impact on poverty incidence – according to the new methodology it comprised 34.1% in 2009 compared to 27.6% in 2008.³

The income inequality in the late 1990-s was much higher than the consumption inequality, which was indicating that the population polarization in Armenia was deeper in income distribution as compared to consumption. The series of 2004-2008 household surveys prove that this trend was preserved: in 2009 the income inequality was at 0.355 while the consumption inequality was much lower – 0.257.

Poverty incidence varies essentially across marzes (Armenia is administratively divided into 10 regions - marzes, and Yerevan). The ILCS data proves that the impact of the economic growth on the poverty reduction in marzes has been disproportional. The poverty incidence is higher in bordering regions, in regions with unfavorable conditions for agriculture (especially with small share of irrigated agriculture land), and in marzes with predominantly urban population. However, while overall between 2004 and 2008 the poverty and the extreme poverty showed the trend of declining in all marzes and in Yerevan city, in 2009 there was registered increase in poverty in all marzes but with different speed.

³ The new 2009 methodology is applied.

From the vulnerability perspective households headed by females, larger households with 2 or more children, households headed by unemployed or with unemployed adults, as well as elderly, disabled and people without education or professional skills, are at the highest risk. Thus, education is one of the important factors along with health status determining the level of household vulnerability. Dynamics of poverty reduction shows that the poverty reduction among people 16 years and older with higher and middle vocational education was faster: between 1999 and 2008 that reduction comprised 4 times for those with higher education and 3 times –for those with middle vocational education, respectively.

Households having a sick member are more likely to perceive themselves as poorer compared to similar households with no sick members. These perceptions objectively reflect the accessibility and quality of the services actually received. Health services in Armenia are expensive and costs are mostly born by households themselves.

As the causes of poverty are linked to economic, political, and social transformations, national policies targeting the poverty reduction are concentrated on economic development with a focus on increasing the access of poor groups of the population to education, health, social protection and the labor market are the key sectors in which the level of social inclusion and inequality need to be defeated.

Pension System

The current pension system provides old age, disability and survivorship, privileged and social benefits on a Pay-As-You-Go (PAYG) basis. The pension age for both insured men and women is 63, and 65 for social pensions. The current pension formula based on length of service is not linked to wages. The contribution rate to the public social security system is 3% of wages for employees. Employers pay from 21 to 28% of payroll (or 23% on average), based on a regressive scale. The agricultural sector, formally almost half of the economically active population, is by law not required to contribute to the social insurance system.

The pension system in Armenia covers more than 20% of population. In 2009, the pensions constituted 5.6% of total state budget expenses, 12.9% of total social expenses (including those on healthcare, education, culture and others) and 72.9% of overall social protection expenses. Despite the essential increase of pensions in 2008, the average pension is still low and in 2009 amounted to 26,056 drams (52 Euro) for the all insured persons and 10,067 drams (20 Euro) for the social pensioners. The replacement rate calculated as a ratio of the national level of average gross pension to average gross wage, in 2009, amounted to 27.3% for insured pensioners and 10.5% - for social pensioners. The average insurance pension is 2/3rd of the minimal consumption basket.

The total number of contributors to the pension system is less than the number of pensioners, in 2008, which means that the effective support ratio of the pension system (the number of contributors divided by the number of pensioners) is less than 1,0. The constantly increasing number of pensioners, comparatively small number of actual contributors to the system, low level of wages, high tax evasion along with continuously worsening demographic situation due to low birth rate, working-age population outflow, and increased life expectancy are increasing fiscal pressure to the current PAYG pension system. Financial non-sustainability of the system and inadequacy of

the pensions paid to retirees became crucial issues that appeared in the political agenda of Armenia.

In an effort to improve the fiscally unsound and unsustainable pension system, the Government of Armenia, since 2006, has moved to reform the pension system by exploring a number of reform programs in other countries. After much debate and deliberation, the government finally adopted a pension reform program in November 2008. By October 2009, a legislation package of five draft laws on pension reform was developed by the Pension Reform Implementation Managerial Board (PRIMB) and submitted to the National Assembly for adoption. If this package is enacted in 2010, the Government plans to launch a multi-pillar pension system in the period of 2011-2014, as outlined in the pension reform framework that includes:

- *the pillar '0' or the social pension* - for those people who have not been employed during their life or have been employed less than 10 years or have been employed but in non-formal economy;
- *the pillar '1' or the labor pension* - for employees above 40 years old upon their retirement;
- *the pillar '2' or the mandatory funded pension* - for young people up to 40 years old (40 inclusive) upon their retirement. The funding source of the funded pension is the individual income (the salary), of which 5% will be transferred on the personal pension account, and, meantime, the state will double that amount (will top up another 5%) by making an appropriate transfer from the state budget.
- *the pillar '3' or the voluntary funded pension* - for all those who want to receive supplementary pensions by participating in various funded pension schemes offered by private financial institutions (insurance companies, pension funds, etc.).

Currently, the National Assembly is in the process of a second reading of the pension reform legislation package. At the same time, the Government has adopted the program and time-schedule for implementation of public awareness, public education and civil society participation in the reforming of pension system.

Health and Long-Term Care

After the collapse of the Soviet Union the former Soviet republics, including the Republic of Armenia, inherited the "Semashko model" and a centralized health system. All the Newly Independent States (NIS) had to decide how to deal with their heritage. During the challenging transition process and political and economic development, a law on reform of the health system was adopted in Armenia in 1996. The system was aimed at reducing the financial support of the state. In March 1996, the law "On medical aid and medical services for the population" was adopted by the National Assembly, which abolished the belief that everyone was entitled to free health care and which allowed private out-of-pocket payments.

There was a deterioration of economic and living standards during the transition accompanied by a declining health status of the Armenian population. The general state of health of the Armenian population provides reason for concern. Tuberculosis has remained a widespread disease and the

infant mortality rate remains high. The most common causes of death are cardiovascular diseases, cancer, tumor, accidents, and gastro-intestinal diseases. Armenia belongs to the countries with the most incident cases of multidrug-resistant tuberculosis (MDR-TB) (55 new cases per 100 000 per year in 2006). Circulatory diseases are the leading cause of death in Armenia and account for 47% and 53% of all deaths in men and women, correspondingly. Regarding HIV transmission in Armenia, from the beginning of the epidemic 205 death cases have been registered among HIV/AIDS patients (including 35 women and 4 children).

Although maternal and child health in Armenia has improved in recent years, there is a discrepancy between the nationally-reported data, WHO estimated data, and data from various surveys.

The Ministry of Health usually conducts the public regulation. However, the role of the local/municipal (regional) government is becoming constantly more important. Between the mid-1990s and 1998 there took place a shift of financial responsibility for the provision of statutory health services from the central Government to regional governments. Regional/local authorities attained a certain degree of independence from the central Government (e.g. negotiating contracts with regional/local health care providers, monitoring quality and amending regional/local budgets). Since 1996, the responsibility for the provision of primary and secondary care has been transferred to regional and local governments. The Ministry of Health remained responsible for tertiary-level institutions, while most hospitals and polyclinics are under the responsibility of governments at regional (marz) level. In 1998, the responsibility for some rural outpatient clinics was transferred to governments at the community (village) level.

Health care in Armenia is still largely funded by general tax revenues. The Armenian Government has tried to satisfy needs for medical services and raised the health care budget from 1.0% in 2000 to 1.3% of GDP in December 2009, and is planning a further substantial increase with the objective of reaching 2.2% of the GDP in 2012. However, in comparison to other public expenditures, the level of expenditures for health care remain low.

The insurance industry is not yet well developed in Armenia, so the market itself does not succeed in providing adequate private health insurance. Voluntary private insurance has a limited role and has a supplementary character, which already has a reasonably comprehensive coverage. In Armenia, officially there are five thousand work places in the market of drugs. One of the biggest concerns in the medicine market is their illegal import from abroad.

Unfortunately, the available information on international help for health care is less yielding than other data. It has to be pointed out that international help for medical facilities and private households is of great importance not only because of its financial contribution but also because of its structural implications. Financing of the health care system through use of donors' money is becoming more and more widespread. According to the World Health Statistics, external resources are becoming a major source of health funding in low-income countries as some low-income countries have two thirds of their total health expenditure funded by external resources. This makes predictability of aid an important concern.

One further important problem is the intolerable burden on ecology. In Armenia, there are no means for processing of unused medical supplies. It has been decided to create an enterprise for their processing.

The output and quality of the health care system is highly dependent on the human resources and skills of the personnel working in the health care sector. At first sight it does not seem to be a problem connected with nursing and midwifery personnel in Armenia, but when comparing with other transition countries Armenia lags behind the European average and many former communist countries. By the number of physicians per capita Armenia occupies a place above the average when comparing with the CIS countries. Furthermore, Armenia's indicator is higher by 15% than the average level of WHO European Region. Nevertheless, it should be outlined that medical professionals are overwhelmingly concentrated in the capital city of Yerevan.

The health care provision is designed to allow access for all citizens of Armenia, without any financial, geographic or other barriers to access. However, the apparent disparity in access to health care between the capital Yerevan and other regions remains one of the major problems. Patients living in Yerevan have more opportunities to access the necessary medical care as 68.4% of all physicians work in Yerevan. Health care utilization is low, especially among the poor and those living in rural settlements of Armenia. That is why the national policy prioritizes the increased access to and quality of healthcare services, with an emphasis on increasing such access to basic services across the regions of the country and mitigating the disparities in the rate of utilization of healthcare services across population groups with different income levels.

Chapter 1. Country Economic, Demographic and labor Market Overview

1.1 Introduction

The 1990-s was a period of difficult transition for Armenia. A sharp rise in unemployment, real wage fall, tax base shrinkage, government suffering from persistent cash shortages generating large external and domestic expenditure arrears resulted in a sharp decline in living standards and rising poverty levels that led to large migration.

Reforms initiated in the second half of the 1990-s attempted to revitalize the economy. As a result, the economy rebounded at the end of century. However, it was clear that a number of imbalances still constrained the economic growth. Over 50% of the population still lived in poverty and, consequently, emigration of most productive work force to other countries remained substantial.

The start of the new century was notable for Armenia because of renewed stabilization and reform efforts. Comprehensive reforms were introduced in fiscal, banking and energy sectors and later aligned with the Poverty Reduction Strategy Program (PRSP). As a result, the country outperformed other low-income countries: in 2004, Armenia moved from the class of "low income" countries to the class of "middle income" countries.⁴ The rate of poverty in Armenia in 2006 was 26.5 percent and the rate of extreme poverty was 4.1 percent. Despite these achievements, poverty remains an issue for Armenia and the Government, in its "Sustainable Development Program" (2008), listed as strategic priority targets reducing poverty by 2021 to the level of 6.8%, and the level of extreme poverty to 1.2%⁵.

⁴ <http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0..contentMDK:20420458-menuPK:64133156-pagePK:64133150-piPK:64133175-theSitePK:239419.00.html>.

⁵ www.gov.am "Sustainable Development Program", 2008, page 20.

The Government of Republic of Armenia addressed the issue of social protection and poverty in its 2008-2012 program adopted on April 28, 2008 (Decree N 380–A)⁶. Social integration and consolidation, as well as the development of human capital and harmonized regional development, are among the five high priorities of the Government⁷. These priorities are attempting to overcome poverty and issues related to social protection by active involvement of the poor in the economic and civil activities, by “targeting the establishment of public solidarity, formation of solidarity oriented state, and embedding of social justice.”⁸ The key objectives in addressing the issues are:

- Ensuring equal labor market participation for the groups at risk of poverty and social exclusion;
- Prevention of social exclusion and overcoming its consequences by ensuring equal access to appropriate services;
- Poverty reduction among the groups beyond working age - elderly people - by reducing the gap between the average wages and average pensions;
- Reduction of the gap between the living standards of the employed and retired population (including disabled);
- Improvement of the social protection management system;
- Increasing the accessibility and quality of health care services with a focus on increasing access to such kind of services for the vulnerable population;
- Improvement of the family allowances system in terms of re-conceptualization and targeting the needy;
- Introduction of a multi pillar pension system, inclusive the mandatory funded pension system;
- Harmonization of social protection programs accenting the sustainable strategies for the labor and social protection systems;
- Ensure equal opportunities and rights for vulnerable groups of population, gender equality in all sectors of country’s socio-economic, public and political life;
- Smoothing disparities in regional, rural vs. urban development to overcome social protection and social inclusion issues in this context as well;
- Issues of efficiency of budget allocations, financial sustainability are critical in the context of overcoming above-mentioned issues.

These objectives are addressed in a more concrete manner in the Medium-Term Expenditure Framework (MTEF) program that the Government develops each year for 3-year perspective⁹.

This report is prepared next to the backdrop of the worst global financial crisis since the Great Depression of the 1930s, and the consequent economic crisis which has hit Armenia particularly hard. Due to the crisis, the economy has shrunk, poverty and unemployment have risen, and there is a feeling of uncertainty about what expect and how to move ahead, especially because of the common misbehavior that crisis was born out of and went from the most developed economies with long devotions to a market economy, restraints on the public sector, greater efficiency of the private sector, and strong system of social protection.

Certainly, it is necessary to look back to a degree, in order to review what happened during the years of transition to the market economy and look at the impact of the crisis on the Armenian economy. Therefore, along with the general macroeconomic overview, this subchapter will be looking for trends in governance and fiscal policy, as well as changes in demographic sphere and the labor market.

⁶ Republic of Armenia, Government Program, 2008; see at <http://www.gov.am/files/docs/77.pdf>.

⁷ Republic of Armenia, Government Program, 2008, page 6-9. Two other priorities are: maintenance of macroeconomic stability and high rates of economic growth; establishment of effective public, local self-governing and private sector management systems and the introduction of the principles of corporative management.

⁸ Government of RA www.gov.am “Government Program, 2008”, page 65.

⁹ See at: <http://www.gov.am/files/docs/47.pdf>

1.2 Macroeconomic Overview

Armenia's transition from a centrally planned to a market oriented economic system (formally – started in 1991) has not gone smoothly because Armenia experienced a series of extra floats that seriously affected the economy. Among such drifts were the devastating earthquake in December 1988, the collapse of the common market of the former USSR, and the political and military instability in the region. GDP declined by 60% from 1989 to 1993, consumer prices rose 110 times just in 1993¹⁰. Finally, there was the transition strategy itself.

Along with almost all of the former Soviet bloc countries, Armenia adopted a “shock therapy” strategy aimed at introducing a series of major economic reforms as rapidly as possible. These reforms included comprehensive price liberalization, the transfer to the private sector of state owned land, housing and productive enterprises, a reduction in public expenditures, the introduction of some tax reforms and a general shrinkage (and weakening) of the state, the introduction of tight monetary policies to control inflation, and the adoption of free trade policies including very low tariffs, abolition of non-tariff barriers to trade, removal of controls over capital movements, currency convertibility, and a floating exchange rate. However, an effective implementation of macroeconomic adjustment programs became possible only with the pause resulting from the conflict over the Nagorno-Karabakh in 1994, when international financial organizations and donor countries became involved in financial, technical, and humanitarian assistance to Armenia.

Beginning in the mid 1990-s, Armenia has been one of the fastest-growing transition countries. Moderate but vigorous economic growth in the initial years of the recovery (5 % on average during 1994–2000) and double-digit rates (12%; see the Figure 1.2.1 below)¹¹ annually on average in 2003-2008 is a result of steady pursuit of the so-called first generation market oriented reforms.

GDP per capita in 2008 amounted to 3,606 USD or 2,507 EUR (in 2009 the indicator comprised 2,633 USD or 1,885 EUR)¹². Due to the improvement of this indicator, Armenia was reclassified from a “low income” to “middle income” country in 2004¹³, when the real GDP level was slightly higher than that of 1990.

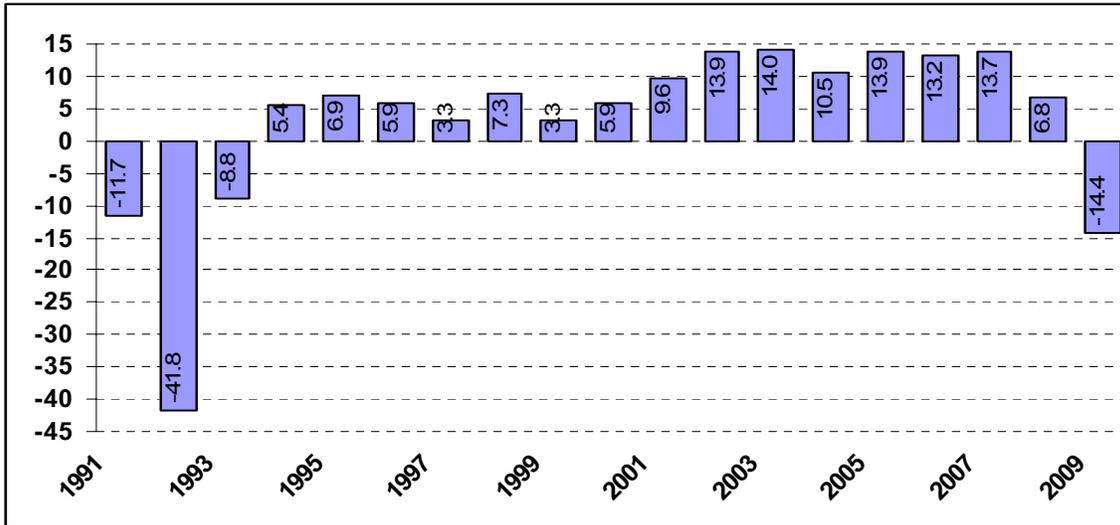
Figure 1.2.1 Real GDP Annual Growth in Armenia, 1991-2009 (year on year, %)

¹⁰ Heghine Manasyan and Tigran Jrbashyan, “Explaining Growth in Armenia: the pivotal role of human capital”, Chapter 6 in “The Economic Prospects of the CIS: Sources of long term growth”, Edward Elgar Publishing, UK, 2004, p.136.

¹¹ NSS of RA www.armstat.am Publications: “National Accounts of Armenia, 2003-2007” Statistical Handbook, Yerevan, 2009, page 27.

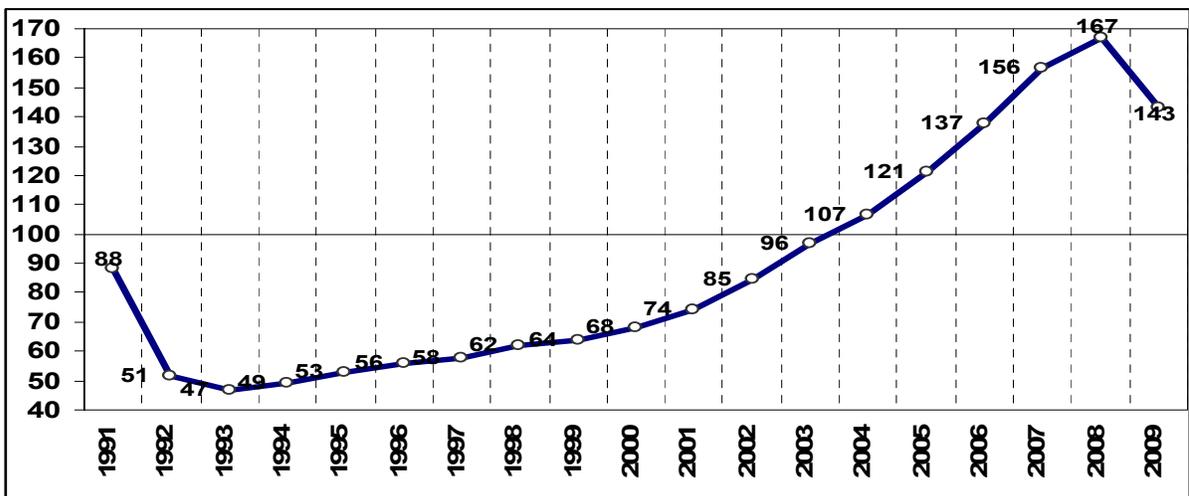
¹² NSS of RA www.armstat.am Publications: “Socio-Economic Situation of RA, January-December 2009”, page 9.

¹³ The World Bank does such classification of countries by using the Atlas method. The 185 countries registered in the WB database are classified into three groups: a) low income countries, where GNI per capita was lower than USD 905 in 2006; b) middle income countries (USD 906-11,115); and c) high income countries, where the indicator exceeds USD 11,116.



Source: NSS of RA www.armstat.am "Statistical Yearbook of Armenia" for relevant years, Part: *System of National Accounts*; "Socio-Economic Situation of RA, January-December 2009 (Armenian)", page 9.

Figure 1.2.2 Armenia Real GDP Index (1990=100)



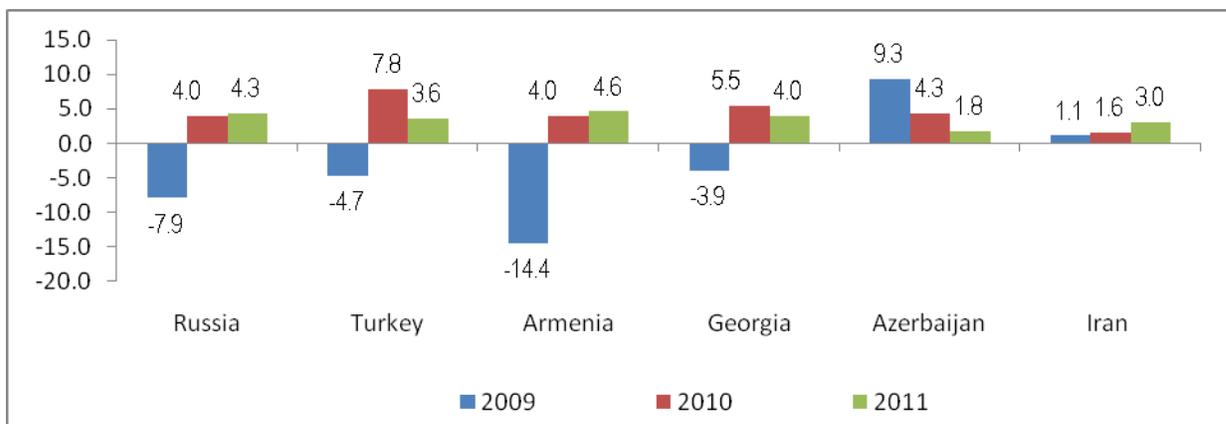
The economic growth in Armenia has peculiarities that can be considered as sources of vulnerability of economic performance during shocks, as we see during the 2008-2009 crises:

1. It could be described as narrowly based one, with serious structural problems. Contribution to GDP growth by sectors has changed over the past decade – there was an essential growth of services and construction sectors at the expense of industry. In 2008, the share of construction in GDP constituted 27.1%, in services sector – 34.3%, in agriculture – 15.7% and in industry –

- 13.0%¹⁴. Official data show that the share of construction sector in GDP in 2009 shrunk to 11.9%, while the share of industry went up to 21%¹⁵;
2. It has low diversification by sectors (sphere of economy, with low share of industry) *and by regions* (with concentration in the capital city Yerevan), which is one of the serious obstacles for the economic and social development of Armenia;
 3. Microeconomic biases with low share of small and medium-size enterprises, which would facilitate the entry of new firms and the growth of small enterprises. The latter is critical for faster job creation, employment growth, and the reduction of unemployment;
 4. Inadequate public investments in infrastructure - development of rural infrastructure so that that farms can develop their own production;
 5. Remittances play an important role in the economy and in mitigating the impact of the transition on the welfare of households;
 6. Part of the economic growth was achieved in the informal sector. According to different analysts' estimates, the shadow economy in 2010 could be equivalent to about 35-40% of total GDP¹⁶.

Obviously, those imbalances caused Armenia's much worse macroeconomic performance under the crisis compared to neighboring countries. As stated above the GDP shrunk by 14.4% (see the Figure 1.2.3).

Figure 1.2.3 GDP Growth for South Caucasus and neighboring economies



Source: IMF World Economic Outlook, October 2010.

The crisis clearly demonstrated the policy lags in Armenia, particularly the delay in addressing so-called second-generation¹⁷ reforms. Currently, Armenia is implementing the reforms aimed at:

¹⁴ NSS of RA www.armstat.am Publications: "Socio – Economic Situation of RA, January-December 2008". The sum of above mentioned sectors comprises 90.6%, if add to that the production taxes without subsidies (11.1%) and deduct the indirectly measured services of financial intermediation (1.7%), will get 100%.

¹⁵ NSS Publications: "Socio – Economic Situation of RA, January-December 2009".

http://www.armstat.am/file/article/sv_12_09a_03.pdf

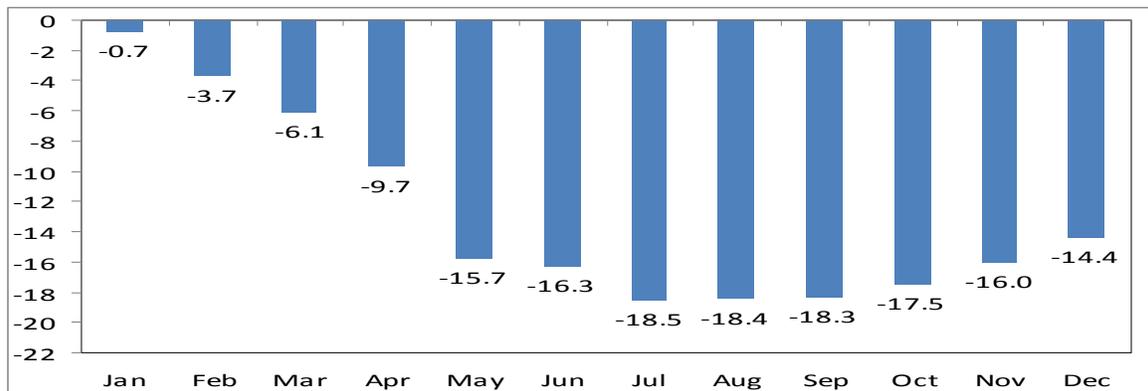
¹⁶ See http://rferl.org/World_Bank_Urges_Action_Against_Armenian_shadow_Economy_/2076337.html.

Note: The NSS adjusts GDP estimates for unreported activity by using the so-called "Italian method." Firms' reported employment and output are used to calculate labor productivity by sector of the economy. Results of a labor survey that is conducted once a year are used to estimate levels of employment by sectors; the labor survey is believed to capture much more accurately a true employment than employment reported by firms. The shadow economy is then estimated in monetary terms by sectors by multiplying estimated labor productivity by unreported employment (the difference between survey and firms' reported numbers).

1. creating macroeconomic policies to promote growth through improving the business climate, simplifying regulations and tax code, and creating measures to fight corruption, redirection budget resources to public investment, particularly to enhance human capital and build rural infrastructure;
2. fostering competition and encouraging private sector development by lowering the cost of doing business;
3. supporting integration into global markets for goods and services, international integration;
4. capitalizing on innovation and technology;
5. deepening financial markets;
6. implementing pension reform, etc.

All of the mentioned challenges of economic growth paired with suspended economic development affect the poverty development and social inclusion process in country. The level of extreme poverty has nearly doubled from 3.6% in 2008 Q2 to 6.9% in 2009 Q2 (when double-digit monthly decline reached to its bottom; see the Figure 1.2.4), increasing the number of extremely poor individuals by over 107,000.

Figure 1.2.4 Monthly GDP Growth in Armenia in 2009 (% , year on year for the period from the beginning of the year)



Source: NSS of RA; see <http://armstat.am> (accessed July 2010).

To minimize the adverse consequences of the global crisis and somehow protect the poor - as well as to lay sound groundwork for economic recovery and sustainable development and for new type of economic relationship in the country - the RA Government drafted an anti-crisis program and action plan (submitted to the National Assembly on November 2008)¹⁸ that included the following measures:

1. Mobilization of additional funding (more than 2 billion USD);
2. Letting Exchange Rate adjustment take place;
3. SME support;
4. Additional (large and small) construction projects;
5. Budget revision (spending cuts;)
6. Protection of social safety programs;
7. Tax/customs reform Action Plan;
8. No protectionism.

¹⁷ According to EBRD, the first-generation reforms include privatization, which in transition countries were the main sources of creation of the private sector, as well as institutional building such as liberalization of prices, external trade and currency exchange rate, which are the basis of the modern market economy (see Transition Report, EBRD 2006).

¹⁸ <http://www.gov.am/files/docs/475.pdf>

Without improvement measures, particularly those by the government through social spending and improved targeting of the family benefits, overall poverty would have increased by about 7.6 percentage points.

The impact of the economic contraction on the poor is accelerated by increasing rates of inflation, which requires strengthening of social protection programs, and leaves room for further speeding up of the undergoing reforms in key areas of economic governance with special focus on domestic economic competition, revenue administration, and further liberalizing trade services.

Governance and Fiscal Policy

This small subchapter looks mainly at the role of the Government in implementing social protection reforms, at the responses of the financial sector, and at recent reforms being promoted by the Government against a backdrop of fiscal deterioration and rising debt. This in turn will feed into the view to the activities and policies of financial institutions.

Armenia's state budget revenue in 2009 comprised 22.9% of GDP. The main sources of state budget revenue are tax revenues and official transfers (respectively 72.9% and 2.9% of total revenue, see Table 1.2 in Annexes and tables). Social contributions in 2009 comprised the next large component of budget revenues – 14.5% (3.3% of GDP). The share of expenditure on social protection in 2009 comprised 26.4% of total expenditure or 7.9% of GDP.

Table 1.2.5 Consolidated Public Budget of Armenia, 1997-2009

	Total Revenues and Grants		Total Expenditures		Deficit Financing	
	bln AMD	% of GDP	bln AMD	% of GDP	bln AMD	% of GDP
1997	155.8	19.4	176.1	21.9	20.3	2.5
1998	198.8	20.8	233.8	24.5	35.1	3.7
1999	226.5	22.9	280.2	28.4	53.7	5.4
2000	204.8	19.9	254.4	24.7	49.7	4.8
2001	228.7	19.1	278.1	23.3	49.3	4.1
2002	266.3	19.5	299.8	22.0	33.5	2.5
2003	343.8	21.2	364.6	22.4	20.9	1.3
2004	364.1	19.1	393.5	20.6	29.3	1.5
2005	449.9	20.1	488.5	21.8	38.5	1.7
2006	533.4	20.1	567.8	21.4	34.3	1.3
2007	698.3	22.2	746.8	23.7	48.5	1.5
2008	800.8	22.4	827.4	23.2	26.6	1.2
2009	702.9	22.9	943.9	30.4	241	7.9

Source: EDRC, see at http://www.edrc.am/project.html?cat_id=68 (last accessed on 5th September 2010).

As mentioned above, the Armenian economy was heavily influenced by the crisis, which naturally was reflected in the budget revenue level as well. In 2009, the state budgeted revenue declined by 10.9% compared to 2008. Most of the decline was contributed by VAT decline (8.4% or 77.5% of total decline). As for the expenditure, in 2009, it was kept almost at the level of 2008. Moreover, the expenses on social protection have been increased by 14.7%¹⁹.

In the deteriorating economic situation, fiscal policy was relaxed to support aggregate demand: money supply grew by 15.1%. Simultaneously, public spending on pensions and public servant's salaries went up by 16.3%, and other social expenditures were mostly maintained²⁰.

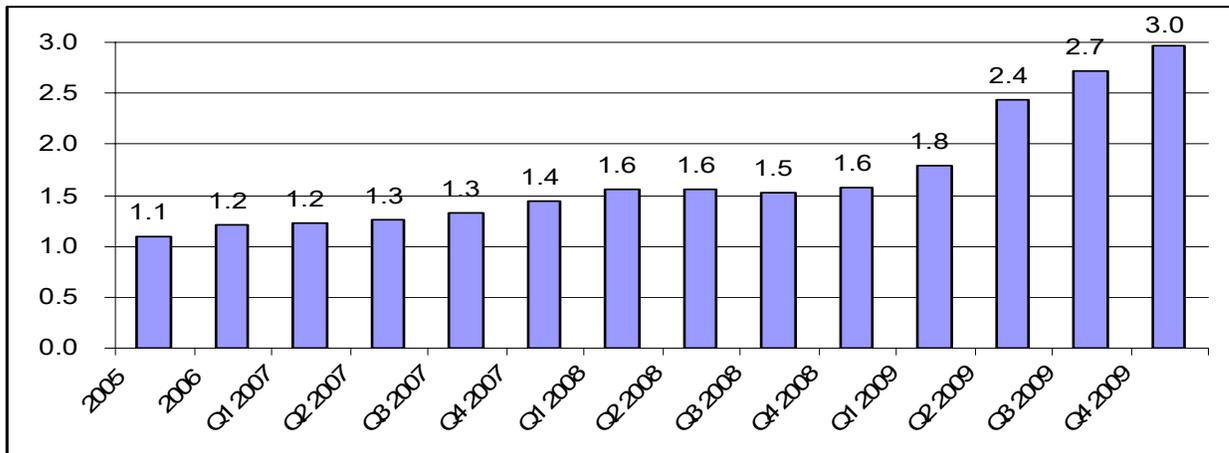
The budget deficit in 2009 jumped up to 7.9% of GDP (vs. 1.2% in 2008), and there was a need to cope with the crisis while taking care on social obligations. The Government borrowed from

¹⁹ NSS of RA www.armstat.am Publications: "Socio-Economic Situation of RA, January –December 2009", pp. 105-108.

²⁰ Asian Development Outlook -2010, <http://www.adb.org/documents/books/ado/2010/ARM.pdf>, page 106.

international financial sources. Respectively the share of official social transfers in 2009 amounted to about 34%²¹ of total revenues (15.1% in 2008). Meantime, the external debt almost doubled during the year 2009 and at the end of which it amounted to 3 billion USD or 36% to GDP, while in 2008 it was around 15% (see the Figure 1.2.6).

Figure 1.2.6 External Debt of Armenia, 2005-2009, billion USD



Source: Asian Development Outlook 2010, page 107. (<http://www.adb.org/documents/books/ado/2010/ARM.pdf>)

Irrespective of current achievements in public finances management, the country still faces weaknesses that do not allow more efficient and transparent use of public financial resources, thus reducing the outcomes expected from the implementation of state policies. Therefore, further and deeper reform in the fiscal sector is needed. The main challenge ahead is to implement the difficult fiscal and external adjustments, while protecting the poor and adjusting policies appropriately, should external developments affect the recovery. The authorities have committed to improving the efficiency and targeting of social spending. The government also intended to reduce corruption, modernize public expenditure management, and strengthen the civil service and judiciary. Special efforts are needed to ensure the population of the importance of upcoming pension reforms as they are designed.

1.3 Labor Market

Lacking employment not only contributes to poor living standards but also is a central dimension of social exclusion, since employment is a key determinant of ability to fully participate in society.

Labor Market: Evolution and Structure

The formation of the labor market was laid by the liberalization of Armenia's economy in 1990-1991 and by adoption of the first Employment Act in 1992. Since then the Armenian labor market has gone through a profound transition affected by systemic crisis of the economy during the early

²¹ The planned level of total revenues (926 billion AMD) was achieved by 74.5%: actual revenues comprised just 690 billion AMD (<http://www.minfin.am/up/pbkat/revenue-09.pdf>), while the social transfers amounted to about 240 billion AMD.

1990-s, by economic and social reforms, by continuous economic growth²² lasting more than a decade - since the mid 1990-s through 2008, before the recent crisis caused the slowdown and afterwards decline in economy. However, real unemployment has persistently remained at double-digit levels and, on average, roughly one out of four economically active people was unemployed. Moreover, approximately two-thirds of employed depend on incomes from low-productivity agriculture and trade (based on LFS data: the issue is referred later below).

Labor force participation or the economic activity has changed in Armenia since the early 1990-s. Demographic trends, such as reproductive behavior, migration patterns, along with the situation in labor market, influenced the economic activity rate. According to the official data (based on the administrative data and integrated data received from the different sources)²³, the activity rate over the period of 1991-2009²⁴ has declined drastically - from 81.4% to 53.2% - and has been affected by major demographic factors such as rapid decline in fertility rates and significant outflow of population (permanent or temporary).

According to the Labor Force Survey (LFS) data the economic activity rate in Armenia in 2009 comprised 59.2% (59.5% in 2008)²⁵. Although the concepts, set of indicators, and methodology of calculations underlying the survey comply with the definitions and concepts recommended by the ILO and Eurostat and ensure the comparability with the international similar indicators, due to changes in methodology, comparability of country data by years is not possible (it is possible only between 2008 and 2009). LFS is the only source providing information on labor force participation or activity rate by gender: the male and female economic activity rates comprised accordingly 69.0% and 51.0% in 2009 (70.8% and 50.4% respectively in 2008)²⁶. The higher economic activity rate is explained by high self-reported unemployment rather than employment rate. The economic activity rates differ for age groups essentially and are explained by different reasons. The activity rate for age group 15-24 is the lowest (47.4% in 2007 and 31.8% in 2009) and is explained by the high rate of enrolment in full-time study – approximately 87 % in 2009. However, the unemployment rate for this age group is much higher than in other age groups: 40.9% in 2009. As for the age groups of 25-54 and 55-64, the activity rate in 2008 was much higher - accordingly 74.7% and 63% - while the unemployment rate was comparatively lower: it varied around 11%-22%. Low pensions force pensioners actively to look for a job (40.9% aged 65-75 in 2009 were actively looking for the job) or actively be engaged in different types of economic activities (especially in subsistence agriculture) to complement their pension incomes (for more details see subsections 1.3.2 Employment Structure and 1.3.5 Unemployment).

Employment in Armenia has steadily declined between 1991 and 2004 (from 1,671.5 to 1081.7 thousand persons), but some improvement trend appeared during the period from 2005 to 2008, when the number of employed reached 1,117.6 thousand²⁷. Due to the economic crisis in 2009, it diminished again to 1,089.4²⁸. The cumulative reduction of employment comprised 34.8% over the period 1991-2009. The deterioration of employment did not have any emphasized gender “face” in Armenia and affected male and females almost equally: male and female employment over the

²² Starting from 1995 to 2001 including the Armenian economy has grown in average 6% annually, between 2002-2007 have been registered double-digit rates of annual growth, then in 2008 the economy slowed down registering 6.8% growth and in 2009 it suffered a deep decline (- 14.4%).

²³ See Annex 1.3.1 on Measuring Employment and Unemployment.

²⁴ The indicator is calculated as share of economically active population (based on the administrative data and integrated data received from the different sources: establishment survey and administrative registers) in total number of labor resources. Data for 2009 are preliminary. Source: NSS of RA www.armstat.am “Statistical Yearbook of Armenia” published every year.

²⁵ The indicator is calculated based on LFS data, as share of economically active population in the total number of labor resources. Source: NSS of RA, “Labor market in the Republic of Armenia, 2005-2009”, page 96.

²⁶ NSS of RA, “Labor Market in the Republic of Armenia, 2005-2009”, page 96.

²⁷ NSS of RA www.armstat.am “Statistical Yearbook of Armenia”, Yerevan, 2008, page 51.

²⁸ NSS of RA www.armstat.am; “Statistical Yearbook of Armenia”, Yerevan 2010, page 54.

period 1991-2009 have declined by 36.7% and 32.7% respectively. As for the structure of the employed by gender, the share of female has increased a bit: from 48.4% in 1991 to 48.9% in 2008, while the share of male declined by 0.5%.

The combination of unemployment and labor force withdrawal led to a substantial decline in the employment-to-population ratio. The employment rate (calculated based on the establishment survey data²⁹) has declined from 81.4% to 48.7% in the period of 1991-2009. The employment rate decline would have been less if one considers the situation in the labor market in the early 1990-s, when the decline in employment was not proportional to the depth of the economic crisis. In fact, the high level of so-called de jure employment persisted longer (until the end of 1991) than positive GDP growth rates (until 1989). During the period when the country was experiencing severe economic decline, due to absence of corresponding legal framework and lack of economic interest on enterprises' side for reducing surplus employment, the employment level was artificially sustained at a high level. However, the insignificant but positive economic growth in 1994-1997 was accompanied by increasing rates of decline in employment. Also, it has to be considered that the official definition of working age population in Armenia has changed since 1991: in 1991, it included men aged 16-59 and women 16-54, and has been increased to 16-62 for men and 16-62 for women in 2009, and the share of employed retirees has increased according to the official statistics from 5% in 1991 to 7.4% in 2009. Accordingly, the comparison of employment rates for the period of 1991-2009 should be done with caution.

According to the LFS data in 2009³⁰, the employment rate in Armenia was close to the rate calculated based on the establishment survey and administrative data: 48.1% (compare to 49.8% in 2008). However, there exists essential divergence between two sources while looking at the unemployment and economically non active population rates in the same labor resources (LR): LFS data suggest the rate of unemployed in total LR in 2009³¹ was 11.1% and the rate of economically non active population 40.8%, while the indicators calculated based on the administrative and establishment survey data comprise respectively 3.6% and 47.7%. The divergence comes from the fact that administrative data take into account only officially registered unemployed. As for the part of labor resources that really is unemployed but not registered in state employment services, either because of the constrains caused by the current Law or by other reasons, it is automatically considered as economically non active. Based on the LFS 2009 data, there exists a gap between male and female employment rates: the female employment rate is much lower than the male employment rate – 41.1% and 56.7% respectively. The harmonized employment rate in Armenia, calculated according to the EUROSTAT methodology³², comprised 49.5% in 2009³³, compared to 52.9% in Georgia, 64.2% in Azerbaijan, 75.3% in Belarus, 63.4% in Ukraine, and 65.9% in EU27³⁴.

Although the LFS data are available starting from 2001, however they are comparable only for 2008 and 2009. However, some trend of labor market improvement is noticed (see table 1.3.1 below).

Table 1.3.1 Share of Employed, Unemployed and Economically Non-Active Population in Total Number of Labor Resources, 2001-2009 (% , based on LFS data)

	2001	2002	2003	2004	2005	2006	2007	2008*	2009*
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²⁹ The indicator is calculated as ratio of employed in total number of labor resources. Source: NSS of RA

www.armstat.am; "Statistical Yearbook of Armenia", Yerevan 2010, page 53.

³⁰ The indicator is calculated as employment to population ratio. Source: "Labor market in the Republic of Armenia, 2004-2008" published in 2009, page110, "The Demographic Handbook of Armenia, 2009", page 36-38. Data for 2009 will be available from the same sources on www.armstat.am Publications for 2010.

³¹ NSS of RA www.armstat.am; "Labor Market in the Republic of Armenia, 2005-2009", pages 94, 98 and 136.

³² Starting from 2008 the LFS data for workforce include both genders aged 15-75, while the EUROSTAT methodology – 15-64, so we refer to the harmonized data with caution.

³³ Calculated based on LFS data for 2007and 2008, NSS "Labor Market in the Republic of Armenia, 2004-2008"

³⁴ The source of data for Belarus and Ukraine is the country reports on Social Protection and Social Inclusion, for Georgia and Azerbaijan – the final country reports, for EU27 – the tables of overarching indicators.

Employed	40.4	41.9	45.3	43.5	42.0	43.8	49.7	50.9	49.1
male	50.3	54.7	60.5	57.3	56.7	59.0	60.7	61.9	58.0
female	32.7	32.2	33.9	32.5	30.2	32.1	40.6	42.0	41.7
Unemployed	25.2	22.9	20.6	20.1	19.0	16.9	20.0	10.0	11.3
male	29.3	25.1	20.1	20.8	20.2	17.0	17.3	10.4	12.5
female	22.0	21.2	20.9	19.6	18.2	16.8	22.3	9.6	10.3
Economically non active	34.4	35.2	34.1	36.4	39.0	39.4	30.3	41.4	41.7
male	20.5	20.2	19.4	21.9	23.2	24.1	22.0	29.8	31.7
female	45.2	46.5	45.2	47.9	51.5	51.2	37.1	50.9	50.0

Source: NSS of RA www.armstat.am Publications: "Labor Force of the Republic of Armenia, 2001-2006", pp. 16, 17, 49; "Labor Market in the Republic of Armenia, 2004-2008", pp. 98, 101, 107, 110, and 142 and "Labor Market in the Republic of Armenia, 2005-2009", pp. 94, 98, 111 and 136

*Due to change in methodology in 2008, data for 2008 and 2009 should be compared with previous years with caution.

The group of economically inactive population includes students, working age disabled people, and household members taking care of children or other dependents. A large share of inactive population can be considered as discouraged workers (about one-quarter), who want to and are ready to start working, but for various reasons are not actively looking for jobs. Most of these people have lost any hope of finding work or do not know where or how to do so. While the general labor market situation may improve, a large portion of the discouraged workers may enter the labor market, thus putting additional pressure on the workforce and wages.

Employment Structure

The employment structure of the population by fields of economic activity has been changed significantly and has become less diversified and more vulnerable to internal and external shock, as was found out during the last crisis. The structural change of employment has been impacted: in 1990-1993 by the systemic crisis of the economy, in 1994-2008 by the continuous structural changes and economic growth, and in 2009 by the economic crisis. The share of employed in industry has been decreased from 27.4% in 1991 to 10.6% in 2009 (11.4% in 2008)³⁵. In construction the indicator comprised 10.6% and 4.6% (5.4% in 2008) respectively, the ratio of employed in the service sector has been relatively stable (38.7% in 1991 and 39.2% in 2009), but the sector, as all other sectors in general, experienced a rapid decline in employment as well.

Due to transitional changes, employment in all sectors of the economy has declined except in agriculture. Land reform initiated in 1991 resulted in emergence of subsistence agriculture, which absorbed 23.3% of labor employed in the economy in 1991 (compared to 17.7% in 1990). At that point the high engagement in subsistence agriculture emerged as a key factor mitigating the shocks of transition period, as well as the absence of policies for creating non-agricultural jobs. Although the ratio of employed in subsistence agriculture starting in the mid 2000-s showed a declining trend, it is still high and the crisis showed that it is still an important coping strategy during shocks. The establishment survey data suggest the following: in 2009 the share of engaged in agricultural farming comprised 45.1% (or 491.6 thousand people) versus 43.7% in 2008 (488.7 thousand people) and 46.4% in 2004 (501.6 thousand people)³⁶, conditioning higher level of employment in rural versus urban areas. It is worth mentioning that the engaged in agriculture are non-registered self-employed farmers with low productivity, paired with seasonality and low pay. Although the jobs in the sector are not very promising from the perspective of poverty reduction, they still remain the main source of income for the rural population since opportunity for non-agricultural activity outside of Yerevan city is limited.

³⁵ The source of official employment data is the series of statistical yearbooks that are published every year by NSS of RA, www.armstat.am; "Statistical Yearbook of Armenia", Section on Employment. In 2008 the classification of employed by types of economic activity has been changed compared to 1991, hence for the comparison purposes we did our own calculation.

³⁶ NSS of RA www.armstat.am "Statistical Yearbook of Armenia, 2010", section on Employment, page 52.

The 2009 LFS data suggest that the share of employed in subsistence agriculture out of the total number of employed comprised 39.4%% (compare to 37.6% in 2008)³⁷. The gender structure of those engaged in subsistence agriculture is the following: male share in total number of male employed in the economy comprised 34.0%% (30.7% in 2008), while the female share is 45.7% (46.0% in 2008)³⁸. The difference in male and female shares is partially explained by migratory processes - both internal and external - especially due to large seasonal or temporary migration from the rural areas (see: Subchapter 1.5). About 78.8% of working old age pensioners in 2009 were engaged in subsistence agriculture, or from the total number of engaged in the sphere, 13.7% were pensioners.

It is recognized by experts that the economic growth in Armenia so far has taken place almost exclusively through labor productivity increases, paired with job redundancies. However most employment is still concentrated in low-productivity jobs – agriculture absorbed a significant portion of the unskilled labor released in the process of economic transformation. Subsistence agriculture and those who rely on it remain economically and socially vulnerable (in the report reference to subsistence agriculture as a tool to overcome the extreme poverty is done in Chapter 3 on Poverty and Social Inclusion).

The global financial crisis has posed serious challenges for the labor market in Armenia. It has affected different sectors at different intensities. The more severe impact on construction and mining industries was already visible in the beginning of 2009. Mining industry companies started, for example, shortening working hours in November 2008 to avoid job losses. Moreover, these companies are in marzes where there are no significant employment alternatives and the reduction of output and downsizing of workforce is a serious threat to the economy of those marzes. A wage reduction in mentioned companies took place as well. The 2009 LFS data suggest that the main decline in employment took place in few sectors of economy: in construction, compared to 2008, comprised 21.5%, in industry, the decline comprised 11.6%, in trade, repair of motor vehicles, hotels and restaurants, 9.2%.

Since the Armenian labor market could be identified as having high informality and hidden unemployment, it is hard to estimate the real employment level decline and increase in the pool of unemployed. However, the officially registered unemployment level increased in Armenia from 6.3% in 2008 to 6.9% in 2009. The trend is likely to be preserved at least during 2010 not only due to job losses within the country, but also due to large flows of returning migrants from Russia and other countries that are facing their own economic downturns.

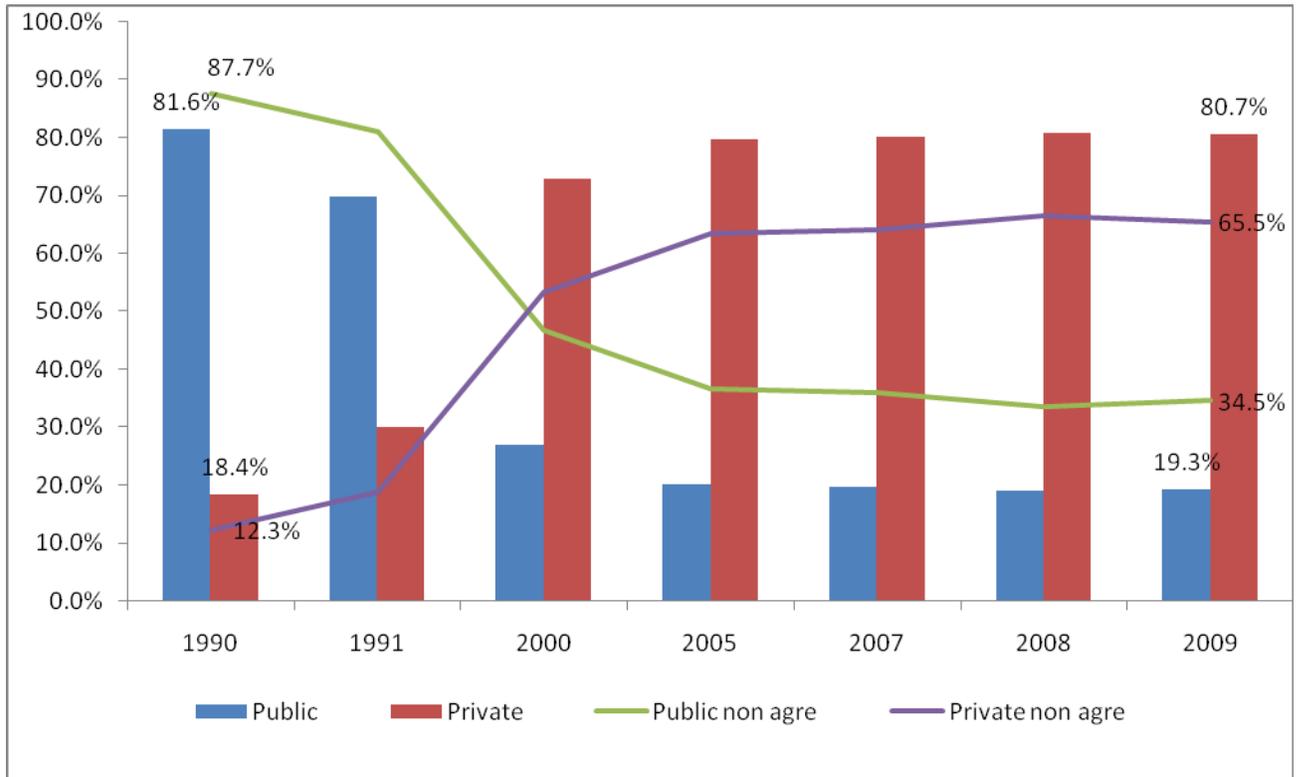
Although since 1990 the private sector in Armenia has expanded significantly, the real job creation in the sector was not sufficient and the employment growth in the sector took place mainly due to privatization of public enterprises. In 2009, the proportion of those employed in the private sector of the economy, including agriculture, amounted to 80.7% (compare to 18.4% in 1990 and 30.1% in 1991)³⁹.

Figure 1.3.2 Share of Employed by Sectors of Economy, 1990-2009 (%)

³⁷ For the data quality and methodological issues see the Annex 1.3.1.

³⁸ NSS of RA www.armstat.am "Labor Market in the Republic of Armenia, 2005-2009", page 111-112.

³⁹ NSS of RA www.armstat.am "Statistical Yearbook of Armenia" for years 2009, 2000; "Labor Market in the Republic of Armenia, 2005-2009", page 24-27.



Source: NSS of RA www.armstat.am, "Statistical Yearbook of Armenia" for years 1990-1991, 2000, 2005, 2009, section on Employment.

From the mid to late 1990-s, the main factor behind the emergence of the private sector in Armenia was privatization⁴⁰. If, in 1991, the non-agricultural private sector of the economy concentrated 18.8% of total employed, then in 2009, according to the official statistics (based on establishment survey), that share tripled to 65.5%.

The 2009 LFS data suggest that the share of employed in the private sector was 70.7%. In the 2000-s, the new private enterprises were the main factor behind the economic growth in the country⁴¹. While over the past few years the private sector has been the main engine for job creation in Armenia, it was not sufficient⁴².

The greatest change since transition has been the shift from stable wages and salaried jobs to casual and less-formal jobs and self-employment – a type of employment that is being chosen because of limited opportunity of formal activity and as a coping tool against poverty. According to LFS data in 2009 in Armenia the share of self-employed (excluding unpaid family workers)

⁴⁰ Meanwhile, privatization created a job redundancy in non-agricultural production sector of Armenia and downsizing of the excess labor became an issue. Most privatized enterprises, mostly large and medium-size manufacturing enterprises, turned out to be noncompetitive, lost their markets and were closed down or operated only with the small fraction of their capacity. Huge job cuts or "voluntary" unpaid leaves followed. See: Astghik Mirzakhanyan, "Labor Market in Armenia: Analysis and Policies", UNDP/ILO Armenia, 1999, www.undp.am Publications.

⁴¹ At the end of 1990-s the first and biggest wave of voucher privatization was mostly completed in Armenia. The new private enterprises gradually became as the main factor responsible for the growth of a private sector.

⁴² As the main obstacles for further business establishment, growth and formal employment in Armenia could be considered: (i) poor access to bank financing in establishing small and medium sized enterprises; (ii) regulatory policy uncertainty, inconsistent interpretation of business related laws and regulations, that discourages the creation or expanding the business; (iii) corruption and lack of adequate competition policy; (iv) high risk associated with doing business in general; etc. However, in "Doing Business 2010", Armenia was ranked 43th out of 183 countries surveyed, changing in rank by (+7) as compared to 2009 proving that the business climate has become more favorable. In employing workers Armenia was moved from 57th (Doing Business 2009) to 62nd ("Doing Business 2010") indicating that labor market didn't gain much from business environment improvement.

comprised 25.2% (29.4% in 2008), the vast majority of which – 83.0% - were employed in subsistence agriculture. However, the official statistics proves that the share of self-employed in the non-agricultural sector has declined from 7% in 1991 to 6.5% in 2009⁴³. The main reason for engaging in self-employment is the lack of alternative employment, especially in rural areas. From the perspective of social cohesion, self-employment, as well as other less formal employment (such as working family members), being the only source of income and thus a coping/survival strategy for many households and assuring livelihood working independently (sometimes representing the beginning of entrepreneurship), remains one of most unprotected against economic and social risks.

Although males and females in Armenia enjoy equal legal status, gender segregations have been developed in the Armenian labor market: since early 1990-s there have been significant differences in the participation of male and female in labor force. *The structure of employment by gender* in non-agricultural sector indicates high concentration of female labor force in such sectors and professions that pay less than the economy-wide average wage. The establishment survey statistics reveals that 73.6%⁴⁴ of employees in education, health care and social work, community, social and personal service activities in 2009 were women (68.1% in 2008), sectors that characterized by low wages (average wages in these sectors comprised about 65-72% of economy wide average nominal wage). Within the mentioned sectors the wage levels for men and women differ as well: the average female wage comprised 82.9% of male wage in education and about 71.2% - in health care and social work sector⁴⁵. The wage differentiation for male and female is typical not only for the sectors mentioned, but for the economy in general, which is explained by the fact that women do always possess the same professional opportunities as men, as well as by the role in family preserved for females in Armenian families (see: Subchapter 1.3 on Wage Policy and Wage Dynamics).

Educational Level and Labor Market Outcomes

The 2009 LFS⁴⁶ data prove that although the share of labor resources with tertiary, post graduate, secondary specialized or incomplete tertiary education is high - 41.4%. However, 13.46% of this group was unemployed. According to the administrative data on unemployment the share of unemployed with tertiary, post graduate, secondary specialized or vocational training is much higher and shows an increasing trend (in 2009 it comprised 45.9% vs. 38.8% in 2004). Thus, part of the well-educated and trained workforce is quickly losing its skills, or the existing skills are becoming obsolete. Also, the labor force skill mismatch is a problem, but the relevant statistics are not sufficient to make proper judgment or measure its size: according to the one-off survey on labor force, in 2008, among employed who wished to change the current employment only for the 7%, the reason to do so was the skill mismatch. In 74.1% cases the reason to change the current employment was the desire to earn more⁴⁷.

The continuing investment in education is required to develop a skilled and well-educated labor force, but the low labor demand and high informality factors should be considered as well.

⁴³ NSS of RA www.armstat.am, “Statistical Yearbook of Armenia 2010”, Employment section, page 52.

The essential difference between data from two different sources (establishment survey and LFS) could be explained first by methodology applied and second - by high informality.

⁴⁴ NSS of RA www.armstat.am “Statistical Yearbook of Armenia”, 2010, page 56-59.

⁴⁵ NSS of RA www.armstat.am “Labor Market of Armenia, 2005-2009”, page 58.

⁴⁶ First time information on the educational level of working age population disaggregated by sex through LFS was obtained in 2007. Otherwise the only source for such kind of information was the population census.

⁴⁷ NSS of RA www.armstat.am Publications for 2009, “One –off Survey of Labor Force and Informal Employment”, 2008, page 55 (data are available only for this year).

As for the education attainment and wage liaison, typically real wages are higher for more-educated than for less-educated workers. Also highly educated individuals have a lower rate and duration of unemployment than less-educated workers.

Informality

Informality is a challenge for Armenian labor market: the employment in the sector is mostly casual and based on personal and social relations rather than on contractual arrangements, and the jobs in the sector are mainly low paid and unstable. Moreover, the informal employment creates challenges for the future as well: people engaged in the sector do not accrue any social protection rights. In the case of unemployment or sickness, any insured pension rights and will depend on social pension only, thus putting extra burden on a budget.

While referring to informal employment, two categories should be discussed– employees with no formal employment contracts and unregistered self-employed and employers. The majority of employed in the informal sector are labor-intensive sectors such as agriculture, construction, retail trade, transport, and domestic services. Employment in the non-agricultural sector has been varying around 23-25%. However, the LFS data suggest that the share of employed in informal non-agricultural sector comprised 20.5% in 2007 and has not changed essentially since then: 20.2% in 2009.

Self-employment accounts for the bulk of employment in the informal sector, especially in subsistence agriculture. Since 2002, people who are engaged in agriculture can be excluded from paying social contributions. Due to this, from the institutional point of view, these employed are classified to the informal sector of economy stipulated by the absence of the institutional organizational and legal status. Thus 99% of employed in agriculture in 2009 (the indicator has increased compare to 94.1% in 2008) by definition are described as “informally employed”. Therefore, the total informal employment level, including employed in agricultural sector, comprised 53.9% in 2009 (compare to 53.1% in 2008 and to 60% in 2007). Regarding the gender aspect of the issue: the share of female employed informally is higher in agriculture – 53.5% in 2009 (55.3% in 2008), while in the non-agricultural sector the indicator comprises only 27.1% (27.0% in 2008). Even though the share of males in the non-agricultural sector is high (72.9% in 2009 and 73% in 2008), they are mainly concentrated in sectors such as construction, manufacturing, trade, and repair of vehicles (56% to 99%). In the other sectors the share of females varies between 52% to 89%.

As already \ mentioned above, informal employment is spread mainly in labour-intensive sectors such as agriculture – 98.6% of all employed (including employees, self-employed, unpaid family workers), construction – 58.7%, trade, repair of motor vehicles, hotels and restaurants – 39.0%, transport and communications - 21.9%, other services – 6.5%,

The main attraction of the non-formal economy is financial. This type of activity allows employers, paid employees, and the self-employed to increase their earnings or reduce their costs by evading taxation and social contributions. The amount of undeclared work reduces social security contributions and leads to a high tax burden on registered labor on one hand. On the other hand, the long working days, number of working days, annual vacations, insecure employment conditions, as well as absence of social protection against illness and disability that are widely spread among employment in the informal sectors, make non-formal sector employees socially vulnerable.

Unemployment

Officially registered unemployment: Unemployment in Armenia was officially registered for the first time in 1992 at the level of 1.8%, reflecting only the unemployed officially registered with state employment services (official unemployment level). In 2008, the officially registered unemployment

level in Armenia amounted to 6.3%⁴⁸ and, due to the economic crisis, has increased to 7.0% in 2009. Females always dominate in the number of registered unemployed. Their share has varied between 63.6% in 1992 and 70.8% in 2009 (74.9% in 2008). The share of registered unemployed in rural areas always has been small – 9.6% in 2009 (in 2008 it comprised 9.0% and 6.3% in 2004). The reason behind this is not better employment opportunities in rural areas. The law does not grant unemployment status to those looking for a job that do not have at least one year of formal employment experience and do not own land (see: Subchapter 1.3 on Labor Market Policies).

Hidden unemployment is very high, and self-reported unemployment rates are significantly higher than unemployment rates recorded at employment services. Although there has been a noticeable improvement in Armenia's labor market, there still exists a fairly large supply and demand gap. The unemployment rate in Armenia, based on LFS 2009 data (used ILO methodology of defining the unemployment), amounted to 18.7% (16.4% in 2008)⁴⁹. The female unemployment rate in 2009 comprised 19.9% (18.6% in 2008) versus 17.8% for the male unemployment rate (14.4% in 2008). The comparison with the same indicators in the region (Georgia 16.5%, Azerbaijan 6.4%) or with Belarus (3.0% in 2008), Ukraine (6.4% in 2008), EU27 (7.8% in 2007) shows that the situation in Armenian labor market is discouraging.

The high unemployment rate itself makes finding productive employment difficult for the youth, especially upon first entering the labor market, and significantly increases the relative risk of unemployment for young people. In Armenia the problem is more acute due to high unemployment and poverty. Finding employment in Armenia is too complicated, especially for young people, due to differences in skills and experiences. *The share of youth (aged 16-24)* in total number of officially registered unemployed in 2009 comprised 6.7%, showing an increasing trend when compared to 1.8% in 2004. The same indicator based on 2009 LSF data was much higher: 28.3% (29.8% in 2008)⁵⁰. There are no large differences in male and female shares: the share of male unemployed aged 16-24 in 2009 in total number of unemployed comprised 28.1% (33.5% in 2008), female share – 28.5% (26.6% in 2008). The low share of registered unemployed youth is explained by: (i) lack of motivation to register - according to the current Law the unemployment benefit is granted only in case of existence at least one year of insured length of service; and (ii) according to the current Law, people who are considered as land owners are excluded from being registered as unemployed and receiving state run employment services programs such as trainings, even if the so-called land owner is only cultivating his or her land for sustaining their families. In 2009, the MLSI, in cooperation with State Employment Services Agency (SESA), developed new round of draft changes and amendments to the law. This will help to partially tackle the so-called hidden rural unemployment, helping to reflect the true picture of unemployment in Armenia.

Young, uneducated people are in the worst situation in the labor market. In general, this group, with no vocational education and experience, is so non-competitive that even considerable improvement in labor market conditions and employment growth may not improve their situation.

Another feature of unemployment in Armenia is the trend of registered job seekers. The administrative data indicates that, in 2009, 13.1% of jobseekers were employed (versus 3.0% in 2004) and their absolute and relative number has increased since the early 2000-s. Thus, although the officially registered unemployment rate has fallen since 2000 from 11.7% to 7.0% in 2009, the dissatisfaction with work conditions and, accordingly, with employment related earning, has increased. The share of engaged in labor activities out of the total number of people that applied for job placement increased from 2.9% in 2004 to 12.8% in 2009, meaning that 1.2% of total employed were seeking a new job through state employment services (compare to 0.3% in 2004).

⁴⁸ NSS of RA www.armstat.am "Labor Market of Armenia, 2005-2009", pages 39-40, 142.

⁴⁹ The indicators are calculated based on LFS data. Source: NSS of RA, "Labor Market in the Republic of Armenia, 2004-2008", pages 101 and 142. Data for 2009 will be available from the same source on www.armstat.am Publications for 2010.

⁵⁰ The indicator includes unemployed aged 15-24.

While analyzing the labor market outcomes, it should be mentioned that although underemployment and the increased number of subsistence jobs in the informal sector are issues of great concern, very limited information is available on it in Armenia. The only information partially related to the issue of underemployment is obtained through LFS: that is the information relating to the employed persons willing to change the employment situation for some reason and engaged in temporary, seasonal, occasional, or one-off activities. According to LFS 2009 data, 22.1% of the employed were engaged in temporary, seasonal, occasional, or one-off activities (24.4% in 2008, of which 41.0% were self-employed (44.4% in 2008)⁵¹. This situation means that large elements of the population are essentially unprotected against economic risk and receive no help from the State. However, self-employment is a very important category of employment that provides a livelihood by working independently.

The establishment survey provides some data on visible underemployment and, according to this data, the situation has improved. The share of part time employees and employees in forced leave in 2009 comprised 1.5% compared to 4% in 2004⁵². However, the phenomenon is a larger issue due to high informality. The “One-off Survey of Labor Force and Informal Employment”, conducted by NSS in 2008 provides the following statistics: out of the total number of employed, 37.6% were underemployed (6.4% of underemployed worked part time, the remaining by the used methodology were considered as hidden underemployed); the share of underemployed male exceeds the female share (39.3% vs. 35.6%); the share of underemployed is higher in rural areas – 48.2% as expected - and 29.8% in urban areas⁵³.

The pool of unemployed is relatively highly educated. According to the administrative statistics, there has not been essential improvement in the structure of unemployed by education. In 1992, according to administrative data, the share of the unemployed with post graduate or tertiary, secondary specialized, or vocational education comprised 44.3% and decreased to 30.0% in 2009 (38.8% in 2008). The LFS data for 2009 suggest that the share of unemployed of this group is higher: 53.1%. As we have already mentioned above, the share of young people is quite high in the total number of unemployed, but as for their level of education, the large percentage (40.5%) are recent graduates of different types of schools with low or no skills and knowledge.

The issue of mismatch between the skills and knowledge of job seekers, and labor demand is crucial for Armenia. One of the features of Armenia’s modern reality is that the education system (VET or the high education system) generates significant skill inadequacies, which contribute to a very high unemployment rate among recent graduates. Thus, the choice of specialization in education establishments in majority of cases is based on the interest of young people in the given specialty rather than on labor market considerations. A survey among the students of vocational education establishments - both at primary vocational and secondary specialized schools - indicated that although the youth with medical and pedagogical specialties have the highest unemployment rates, these specialties are still among the most popular areas of study in vocational schools and higher educational establishments. The choice of specialization was mainly based on the interest of young people in the given specialty (83%), but in 12% of cases the lack of alternative options or financial means also played a role in selection of a specialty.⁵⁴ Another reason for this situation could be considered the mentality, as well as absence of adequate vocational guidance and career counseling services.

The duration of unemployment remains extremely high in Armenia. Among officially registered job seekers (administrative source of data) placed with a job, 62.3% were looking for a job for more

⁵¹ NSS of RA www.armstat.am Publications: “Labor Market in the Republic of Armenia, 2005-2009”, page 116.

⁵² NSS of RA www.armstat.am Publications: “Labor Market in the Republic of Armenia, 2004-2008”, 48.

⁵³ NSS of RA www.armstat.am “One-off Survey of Labor Force and Informal Employment” (Armenian version) 2008, page 59.

⁵⁴ Arvo Kuddo, “Employment Services and Active Labor Market Programs in Eastern European and Central Asian Countries”, October 2009, SP Discussion Paper #0918, page 43.

than 12 months; the average duration for finished unemployment was 13.74 months. According to the LFS 2009 data, among self-reported unemployed, the share of those looking for employment for more than 12 month comprised 41.9%, of whom 29.2% were looking for employment for more than 4 years (47.0% and 32.2% respectively for 2008)⁵⁵.

The issue has a gender aspect as well: data on officially registered unemployed indicate that, among the long-term unemployed, 66.7% were women. Once out of work, females engage in searching for a job for a longer time than males. Among officially registered job seekers that received job placement, 65% were women, of which 64.0% were looking for a job for more than 12 months. Meanwhile, the same indicators for males comprised respectively 35.1% and 33.3%. The long-term unemployment is a serious problem, since many of those who wait several years for a job eventually become inactive, leading to a waste of human capital and social exclusion. A remarkable reduction in long-term unemployment is a high priority for Armenia. Of course the long-term unemployment is a reflection of low aggregate demand for labor, but the mismatch between the skills of the unemployed and the skills demanded by enterprises is a matter of concern as well.

Both officially registered and LFS data suggest that the unemployment rate is higher in urban versus rural areas. The rural unemployment rate as share of unemployed in the economically active population in 2009 comprised 6.3%, while the urban unemployment rate amounted to 27.3% (6.6% and 23.2% in 2008 respectively).⁵⁶ However, the picture changes essentially when looking at the economic activity in the non-agricultural sector only: the unemployment rate in rural areas increases up to 40.0%. The pattern of unemployment in marzes indicates that the marzes with higher level of rural population have lower level of unemployment. The highest unemployment rates in 2009 were registered in Lori, Kotayk, and Shirak marzes, where the unemployment rate comprises 19.3%, 18.5%, and 20.4%, respectively. The LFS data do not provide the possibility to look at the unemployment level by marzes in the non-agricultural sector, which could provide a better picture on the labor market situation.

Wage Policy and Wage Dynamics

Government affects the rate and dynamics of wages by setting minimum wages, establishing wage tariffs for payment of public sector salaries and determining direct taxes and social benefits (i.e. unemployment benefit). Since independence, the minimal wage policy in Armenia was aimed at encouraging entrepreneurship development and contributing to the expansion of formal employment. However, the country's experience shows that it did not lead to the desired consequences: Armenia's economy is still characterized by high informality. From the policy perspective new approaches to the minimum wage policy was proposed in the Government's SDP: the establishment of correlation between the minimum wage and poverty threshold. In the future, the minimum wage policy will be more balanced and will mostly follow the objectives of country's poverty reduction strategy. The balanced policy of the minimum wage will have its impact also on the unemployment benefits' level given that the present legislation relates the unemployment benefit size to the minimal salary. It should be mentioned that, in general, the frequent use of the minimal salary for various types of social assistance projects and other purposes irrelevant to the labor market will not be encouraged and all such legislative provisions will be gradually reviewed.

The labor market impacts of minimum wages depend heavily on the level at which they are set and how well they are enforced (see table 1.4). Since early 1990 (first minimum wage was set in 1991) through 2005 minimum wages were raised on an ad hoc basis; starting in 2005 it was raised annually. Based on the 2009 LFS, 13.0% of employees (19.2% in 2008) earned less than minimum wage (many of them most likely are part time workers), 71.2% (42.3% in 2008) earned between

⁵⁵ NSS of RA www.armstat.am "Labor Market in the Republic of Armenia, 2005-2009", page 139. The major disadvantage of the LFS data on unemployment lies in the fact that the data do not represent a panel, so it is not possible to monitor the same individuals over time and investigate changes in their labor market status.

⁵⁶ NSS of RA www.armstat.am; "Labor Market in the Republic of Armenia, 2005-2009", page 142.

minimum and average wage range, and 15.8% (38.5% in 2008) earned more than average wage⁵⁷. It should be noticed that workers with earnings close to a minimum wage (30.9%) are likely to fall into poverty. Over the transition years, minimum wages in Armenia tend to be at a level below subsistence level to impact employment decisions. At its current level, the role of minimum wage is limited in both alleviating poverty and providing adverse effects on unskilled workers.

In the early 1990-s the labor and employment policies in Armenia could be characterized as a building up of hidden unemployment by dramatic cuts in wages and salaries, allowing part-time employment and mass administrative leaves, when people remained on the payroll list, but in actuality not receiving pay for long periods of time.⁵⁸ In public service sectors (health, education, and so on), the policy was oriented toward the conservation of employment via very low salaries.

In the 1990s, the dynamics of real wages in Armenia had two clear phases. In 1994, following the fall in output and labor demand, reflecting an erosion of wage levels by rapid inflation, real wages dropped to 7% compared to 1990.⁵⁹ The decline in real wages in absolute terms (and relative to output declines) was sharper in Armenia than in every other Commonwealth of Independent States (CIS) country (except Tajikistan and Azerbaijan, CIS STAT 2005; see also - Arvo Kuddo, "Armenia: Labor Market Dynamics"). Beginning in the mid-1990-s, wage levels in Armenia started to rebound at a relatively high pace. According to the NSS data,⁶⁰ the real average wages increased by 80% from 1998/99 to 2004; in 2008 compared to 2004 - by 97.5%⁶¹. In total, household income wages constituted the major source of income and comprised 50.2% of the total household income in 2009 (compare to 41.6% in 2004)⁶².

There exist wage disparities by types of economic activity and by sectors of the economy. Although there has been some improvement in overcoming wage disparities, the average wage in agriculture, services, education, health and social work, and public administration sectors in 2009 were 20-30% lower than the nationwide average (in 2004 these gap was around 30 – 55%).⁶³ Although the wage gap between public and private sectors has decreased in tendency, it is still significant: wages in the private sector in 2009 exceeded those in public sector by 33% (vs. 55% in 2004).

The gender pay gap in Armenia is significant as well and indicates that females are paid less than their male counterparts: in 2009, the nationwide female average wage comprised 60.8% of the male average wage (in 2004 the indicator comprised 53.4%)⁶⁴. There is a correlation between job segregation and wage gaps: the concentration of female employees is higher in the public sector, which traditionally offers lower earnings. Pay differentials between males and females are generally significant, but they also depend on other factors, such as occupation, position, and differences in working hours. At the same time, due to the lower salaries, the public sector is less attractive to men, and this further increases the concentration of women.

Structural changes in the economy resulted in changes in the relative demand for different types of labor, and thus gave rise to various wage premiums such as:

⁵⁷ NSS of RA www.armstat.am "Labor Market in the Republic of Armenia, 2005-2009", page 148 (In publication the distribution of employees is done by wage groups and is not possible to see exactly how less from minimum wage employees earn, or how many employees earn minimum or average wage).

⁵⁸ According to the NSS survey conducted in 1996 of 1,500 economic entities, about 25.7% of the personnel of these enterprises were on administrative leave, and 20.6% were not paid during the leave.

⁵⁹ Consumer price inflation in Armenia was 174% in 1991, 729% in 1992, 1,823% in 1993, and 4,962% in 1994. Prices stabilized to single-digit levels starting from 1998.

⁶⁰ SSPA, "Part 1. Armenia: Growth, Poverty and Labour Markets 1998-2004", NSS of Armenia, 2006.

⁶¹ NSS of RA, Statistical Yearbook "Labor Market in Republic of Armenia, 2009", page 57.

Data for 2009 will be available on www.armstat.am

⁶² NSS of RA www.armstat.am ; "Social Snapshot and Poverty in Armenia" Statistical Analytical Report Based on the Results of the 2009 Integrated Living Conditions Survey (ILCS) of Households, Yerevan, 2010, page 101.

⁶³ NSS of RA www.armstat.am; "Labor market in the Republic of Armenia, 2005-2009, page 60.

⁶⁴ NSS of RA www.armstat.am ; "Labor market in the Republic of Armenia, 2005-2009", page 58.

- Education - employment in the private sector offers a premium to specialized secondary and tertiary education, while the public sector offers a premium only for the tertiary education;
- Gender – in both private and public sectors of the economy, females are paid less than males. The average wage of females in 2008 comprised 58.2% of the average male wage and basically showed an increasing trend – in 2004 the same indicator was 53.5%.
- Age – by experts estimation, in the private sector younger workers have higher wages than older ones, while in the public sector this factor is not relevant;
- Sector of economy – in the private sector of the economy wages are 46.3% higher than in the public sector. Workers in services, education, health and social works, trade, and agriculture experience lower wage rates than the nationwide average;
- Labor contract – private sector contractual workers earn more than non-contractual workers.

The main channel for transmission of the financial crisis is the loss of employment and wage earnings, which in turn will have repercussions on the standard of living of the population. Labor market adjustments take place through increased unemployment, as well as reduced wages and working hours. In Armenia, as mentioned above, the impact of the crisis is more severe in the construction and import-oriented sectors. However, the official statistics suggest that there has not been a registered decline in average nominal wage; in 2009 it increased by 9.7% compared to the previous year. The trend was true for all sectors of the economy, except mining and quarrying, where the average nominal wage has declined by 10.0%.

Labor Market Policies

In the early 1990-s. the major economic liberalization and restructuring reforms initiated and implemented in Armenia conditioned the policy held in the social sphere. Among the social reforms, the employment policy was particularly important, which has been reflected in the “Law on Population Employment” adopted on December 27, 1991. The employment policy was mainly concentrated on passive measures such as provision of unemployment benefits.

Beginning in the early 2000-s, the main priorities in socioeconomic development and poverty reduction were close with labor market issues, and special importance was given to labor market policies aimed at improving employment and reducing the rate of unemployment with a specific focus on structural unemployment. These developments were reflected in the Law⁶⁵ “On Employment of Population and Social Protection in Case of Unemployment”, which the current Armenian statute regulating the labor market, along with the new Labor Code, were adopted by National Assembly of Armenia in November 2004.

The main legal acts regulating the sphere of employment and labor organization of the Republic of Armenia are:

- *The Labor Code adopted in 2004*, which is the key legal document regulating labor relationships. The document was amended several times, with many amendments and supplements approved in 2010.
- *The Law on Employment and Social Security during Unemployment* that provides a legal basis for the employment of Armenian citizens, as well as guarantees for the realization of the right of freedom of choice in employment and social security during unemployment.
- *The Law on State Labor Inspectorate* that regulates the organization and implementation of the state control and supervision over the adherence to normative provisions of labor legislation, other normative legal acts containing norms of labor right and collective contracts in the Republic of Armenia and defines the functions, rights and liabilities of the

⁶⁵ The first Law on Employment was adopted in 1991 and the State Employment Service was established. In 1996, the new Employment Law was passed and the current Law was adopted in October 24, 2005, which entered into force on January 1, 2006.

State Labor Inspectorate of the Republic of Armenia and functions of the state labor inspector.

- *Sustainable Development Program (SDP)* which outlines the key priorities of the labor market measures and policies; redirection of all efforts towards the activation policy aimed at reducing unemployment, designed to reflect the regional development specifics and reduce existing regional disparities, tackling a long standing issues of rural employment and unemployment, and improvement of employment with particular focus on increased formalization in non-agricultural sector.

The Ministry of Labor and Social Issues (MLSI) is the government agency responsible for employment policy. The State Employment Service Agency (SESA) is an agency within the MLSI to which regulatory functions in the sphere of employment are delegated. The SESA has an extensive network of regional employment centers and covers the entire country: 51 regional centers - 41 in marzes and 10 in Yerevan city.

The situation in the Armenian labor market is conditional to range of external factors (such as macroeconomic conditions, a favorable investment climate and an enabling business environment, and a competitive product market), thus, although SESA fulfills an important function by matching available jobs with job seekers, it has no direct influence on either labor supply or demand. On the other hand, labor market interventions, in particular Active Labor Market Policies (ALMP) have great potential for improving labor market performance and enhancing labor supply (e.g., training), increasing labor demand (e.g., wage/employment subsidies and public works), and improving the functioning of the labor market (e.g., employment services). Whether or not this potential materializes depends not only on the external, but also on internal factors, such as targeted policy design and implementation. The involvement of social partners (trade unions, employers) into the labor market regulation and decision-making process concerning the ways of state intervention, could play an important role in developing and implementing local strategies for job creation.

Labor market programs in Armenia consist of two main components:

- Passive labor LMPs that is an unemployment benefit provision and temporary cash assistance to the unemployed;
- Active LMPs that are defined by the current Law “On Employment of Population and Social Protection in Case of Unemployment” which imposes program, budget, as well as participation restrictions (the last particularly contributes to turning many individuals away from long term unemployment) and constricts the flexibility of SESA from responding operatively to changing local and nationwide needs without requesting changes in the Law. This in turn restricts the most effective way of moving the unemployed back into the labor market: the early intervention.

Annual expenditure on employment services is very limited: it was 7,169 AMD or 16 Euro per job seeker in 2008⁶⁶. Instead, staff to client ratio is very high, often in the range of 1/350, and the wages are low (about 65% of average nationwide nominal wage), making it difficult to provide quality services to large numbers of clients.

Expenses on labor market programs in Armenia can be considered as modest both in absolute and relative terms. Allocations to labor market programs in recent years have increased compared to the early 2000-s, from 0.06% to 0.103% of GDP⁶⁷ (the indicator EU15 is about 2%). The extremely low public spending on labor market programs limits the potential impact of employment programs, considering the fact that the lion’s share of limited financing (93-94% in early 1990-s, 76.1% in 2008 and 86.2% in 2009) is allocated for passive programs (i.e. for the unemployment benefit payment).

⁶⁶ Data of State Employment Services Agency (SESA), 2008.

⁶⁷ All calculations related to LMP-s (passive and active) are done based on data from State Budget Indicators (www.minfin.am)

The *unemployment benefit* is given to individuals who have received unemployment status and do not receive any other pensions established by the RA law (with the exception of individuals receiving pensions for the loss of the breadwinner) and have at least one year on record of making social contributions. The amount of the payment is established by the RA law «On the Minimum Monthly wage» at the level of 60% from the minimum monthly wage. Out of the total registered unemployed, only 22.1% in 2008 and 30.5% in 2009, received cash unemployment benefits, and the average benefit is low: 13,913 AMD or 30.9 EUR monthly in 2008 and 16,700 AMD or 32.9 EUR in 2009. The benefit replacement ratio was 55.7% of the minimum wage and 17.4% of the average wage in 2009 (46.4% and 15.9% in 2008 respectively)⁶⁸. The low number of beneficiaries is explained largely by the fact that most of the unemployed have exhausted their eligibility for unemployment benefits as it is provided for a maximum of six months.

Although the share of expenses on ALMP-s has increased in total spending on LMP from 6.2% in 1998 to 23.9% in 2008, due to the crisis and budget constraints, it declined to 13.8% in 2009⁶⁹, staying low given the limited expenditure on labor market programs in total.

The number of people benefiting from participation in active labor market programs is limited. Vocational training and wage subsidy are the main active labor market programs. However, their share in the total number of participants in state labor market programs is not large: as of the end of 2009, of the main beneficiaries of LM program, 96.3% were the unemployment benefit recipients, while the share of participants in vocational training and wage subsidy programs comprised 3.6% (the indicators for 2008 comprised accordingly 94.7% and 4.6%).

Another indicator describing whether the implemented programs are effective or not is the indicator describing what share of participants in vocational training programs received job placement. In 2009, the indicator comprised 28.8%, compared to 32.2% in 2007. Given the fact that the outcome depends not only on how well the policy is targeted and implemented, but also what the demand is for the labor, the indicator is not too low. However, here is no information on how long the placed stay employed to assess the real effectiveness of the program.

Labor market training program: in 2009, resources allocated to finance this program have increased, compared to 2008, comprising 23.3% of all ALMP spending in 2009 allocated to finance this program (compared to 47.7% in 1998 and 51.9% in 2000 and 15.3% in 2008). The job placement rate in 2009 comprised 39.7% compared to 46.7% in 2008, the average cost per participant comprised about 210 EUR, but the participation rate is quite low: 1.9% of registered unemployed.

Wage subsidy program: this program is limited and available to vulnerable groups of the unemployed and to general unemployed after three confirmed years of unemployment. In 2009, 75.4% (it has declined compare to 83.6% in 2008) of all ALMP funds were allocated to finance this program. The average cost of the program per participant comprised 563 EUR, and the participation rate, 0.2%. The program could be an effective inclusive policy for groups such as the disabled and youth without work experience.

Small business setup program: it is limited to payment business registration fees. The program is not effective, thus the rules and conditions should be changed or the program should be eliminated completely, since, for the unemployed, it is almost impossible to set up a small business without essential business consulting and lending. The program might work well in rural and remote areas (where the unemployment rate is high), in the case of well-designed and effective cooperation with Small and Medium Enterprises Development National Center (SMEDNC) of Armenia, which has well-run business start-up and continuing support programs in marzes. The program, if run appropriately, could have addressed one of the major labor market issues in Armenia; the scarcity of demand for labor.

⁶⁸ NSS of RA www.armstat.am, "Statistical Yearbook of Armenia", 2010, pages 66, 89, and 101.

⁶⁹ See: www.minfin.am; "State Budget Indicators" for relevant years.

Public works program: the large share of resources – 66.8% (78.6% in 2008, 85-90% % in previous years) is absorbed by this program. The average cost per participant (both employed jobseekers and unemployed can participate in this program) comprised 221.7 EUR in 2009. Given the fact that the program provides rather basic income support rather than job placement, and the cost per participant is more than twice as high as the the one for training or wage subsidy, it should be revised and targeted to the most vulnerable groups, instead of being available to everyone.

As an indication of evaluating public expenditure on labor market programs, one can considered the ratio of total expenditures to GDP per 1 percentage point of the registered unemployed. According to this indicator, Armenia lags behind developed and Central and Eastern European countries. The picture comes even worse if unemployment rates from the labor force surveys are used as a basis for calculation⁷⁰.

The evidence from developed and transition economies suggests that well designed, targeted, and properly implemented ALMP-s can have a positive net impact on returning the unemployed to the labor market⁷¹. As already mentioned above, Armenia has a high level of long term unemployment (among officially registered job seeker placed to the job 62.3% were looking for the job for more than 12 months; and according to the LFS data 46% self-reported jobseekers were looking for the job for more than 4 years). Thus, immediate intervention for the newly unemployed, as well as facilitation of special intervention policies for the long-term unemployed, should be considered crucial for ALMP-s in Armenia. Despite this argument, the SESA and its employment programs are underfunded, which means a limited number of unemployed participate in ALMP-s. Consequently, there is little or no impact on reducing long term unemployment from these programs.

1.4 Education System

Since independence the literacy rates in Armenia have stayed nearly as high as 99%. However, the transition period has had a negative impact on the education system.. In particular, the reduction of public spending in education gave rise to a deterioration of the quality, relevance, and efficiency of education services. All of the main components of a quality education system - adequate finance, trained and motivated teaching staff, up-to date standards and curriculum, adequate attention to preparing students for the world of work, adequate provision for teaching materials and educational technology, and acceptable facilities and equipment – at some point were seriously lacking.

Reforming the Education System and Policy Issues

The development of the education sector in Armenia became a priority for the country's development, and is one of the prerequisites of stable development of the country, as well as preservation and reproduction of human capital. In response to the crisis in education, the Government of Armenia has embarked on a series of reform efforts since 1998. Reforms are aimed at considerable improvement of the quality of education (including higher education) and increased levels of access for disadvantaged groups of the population.

The first stage of reforms refers to the period of 1998-2002: reforms related to education financing and management. The WB Education Financing and Management Reform Project (1998-2002) signaled the beginning of reforms: the legislative and policy base for General Education reform was established and initial steps were taken to strengthen the Ministry of Education and Science (MOES), were laid plans for critically needed rationalization of school facilities and staff, funded a major textbooks initiative, and experimented with new, decentralized, community-based school management and financing models.

⁷⁰ Arvo Kuddo, "Armenia: Labor Market Dynamics", WB paper, 2005, Volume II: Main Report, page 115.

⁷¹ David Fretwell, Jake Benus, Chris Orley «Evaluation of the Impact of Active Labor Programs; Results of Cross Country Studies in Europe and Central Asia», WB Social Protection Discussion Paper, June 1999, # 9915.

In 2001, the National Assembly approved the State Program of Education Development for 2001–05, the main objective of which was to prepare the population for responsible citizenship as a means of fostering national unity and the social progress of society. The program addresses the situation and issues facing the education system, the objectives and implementation periods of the program, its tasks and activities, the state and social guarantees of the students, and the financial provisions of the program, and contains a list and schedule of the actions to be implemented. The program envisages the reforms to be implemented in the VET area.

The next stage of reforms is considered for the period of 2003-2009: it relates to assuring education quality and relevance. The main initiative with these reforms was the introduction of a 12-year educational system and establishment of a three-year high school system.

Along with reforms undertaken in general education in collaboration of WB-MES, the EU undertook a sizable initiative in vocational and technical training (VET)⁷², focusing on the following areas: policy and structural reforms, proposing and implementing reform in selected institutions in the VET sector, and ensuring that the VET system is adapted to the local labor market. The support in this areas entered a new phase beginning in 2007, when importance was placed on the following: enhanced institutional capacities for policy definition, implementation and monitoring, improved quality, efficiency and accountability of the delivery system to meet the demands of the labor market, strengthened social dialogue, improved donor co-ordination, and optimized VET financing and governance of the system.

The higher education system went reformation as well. The EU support was provided in the following areas: reforms of university management systems, curriculum development and training of teaching staff, and networking and multiplier projects. In light of Bologna Process, the support has enabled Armenian universities to improve their administrative and organizational structures and study programs by experiencing EU academic culture. Significant steps will be made toward the European Higher Education Area as the universities promote teacher training, student mobility, language ability, consultation with the entrepreneurial world, and cooperation with stakeholders.

The quality and efficiency of the education system in Armenia still faces challenges. In some areas, like high school, the changes are not yet visible, since the programs were in generally implemented beginning in the 2009/2010 academic year and it will only be possible to judge these in the future.

Expenditures on Education

Since independence, Armenia has experienced a remarkable reduction of public spending on education: in 1991 public spending on education comprised 7.2% of GDP and dropped to 2.0% in 1997. Beginning in the late 1990-s,s the sector has been prioritized and there has been registered improvement in state spending on education. Although the public expenditure on the education sector in nominal terms have tripled in 2008 compared to early 2000-s, its share in GDP has not changed essentially: it has increased from 2% in 1997 to 2.9% in 2008 and 3.5% in 2009⁷³ (compare to 6.6% in 2006 in Belarus, 6.4% in 2008 in Ukraine, 4.96% in 2007 in EU27, 2.7% in 2008 in Georgia, and 2.8% in 2009 in Azerbaijan).

As for the structure of expenditure, around 61% of public expenditures on education in 2009 was allocated for elementary, basic, and general secondary education (decreased compare to 77% in 2008), while preliminary and secondary vocational education received 4.0% (4.4% in 2008) and higher and post-graduate education received 6.1% of funds (this remained unchanged compared to previous year). 39.7% of expenditures envisaged under the vocational programs are channeled to preliminary and secondary vocational education (43.3% in 2008) and 60.1% to tertiary education

⁷² TACIS Action Program 2002-2003, Republic of Armenia. Terms of Reference on Support to the Development of an Integrated VET System.

⁷³ Ministry of Finance, Mid Term Expenditure Framework (MTEF) of RA, 2007-2009, page 66.

(56.7% in 2008). Compared to 2003, the share of public expenditures for general education in the total educational expenditures has risen by about 2.3 percentage points to enhance the quality and accessibility of general education. Therefore, the enrolment in high school in recent years has grown and access to basic education in Armenia is estimated to be equitable, whereas access to upper levels of education is quite limited for children from poor families.

Due to the low level of public spending on education there has been a noticeable increase in household spending on education. There are no statistics published on aggregated private expenditure on education, however there are several estimations based on the ILCS data, according to which the private expenditure on education has a rising trend and its share in GDP varies between 0.9% in 2001 and 2.7% in 2007 (the last estimation available)⁷⁴. Thus, the total expenditure (public and private together comprise 5 -6% of GDP) on education as a percentage of GDP amounts to the average for EU27. However, the proportion of public and private involvement has an essential impact on equity and access to education in Armenia. Equitable access to higher education is hampered by the following factors:

- the difficulties that less-advantaged students have in qualifying for university entrance, which is conditional to non-satisfactory quality and high cost of secondary education, the additional and not always affordable cost of private tutoring for the entrance examination, the quality and reliability of the examination process itself, and finally, corruption in admission decisions;
- the cost of university education, which could sometimes be hard to bear even for those who are admitted under the State Order system (the State order system assumes no tuition fees, however based on expert estimations, the expenses related to housing, purchasing textbooks and other literature, transportation and food amounts to 2,500-3,000 US dollars yearly)⁷⁵.

Educational Attainment

Preschool education: The availability of pre-school education has declined sharply since independence, and the sector no longer receives support from the central education budget. Community-supported nurseries or day care centers (ages 2-3) and kindergartens (ages 3-6) exist, but the numbers are inadequate and the majority of Armenian children in fact lack access to them. The network of preschool institutions has declined in Armenia essentially - by about 42% since the mid-1990-s (in rural areas it declined by 54%, in urban areas by 32.6%). The number of children attending the preschool institutions has declined by 24.7% (16.6% and 49.2% in urban and rural areas respectively). However, the enrolment of children in preschool establishments in 2008 is higher compared to the mid-1990-s. In 2008, the enrolment comprised 24.3% in 2009 (19.7% in 2008) (31.5% and 11.7% in urban and rural areas respectively) compared to 17.1% (22.6% in urban and 12.3% in rural areas)⁷⁶ in 1997. The accessibility of preschool education is specifically important for the poor population. The analysis by poverty groups suggests that the gross enrolment indicator, despite some improvement during 2004-2008, shows essential differences by social groups: in 2009, approximately 13% of poorest respondents reported the preschool education to be expensive, while only 0.7% of richest quintile respondents felt the same⁷⁷. One of the key indicators affecting the attainment rate, besides the fee which is not overly expensive for

⁷⁴ WB Country Study "Public Expenditure Review of Armenia", 2003, page 90; ETF, "Black Sea Labor Market Reviews, Armenia Country Report", 2010, page 38.

⁷⁵ WB funded project "Current Situation in Higher education and the relevance with high schools" – baseline survey (2009, Yerevan, Armenia), page 26.

⁷⁶ NSS of RA www.armstat.am Publications: "Social Situation of RA 2009" page 7. "Statistical Yearbook of Armenia, 2002", page 125.

⁷⁷ NSS of RA www.armstat.am; "Social Snapshot and Poverty in Armenia" Statistical Analytical Report Based on the Results of the 2009 Integrated Living Conditions Survey of Households, 129.

public preschool institutions (varies between 9 to 18 EUR per month), is the accessibility, especially in rural areas.

In addition, there are a number of private pre-schools, which provide early childhood education for those who can afford it (monthly fees start from 122 EUR). The pervasive inequity that characterizes the Armenian education system, thus, begins at the initial education levels.

General education: There are three levels of general education (sometimes called secondary education) in Armenia: primary (grades 1-4); middle (5-9); and higher (10-12). Armenia has maintained the high enrolment in general education. According to administrative data, the enrolment rate in primary program in the 2008/2009 academic year was 95.5%, 93.5% in middle or lower secondary program, and 81.9% in high or upper secondary program⁷⁸. Despite the fact that high school enrolment has improved (it was 74% in 2002), the proportion of drop-outs after basic education is still high - especially among children from poor households. In the 2008/2009 academic year, the share of boys among drop-outs comprised 60.2%. The reasons for drop-out in 35.3% cases was lack of desire, in 3.4%, for economic reasons, in 3.2%, because parents prohibited them from attending school, and in 1.2%, because of disability.

The average class size in general education schools in the 2008/2009 academic year was 17.8. At the same time, the pupil to teacher ratio was 9.7 (it has remained essentially unchanged since late 1990-s - 9.9).

There are no significant differences between boys' and girls' enrollments in Armenia. However, other inequities exist in the system. Children from low-income families entering first grade find themselves behind from the start, due to lack of pre-school education. Students in rural schools, especially the smaller and more remote ones, generally receive an education which is of lower quality, with fewer days of instruction. In schools at all levels, differences in the students' family resources make a significant difference. Although the compulsory education is free of charge, families, regardless of their income, have to pay for uniforms, transportation, and school supplies, as well as a variety of special assessments throughout the year. The amounts involved are not great, but taken altogether they represent a significant expense for families with limited means. According to the ILCS 2009 data, the share of educational expenditure, minus food expenditure, comprised 6.8% and decreased compared to 9.7% in 2008. There exists essential inequity in urban and rural areas: the indicator in 2009 comprised accordingly 8.0% (10.3% in 2008) in urban areas versus 3.6% (8.0% in 2008) in rural areas⁷⁹.

Another issue related to inequity is that, as the education provided is not adequate to ensure that most students are prepared to pass from one stage of education to another without special help, families are routinely required to pay for special tutoring either by the teacher or someone else, if they want their children to move through the system successfully. According to ILCS 2009 data, expenses on private tutoring constituted 68% (73% in 2008) of total educational cost for households with a child studying at an upper secondary school. Textbooks and school supplies comprised 15% (11% in 2008) and other expenses comprised 17% (16% in 2008)⁸⁰.

Vocational and technical education (VET) system: there has been decline in enrolment in the system. The primary reasons for this decline include the sharp drop in demand for vocational and technical school graduates due to the economic collapse, a decline in overall quality, the irrelevance of much of its offerings to the needs of the new market economy, and the need to make required structural, curricular, staffing, and material changes. Experts suggest that the explosion of

⁷⁸ NSS of RA www.armstat.am Publications: "Social Situation of RA 2008" page 20. Data for 2009/2010 academic year will be available from the same source.

⁷⁹ NSS of RA www.armstat.am Publications: "Social Snapshot and Poverty in Armenia" year 2009, page 122 and year 2010 page 129.

⁸⁰ NSS of RA www.armstat.am Publications: "Social Snapshot and Poverty in Armenia" year 2009, page 122 and year 2010 page 131.

private universities, which has provided a more attractive social outlet for youths that previously could have attended vocational/technical stream. Traditionally, the VET sector has been the least prestigious component of the system.

Preliminary VET in Armenia is now called ‘craft’ vocational education. The attractiveness of this type of education, as is mentioned above, was already low before the transition period. Secondary VET (middle professional education) represents a viable education pathway for young people that enjoy higher recognition among the population. Its objective is to prepare young skilled professionals for middle-level positions in various vocational groups, and it delivers the ‘junior specialist’ qualification. Since the early 2000-s the number of enrolled in the system has declined by 6.5%. What is interesting, however, is that while the enrollment in primary VET declined by almost two times, the number of enrolled in secondary VET has barely changed.

Higher education: since independence, the higher education sector (consisting then primarily of the state universities and independent research institutes) experienced profound changes accompanied by the loss of a large number of its best teachers and researchers, especially the young ones, through emigration or departure to take up better-paid jobs outside the sector. The situation is becoming more complicated while taking into account the issues related to updated programs, curricula, teaching methods, and equipment and teaching materials and access to new information technologies. Although the graduates from the system in general are better off than graduates of private universities, or those lacking higher education, there exist difficulties in finding suitable employment. Despite this, higher education is the only sub-sector of education that has registered growth in the number of entrants: the demand for higher education remains high but a small proportion of school graduates can obtain admittance to the state institutions, which resulted in extending of private alternatives. In 2009, 77 universities and institutions and 12 of their branches provided higher education. In state universities, only 20% of students had their tuition fees financed by the state budget. The accessibility of higher education is constrained by two major factors: the tuition fees (yearly tuition fees vary between 300 to 1,500 EUR), and the concentration of establishments providing higher education mainly in Yerevan (83%), which makes the higher education even more expensive (the expenses for renting a dwelling, on textbooks and teaching material, on transportation and food, according to our calculation, comprise about 1,700-2,000 EUR - a huge burden even for middle income families). Moreover, according to ILCS 2008 data, the mentioned expenses during 2004-2008 rose faster than average consumption expenses for the household (per each household member) – accordingly 1.7 and 1.5 times⁸¹, however the 2009 ILCS data suggest that in 2009 there has been registered 33.5% decrease in expenses on education⁸². Thus, the university enrolments are quite unequally distributed, with relatively wealthy households overrepresented. With limited resources to spend on private tutoring, children from socially and economically disadvantaged households, as well as from rural areas perform worse at secondary school, which limits their access to tertiary education.

Continuing training or lifelong learning: In 2004 the Government of RA approved “The Strategy of Preliminary (Craftsmanship) and Middle Professional Education and Training”, the goals of which were: (i) to ensure the formation of a modern individual and a citizen, the reproduction and development of intellectual potential of the society and the workforce, its competitiveness and social solidarity, which brings a new level of the development of the nation and will lead to political stability and democracy; (ii) to ensure the possibility of achieving success for everybody during their life, based on the harmonization of individual abilities of the learners and the needs of the economy and the job market. One of the strategy tasks for achieving that goal was lifelong education, which includes adjustment or updating of any kind of knowledge or skills of the workforce, required from the employees in order to keep their job or from unemployed in order to find a job.

⁸¹ NSS of RA www.armstat.am Publications: “Social Snapshot and Poverty in Armenia”, Statistical Analytical Report Based on the Results of the 2008 ILCS of Households, Annex 3, Table A6.1, page 163.

⁸² NSS of RA www.armstat.am Publications: “Social Snapshot and Poverty in Armenia”, 2010, Annex 2, Table A3.8, page 1287.

In 2008, within the framework of the State Program of the Republic of Armenia on the development of education in 2008-2015, the Ministry of Education and Science of the RA initiated work on amendments to the “Concept Paper on Lifelong Learning” and new Law on “Adult Education” or to the existing laws, which are, at present, in the implementation phase. However, a number of Ministries (RA Ministry of Education and Science, the Ministries of Justice, Health Care, Culture etc.) and agencies (RA Police, Custom’s, Tax and other services) organize training and quality raising courses for the specialists, working in their respective fields as well as for the unemployed and job seekers organized by the RA Ministry of Labor and Social Affairs.

The centralized system of governance in the field of adult education and learning is non-existent. It is organized and implemented by the state as well as private organizations and NGOs. The number of private enterprises financing Adult Education and Learning in the RA is limited, the overwhelming majority of companies do not spend any money on retraining employees. Nevertheless, the large enterprises working in Armenia are already attaching importance to the professional growth of its employees and are making serious investments in that field. It is necessary to mention, however, that retention of employees in private entities is becoming more and more widespread, due to the rising demand for qualified personnel.

Unfortunately, in Armenia no official statistical studies are carried out regarding this field, and this is the reason why the authors of this report were not been able to present more relevant data regarding this issue.

1.5 Migration and Remittances

Armenia is a country with long history of migration: both regular and irregular emigration has been and continues to be an important phenomenon affecting the country, while the immigration is modest and not typical in Armenia today.

Migratory Processes

Since late the 1980-s Armenia has experienced several migration streams due to various reasons (the destroying Spitak earthquake in 1988, armed conflict over Nagorno Karabakh in 1992-1994, and harsh socio-economic conditions due to general economic crisis and blockade).

In the spring of 1988, the external migration situation in Armenia changed with the first refugees from Azerbaijan. Between the spring of 1988 and late 1991, approximately 420 thousand refugees and displaced persons arrived to Armenia (360 thousand - from Azerbaijan, and the rest - coming from other regions of the former Soviet Union, such as Tajikistan, Uzbekistan, Kyrgyzstan, Abkhazia)⁸³. However, due to the socio-economic hardships of the 1990-s, a large number of refugees (the estimates suggest from one-quarter to about one third) left the country. Because the process started in the early 1990-s and formed the part of the overall emigration process of those years, they were included in the general flows of migration. During the same period a total of approximately 160 thousand ethnic Azeris left Armenia⁸⁴.

The most severe emigration from Armenia was registered in the early 1990-s. Beginning in the mid-1990-s the population outflow somehow stabilized and, since the mid-2000-s, re-emigration became one of the positive migration trends: according to the 2008 household survey results, only

⁸³ IOM, Migration Perspective 2006: The Migration Situation in Armenia: Challenges and Solutions, page 18.

⁸⁴ IOM, Migration Perspective 2006: The Migration Situation in Armenia: Challenges and Solutions, page 18.

3.8% of households reported a return of their family members. While this is an increase of 0.3% compared to 2007, it is still lower than the 2004 index of 10%⁸⁵.

The magnitude of the migration process has been difficult to assess due to lack of reliable statistics. The issue has been a subject of heavy discussions because the procedures for administrative registration⁸⁶ of migration do not allow for assessing the real size of emigration. The estimates of the real size of migration vary between 800 thousand to 1 million people. A demographic study of Central Asian and Caucasus countries indicated that Armenia had one of the highest differences between de facto and de jure population.⁸⁷ The 2001 Census of the Population provided an updated on migration flows during the 1990-s. The official projections suggested a population of 3.8 million, while the Census results indicated a population of 3.02 million⁸⁸.

Seasonal labor migration was typical for Armenia during the Soviet period: the phenomenon began in the 1960-s due to differences between socio-economic development of different administrative-territorial units of country and involved mainly residents of some high mountainous regions that had limited demand for agricultural labor (due to unfavorable climate) and underdeveloped industrial infrastructure. During the 1990-s the migration, whether it was emigration or long-term temporary labor migration for longer periods as “guest workers” for several years, had a major impact on labor supply in Armenia. On one hand, it involved some emigration of better-educated, higher-skilled workers to other countries, thus influencing the occupational and professional structure of the labor force. On the other hand, despite economic growth in Armenia, the economy’s recovery and job creation has not been enough to absorb the thousands of unemployed and underemployed in the country, especially in rural and remote areas, that have been affected particularly by the collapse of the old infrastructure and traditional economic ties. Thus, during the recent years, migration from Armenia has transformed into mainly labor migration. According to the results of a sample survey conducted by NSS, in cooperation with UNFPA in 2007, among the reasons that instigated the departure of the household members, prevalent was the “Absence of jobs” (38.3%), followed by the “Impossibility of sufficient earnings to ensure adequate living standards” (23.2%), and “Family circumstances” (19.7%). This means that for 61.5% of the household members, included in this particular group, the problem of earning sufficient resources was of primary importance.⁸⁹

The most negative consequence of massive emigration can be considered the direct demographic loss, which will most probably have a long-term impact on the labor supply and on economic, social, and demographic developments in Armenia in general.

In the 1990s, external labor migration affected labor supply in Armenia in two ways: (i) it arose as a response to lack of employment, and (ii) it eased the tensions in the Armenian labor market with low prospects for alternative employment, and became an important income diversification strategy, especially for the poor. Labor migration to Russia and other countries in search of work, and remittances to support families at home, played an important role in mitigating unemployment and providing household income.

⁸⁵ NSS of RA www.armstat.am Publications: “Social Snapshot and Poverty in Armenia” Statistical Analytical Report Based on the Results of the 2008 ILCS of Households, page 21. For 2009 the indicator is not available.

⁸⁶ The current migration statistics is based on the procedure of the administrative system of registration (recording), which is the main way of updating the number of *de jure* population after the Census of 2001 was conducted. However, it does not capture the actual levels of migrations flows for both objective and subjective reasons: not all the migrants tend to carry out their departure(s) and arrival(s) through the administrative registration (recording) procedures, thus remaining outside of the statistical framework.

⁸⁷ WB, 2002, “Armenia Poverty Update”, page 35.

⁸⁸ NSS, The Results of the 2001 Census and Housing Conditions, Table 1.1 “De Facto and De Jure Population”, page 69.

⁸⁹ NSS (www.armstat.am), UNFPA, “Report on Sample Survey of External and Internal Migration in RA”, Yerevan, 2008, page 35-47.

According to the results of the 2008 ILCS, there have been no major changes in the share of respondent households with migrant household members ages 15 and above (20% in 2004 and 21.4% in 2008). However, *the global financial and economic crisis* affected the external migration of Armenia: in 2009 that share of households reported having external migrant have declined to 12.3%. Similar to the previous year, Russian Federation remained the most popular destination country for migrants of age 15 and above; the share of migrants to RF in 2008 has increased to 57.0% compared to 53.3% in 2007, but has declined in 2009 to 53.6%. There has been a minor decline in the percentage share of migrants leaving for other CIS countries, Europe, USA and Canada (see table 1.9)⁹⁰.

As for the official statistics, the net migration in 2009 compared to the previous year changed from (-5.8) thousand to (-4.4) thousand persons⁹¹. Once again the administrative statistics do not reflect the real situation. However for the dynamics see table 1.10.

Domestic migration in Armenia was largely distorted first by the 1988 Spitak earthquake, later between 1992 and 1994-1995 by population flows from urban to rural areas, which was a kind of family survival strategy to deal with the sharp deterioration of living standards of the urban population⁹², and finally, beginning in the mid-1990-s, along with the deterioration of living standards of rural population, there has been registered activation of labor emigration of rural population even in regions of Armenia, where it wasn't traditionally widespread thus deterred the rural to urban flow. Experts assure that the domestic migration flows in Armenia in the mid-1990-s were mostly due to demographic family motives (family reunion, marriage, divorce and so on) and education purposes, rather than driven by socio-economic reasons. Thus, the scope of internal migration is less significant – it is more than two times smaller than the external migration, and remittances from internal migration are quite limited because the internal migration can occur for reasons other than gainful employment.

Remittances

Remittances from abroad play an important social and economic role in Armenia. The significant emigration including the labor migration influenced the reliance of Armenians on private transfers, which play an important role in the country's economy. According to the Central Bank of Armenia (CBA), remittances from the Diaspora keep many families above the poverty line.⁹³ More than half of households with migrant members abroad reported receiving remittances. According to an IMF study, most of the remittances sent to Armenia come from the Russian Federation (70%), and correlate strongly with Russia's GDP growth⁹⁴. To estimate the size of remittances to Armenia, CB of Armenia conducted series of surveys in 2006 and 2007 to assess the actual volumes of remittances received by Armenian households. The results prove that 35.9% (35.1% in the previous year) of households participating in the survey during year of 2006 received remittances. According to the survey remittance recipient households showed a trend of increase in rural areas, which is mostly explained by the high rate of seasonal migrants in the rural population (see: Subchapter 1.9, "Tables", Table 1.9). The same trend is reflected in a Country report on "Remittances of International Migrants and Poverty in Armenia" that is prepared based on a survey

⁹⁰ Data for 2009 will be available on www.armstat.am Publications for 2010, "Social Snapshot and Poverty in Armenia" Statistical Analytical Report Based on the Results of the 2009 ILCS of Households, Part 1.

⁹¹ NSS of RA www.armstat.am Publications: "Socio-economic Situation of RA, January –December 2009", page 134.

⁹² Later by the country development was proven that the phenomenon was mainly a temporary and was resulted in as at that stage of country's socio-economic development the subsistence agriculture was a coping strategy to survive. Some of the urban-rural moves, as opposed to the above-mentioned reason, pursued the aim of acquiring rights to participate in the privatization of agricultural lands. Accordingly, after the land privatizations ended and as the living standards of urban population have improved, the process not only stopped, but even in fact reversed.

⁹³ The Armenian Economist (December 2006) "Money Outflows from Armenia".

⁹⁴ Oomes Nienke, "Coping with Strong Remittances: The Case of Armenia", IMF, 2007.

conducted among 3,000 households under the auspices of the Asian Development Bank in 2007-2008⁹⁵.

According to balance of payments statistics, current remittances⁹⁶ have increased significantly since late the 1990-s: in 2008, they comprised 1.29 billion EUR or 6.1 times higher than in 2001. The global financial and economic crisis understandably had a negative impact on remittances levels in Armenia: in 2009 compared to a year ago they declined by 26.9% and comprised 0.94 billion EUR⁹⁷ (for the dynamics see Subchapter 1.9, “Tables”, Table 1.11). As for the structure of remittances, the picture reveals the following: workers’ remittances declined by 33.6%, transfers from migrants by 34.5%, employee compensations by 28.1% and transfers from Diaspora by 32.2%.

With remittances from abroad accounting for a large share of GDP (15.9 % in 2007, and 16.3% in 2008, 15.4% in 2009) and household income (9.1% in total household income in 2008 and 8.7% in 2009), the impact of the global financial crisis through declining remittances is essential for government revenue and transfer-reliant family income.

Although private remittances have declined in income composition of households (from 10.8% in 2004 to 9.1% in 2008 and 8.7% in 2009), they still play an essential role in reducing poverty risk⁹⁸. According to ILCS 2009 data, private transfers from abroad reduce the risk of poverty: in the poorest quintile in 2004 the share of transfers from abroad comprised 3.7% compared to the 15.6% in the richest quintile. As the poverty rate has declined in Armenia, the share of remittances from abroad has increased in the poorest quintile and declined in the richest one, comprising 7.3% and 10.7% in 2008 respectively. However, the global crisis changed the picture: in 2009 the share of remittances from abroad declined to 4.1% for the poorest quintile and to 9.3% for the richest quintile⁹⁹.

For comparison purposes, it is worth mentioning that, for many Eastern European and Central Asian countries remittances, being one of consequences of migration, became large sources of external income and have served as a cushion against the economic and political turbulence of the past 15 years. Remittances represent over 20% of GDP in Moldova and Bosnia, Herzegovina and over 10% in Albania, Armenia, and Tajikistan.¹⁰⁰

1.6 Demographic Trends

Along with the social and economic transition, Armenia experienced a continuous decline in population. The negative demographic developments in the 1990-s are explained by natural growth decline, increase in mortality rate and population migration, leading to a decrease in population and to a significant change in its age structure.

Since independence, the demographic developments in Armenia could be divided into the following stages: (i) the early 1990-s, when the population, mainly due to migration, decreased by more than

⁹⁵ More details on the project “Regional Technical Assistance on Remittances and Poverty in Central Asia and South Caucasus” are available at http://www.edrc.am/project.html?cat_id=105, and at www.adb.org/Documents/TARs/REG/40038-REG-TAR.pdf

⁹⁶ Remittances are calculated as follows: (i) migrant remittances (are calculated as the sum of workers’ remittances, compensation of employees, and migrants’ transfers) plus (ii) Diaspora transfers.

⁹⁷ NSS of Armenia (www.armstat.am), “Balance of Payment of Armenia” for 2006, 2009 and 2010, page 18-21.

⁹⁸ NSS of RA www.armstat.am; “Social Snapshot and Poverty in Armenia”. Statistical Analytical Report based on the Results of the 2008 ILCS of Households, page 87.

“Social Snapshot and Poverty” 2010, page 101-102.

⁹⁹ NSS of RA www.armstat.am “Social Snapshot and Poverty in Armenia”. Statistical Analytical Report based on the Results of the 2008 ILCS of Households, page 93-94; “Social Snapshot and Poverty” 2010, page 105-106..

¹⁰⁰ WB, “Migration and Remittances-Eastern Europe and Former Soviet Union”, 2007, page 65.

http://remittancesgateway.org/index.php/documents/cat_view/7-international-organizations/42-world-bank-wb)

7%; (ii) from the mid 1990-s to 2002, when the decrease became moderate at an average annual rate of (-0.18%); (iii) and reversal to low positive growth between 2003-2008 at an annual average rate of 0.14%¹⁰¹. However, the population's number is still (as of January 1, 2010, Armenia's population was 3249.5 thousand and increased by 0.7% compared to 2001) 7.6% lower than the number in 1990.

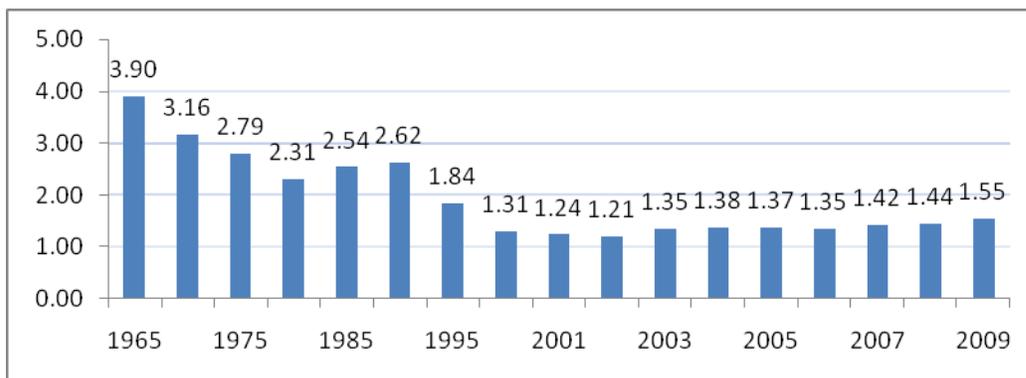
Large-scale emigration has been a major factor in Armenia's overall drop in population since independence (see: Subchapter 1.5). During the 1970s and 80s, Armenia featured perhaps the healthiest demographic picture in the Soviet Union. The country enjoyed an optimal population growth rate - 1.4% per year between 1979 and 1990, and had the highest life expectancy (about 74 years as of 1987) of any Soviet republic. A good health care system, a relatively high number of children per family (2.4 on average) contributed to Armenia's solid growth rate.

Armenia's demographic trends have changed following the December 1988 earthquake at Spitak. Most of the quake's victims were in their reproductive years, denting population growth. The economic chaos produced by the Soviet Union's collapse added to the quake's legacy. Armenia's death rate began to climb from 6.2 per 1000 people in 1990 to 7.5 in 2000 and to 8.3 in 2008: an increase of 34% compared to 1990.

Life expectancy at birth shows trends of improvement: in 2009 life expectancy at birth was, for females 77.0 years and, for males 70.6 years, compared to 73.4 and 67.9 consequently in 1990¹⁰². At the same time, Armenia's birth rate has declined by half, prompting a sharp drop in the natural population growth rate. This statistic, which reflects the number of births minus the number of deaths, has declined by approximately four times since 1990: in 1990, it comprised 16.3 births per 1000 people and 5.3 in 2009(4.2 in 2008)¹⁰³.

The total fertility rate has deteriorated in Armenia since independence and currently is below the replacement rate: in 2009, it comprised 1.551 compare to 2.62 in 1990 and 3.16 in 1970 (see the figure below).

Figure 1.6.1 Total Fertility Rates in Armenia for 1965-2009



Source: NSS of RA www.armstat.am Publications: "Demographic Handbook of Armenia, 2010" page 55.

The demographic trends in Armenia over the recent decades have changed the shape of the age pyramid. Between 1991 and 2009¹⁰⁴ the share of the population under working age has declined from 32.0% to 19.8%, while the share of the population above working age has increased from

¹⁰¹ NSS of RA www.armstat.am Publications: "The Demographic Handbook of Armenia, 2010", page 29-30.

¹⁰² NSS of RA www.armstat.am Publications: "The Demographic Handbook of Armenia, 2010", page 79.

¹⁰³ Indicator is calculated based on the information obtained: NSS of RA www.armstat.am Publications: "The Demographic Handbook of Armenia, 2009" and 2010, pages 56 and 83.

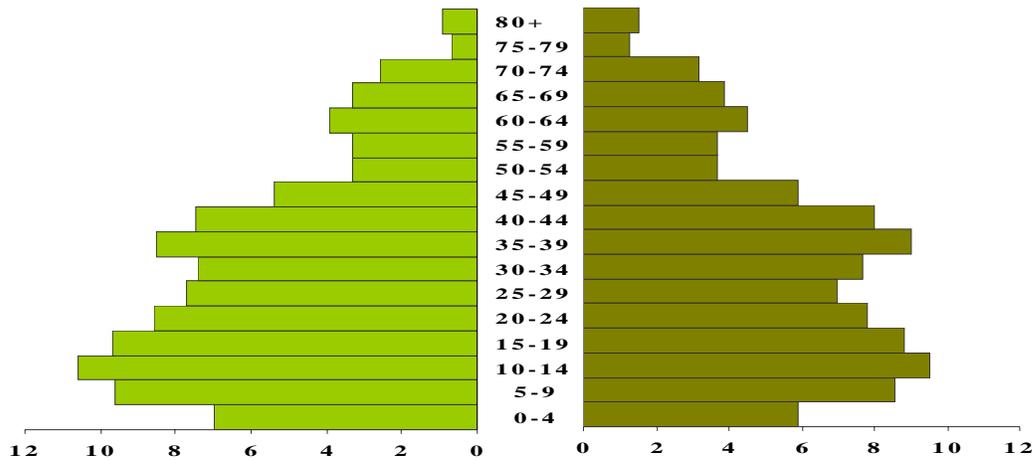
¹⁰⁴ Data for 2009 on all demographic indicators will be available on www.armstat.am "The Demographic Handbook of Armenia, 2010".

7.9% to 11.5% in 2009.¹⁰⁵ As for the share of working age population, it has increased from 60.5% in 1991 to 68.7% in 2008. The change of the shape of age pyramid within last decade is shown in the Figure 1.6.2 below.

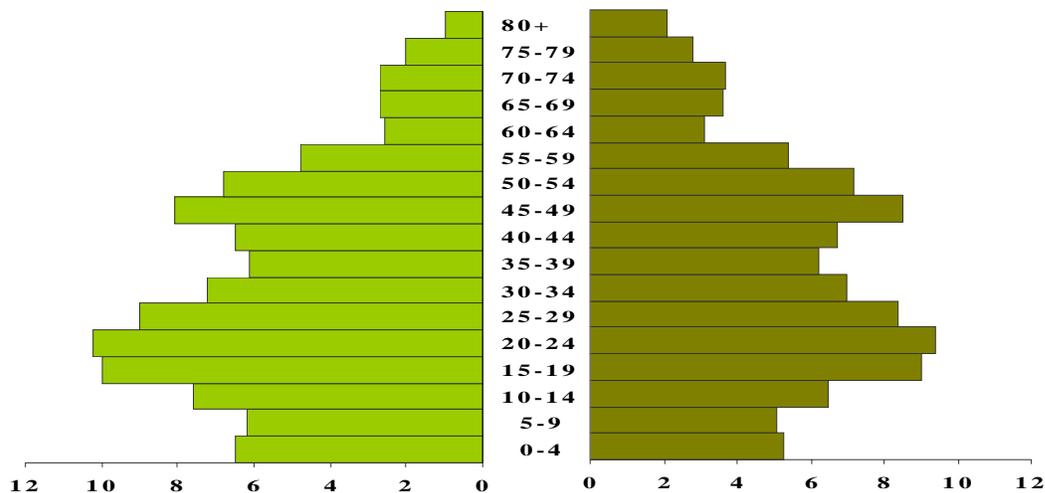
Figure 1.6.2 The Age Pyramid of Population in Armenia (% of total)

As of January 1, 1999

Male



Female



Source: NSS of RA www.armstat.am Publications: "Demographic Handbook of Armenia, 2009, page 27

According to UN population projections¹⁰⁶ the share of population aged 0-14 out of the total number of population in Armenia will decrease from 21.1% in 2005 to 20% in 2025 and to 16.3% in 2050,

¹⁰⁵ 16 years old to retirement age population is considered as working age population. As it was stated earlier, according to the 1990 legislation, the retirement age for men was fixed at 60 for women at 55 for women; 62 for men and 57 for women in 2000. Under a relevant law that entered into force on April 10, 2003, 63 is fixed for men, while it increases gradually for women. In 2007, it was 61, in 2008 - 61.5, and will reach to 63 in 2011.

while the share of population aged 65 or over will increase accordingly to 15.3% and 21.5%. The share of women aged 15-49 also has a declining trend: it will decline from 54.2% in 2005 to 46.5% in 2025 and 38.1% in 2050, which, combined with the expected fertility rate of 1.85 between 2025-2050, will essentially affect the age and sex composition of the population.

Thus, the trends described above, combined with these projections, clearly identify that Armenia is faced with an aging population and the notable factor behind it is the decline in the total fertility rate, which does not assure even the simple reproduction.

The sex-age composition of population in Armenia essentially is affected by migration. Since the 1990s, the external migration balance of the country is negative (emigration exceeds immigration). According to official statistics, the negative migration balance in 2005 was 7.8 thousand people, which is by 25% less than in 2001, and it continued to improve amounting to (-5.8) thousand in 2008 and to (-3.9) thousand in 2009. The current procedures for administrative registration of migration do not allow assessment of the real size and composition of emigration by age and sex, to judge properly on aging of population. The state registration of migratory movements does not have the capacity to report their real sizes¹⁰⁷. However, the analysis of its data enables us to describe the essence of the migration structure.

There has not been any change in *urban and rural population* ratios. The average proportions for 2005-2009 were 64.0% and 36.0% respectively, highlighting a high degree of stability of the population distribution between urban and rural areas. However, the share of rural population for the period of 1990-2004 has grown slightly - from 31.2% to 35.8%. It was caused by flows from urban to rural settlements in the 1990-s due to the socio-economic situation, by internal migration trends due to opportunities for widespread land privatization, as well as by relatively higher birth rates among the rural population.

The ethnic composition of Armenia's population can be considered homogenous. According to 2001 Census data (data by ethnic groups of population are obtained only through Census) 97.9% are Armenians. However, ethnic groups having 1,000 or more people at the country-level are Yezeds (1.27%), Russians (0.46%), Assyrians (0.11%), Ukrainians (0.05%), Kurds (0.05%), Greeks (0.04%), and others (0.15%)¹⁰⁸. Thus, taking into account that the total weight of national minorities numerically less than 3% in Armenia, the status of minorities could be considered as a non-quantitative factor.

Despite the relatively large number of communities of national minorities in Armenia, the number of persons belonging to those communities is small, and this does not enable them to have their own deputy, even from places of compact residence. Due to this factor, they do not have a representative in the National Assembly of the Republic of Armenia. However, the representatives of national minorities have an equal right to participate in the life of political parties and establish

¹⁰⁶ Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2008 Revision, <http://esa.un.org/unpp>, Monday, May 24, 2010; 7:19:03 AM.

¹⁰⁷ The data on the migration of population is defined based on the statistical processing of data from the statistical records (forms on arrivals and departures) presented by territorial passport services of the Police (they are compiled by the addresses at the time of population's registration and the registration of departures). The data on external passenger transportation (arrivals and departures in/from the republic) is presented as total volumes of passenger turnover implemented through RA Border Crossing Controls by air (General Department of RA Civil Aviation), road ("Bavra", "Gogavan", "Bagratashen" and "Meghri" border crossing controls) and railway ("Ayrum" station) transport, provided by the Migration Agency of the Ministry of Territorial Administration of the Republic of Armenia.

¹⁰⁸ *The Roma people* (or "Gypsies") of the modern Republic of Armenia are one of the many minorities living within the country. Most Armenian Roma are members of the Anatolian [Bosha](#) (or "Lom") clan, a group that speaks the [Lomavren](#) and is sometimes referred to as the "Armenian Gypsies". [<http://www.romnews.com/community/modules.php?op=modload&name=News&file=article&sid=880>: RomNews Network Community @ RomNews.com/de :: Best source on Roma / Gypsies on the Internet]. The number of Bosha in Armenia is difficult to estimate, as most would identify themselves as Armenians, but according to Government census at least 50 Bosha dwelling within the country. [<http://www.tacentral.com/people.asp> POPULATION AND PEOPLE | People | Armenia Travel, History, Archeology & Ecology | TourArmenia | Travel Guide to Armenia].

their own political parties. As for their involvement in the executive bodies and at the local level, this process is implemented within the scope of the legislation of the Republic of Armenia without any discrimination. As a result, citizens belonging to national minorities and meeting the legal requirements assume positions in different branches of the executive power. In the places of compact residence, they are also involved in bodies of territorial administration and of local self-government.

In addition, financial assistance to national minorities is allocated from the state budget. Meanwhile, (i) the amount of assistance has been growing proportionate to the socio-economic development of Armenia, and (ii) although the size of financial assistance to national minorities did not increase during 2009 due to the effects of the economic crisis, educational and cultural programs for national minorities continue to be implemented unhindered.

1.7 Territorial (Regional) Disparities

Territorial disparities currently became a serious obstacle for the economic and social development of Armenia. Since the beginning of the 2000s, regional development disparities have been increasing parallel to the accelerated economic growth, and are mainly reflected in the growth of economic role and significance of the capital city, Yerevan. As a result, the difference between living standards in Yerevan and the rest of Armenia has been constantly growing and has become alarming. The Government of Armenia announced, in its 2008-2012 program, that harmonized regional development of Armenia became one of the main priorities.

The existence of large share of substance agriculture could lead to a false conclusion that the employment rate in rural areas is higher than in urban areas. The LFS 2009 data suggest that although the economic activity rate (70.8% in rural and 53.2% in urban areas), as well as the employment rate in rural areas is higher compare to urban areas (93.8% vs. 72.8%), however the employment in rural areas is still concentrated in low productive jobs, characterized by high seasonality. According to survey data, 65.7% of temporary, seasonal, occasional or one-off jobs are concentrated in rural areas¹⁰⁹. But if one looks to non agricultural employment, the picture is different: the data of one-off sample survey conducted by NSS on labor force and informal employment in Armenia in 2008¹¹⁰ suggests that the share of employed in non agricultural sector in the same group of economically active population in rural areas is twice lower than in urban areas (31.4% versus 67.4%). Moreover, the employment rate in rural areas (27.2%) is even lower for population aged 15-64 (69.7% in urban areas). Once again, as the absolute prevalent role of agriculture in rural areas can be considered the primary problem of rural development in Armenia could be indicated, the diversification of activities for rural population, promotion of progressive development of non-agricultural sector branches and creation of non-agricultural employment are high priorities for the country.

Some statistics: share of Yerevan in industrial output of the country in 2008 comprised 49.0%, in construction – 87.6%, in freight turnover – 46.7%, in retail trade turnover – 84.5%, in services rendered by hotels and restaurants – 89.9%, in transport services – 89.1%, in financial activities – 97.1%, and all these indicators for Yerevan had improved since 2004, except for the financial services. Thus, figures confirm the increasing economic role of Yerevan and decreasing economic roles of the regions. The overpopulated capital city Yerevan hinders the regional development. Decentralization is number the one priority directed at solving the problem. The ongoing investment

¹⁰⁹ NSS of RA www.armstat.am “Labor Market in the Republic of Armenia” 2010, page 116-117.

¹¹⁰ NSS of RA www.armstat.am Publications: “Report on Labor Force and Informal Employment in Armenia (on the results of one-off sample survey)”, 2009, pages 15-25.

concentration in Yerevan continues to remain the primary cause of continuing concentration of economic growth in capital city.

The regional development scenario proposed in SDP envisages the implementation of a targeted regional development policy and is aimed at promotion of increased economic growth outside Yerevan. The implementation of such policy will result in bringing the regional growth rate close to that of Yerevan in the period between 2008 and 2014, and by 2015 to creating a situation whereby growth rates in the regions will exceed those in Yerevan. The crisis, however, may delay the deadlines of meeting the goals set.

The current peculiarity of economic development in rural areas of Armenia is that agriculture remains as the main occupation and source of income, non-agricultural activity opportunities are limited, the income sources are not diversified, etc. All these create serious constraints to the rural development and causes rural-urban income differences. Monetary income in urban areas in 2009 was by 41.3% (by 45.4% in 2008) higher than in rural areas, moreover the income from hired employment in urban areas exceeded the indicator in rural areas by more than two times¹¹¹. Instead, in rural areas in-kind income plays a significant role: it comprises 24.1% in 2009 of total household income vs. 3.3% in urban areas.

1.8 Key challenges

The obvious economic imbalances such as the narrowly based economy that has low diversification by sectors and the microeconomic biases with low share of small and medium-size enterprises, that hinder the entry of new firms and the growth of small enterprises and consequently contribute to faster job creation, employment growth and unemployment reduction, as well as the high share of informality, are challenging for Armenian economy.

Irrespective of current achievements in public finances management, the country still faces weaknesses that do not allow more efficient and transparent use of public financial resources, thus reducing the outcomes expected from the implementation of state policies. The main challenge ahead is implementing the difficult fiscal and external adjustments, while protecting the poor and adjusting policies appropriately, should external developments affect the recovery.

Stable macroeconomic conditions, a favorable investment climate and enabling business environment, competitive product markets along with labor market interventions could improve the labor market performance in Armenia. One of key priorities today for Armenia is to assure integrated policies in the areas mentioned above in order to ensure delivering more and better jobs in Armenia.

Although Armenia before the global economic crisis enjoyed remarkable economic growth, still the largest challenge for the country is that the growth has not been employment-intensive: it has not generated widespread productive, full-time employment. Additionally, poor workers have had little opportunity to secure access to whatever productive employment has been generated.

Another challenge on the policy-making level for Armenia was and still is not only to link growth to productive employment, or "decent work", but also to ensure that the growth in employment is concentrated among poorer workers. The growth can provide opportunities for employment in general but in the absence of direct job-related public interventions, the poor might not be able to take advantage of these opportunities

Assurance of the pro-poor employment-intensive growth along with implementation of government policies concentrated on supporting the expansion of small-scale private firms in services and manufacturing is a high priority for the country.

¹¹¹ NSS of RA www.armstat.am; "Social Snapshot and Poverty in Armenia" 2010, page 102.

Since Armenia is characterized by high informality in its economy, it is challenging to assure implementation of such policies that, instead of creating restrictions against the creation and growth of informal-sector micro-enterprises, will create positive incentives to attract entrepreneurs to the formal sector. As the private sector growth generates more employment and income, and automatically and gradually will bring to tax revenue increase as well.

The increase of formal employment is critical from the poverty reduction perspective, as well from the social security, especially contributory-based inclusive guarantees provision perspective.

Effective labor market policies refocusing all efforts toward active policies are challenging for Armenia (as they are effective accompanied with policies stimulating the job creation process). Improving personal, social, and vocational skills and competencies, and facilitating social integration, tailored ALMPs still are challenging for Armenia especially taking into account such factors such as the person's age, experience, needs, and priorities.

The other key issue in the area of active labor market policy implementation is the limited financing and the small number of participants in such programs, consequently there is little or almost no impact of these programs on reducing long-term unemployment.

The issue of youth and long-term structural unemployment has special importance as long as it closely relates to the issue of mismatch between the skills of the unemployed and the skills demanded by the enterprises.

The employment in agricultural farming is an issue from the perspective of both passive and active labor market measures. The Article 4 of the current Law on Employment of the Population and Social Protection, while considering the Case of Unemployment, defines the activities that are considered as employment and farming is not on that list. Consequently, peasants engaged in subsistence farming cannot be registered as unemployed and consequently treated by the active labor market measures, such as trainings. Changes to the Law are drafted so that the people engaged in substantial farming will be eligible to be involved in Employment Services' State Programs except for receiving unemployment benefits. This is a significant change because there are around 500 thousand people who are considered landowners and are currently excluded from being registered as unemployed and receiving state run employment services programs such as trainings; even if the so-called landowner is only cultivating his or her land for sustaining their families. This will help to tackle the so-called hidden rural unemployment helping to reflect the true picture of unemployment in Armenia adjusting it to ILO or other international institutions' (ILCS) methodology of calculating the unemployment rate.

Addressing regional disparities in Armenian regional labor markets is challenging as well, since these disparities are caused by their uneven development potential and they are widening. Furthermore, the role of regional development strategies and the involvement of key actors in policy on employment and education are hard to overestimate. Adjustment of vocational training programs in marzes according to their regional and local labor market need is one of the challenges.

Migratory processes, whether it is emigration or temporary labor migration for longer periods, such as "guest workers" for a few years, have a major impact on the Armenian labor market by affecting the occupational and professional structure of the labor force and thousands of unemployed and underemployed in the country, especially in rural and remote areas. By releasing the tension in the labor market and assuring some income for families depending on labor migrants' transfers on one hand, on the other hand it causes outflow of better-educated, higher-skilled workers causing some skill shortage. Thus, the design and implementation of appropriate LM policies should be high on the agenda today.

To improve the population picture, the Armenian government should develop programs aimed at raising the birth rate and discouraging economic migration, one of the authors of the study says.

Ensuring increased and equal enrolment of all population groups, especially poor in the high school level is among the key challenges. The issue in the context of currently envisaged high school reforms is even more important. The establishment and separation of the three-year high school contains the risk of reducing the enrolment of the poor, which makes the youth of poor families vulnerable in terms of preparedness to enter the labor market equipped with needed primary knowledge and sufficient grounds and competitiveness to receive vocational education.

In order to create equal starting opportunities for children from all population groups with regard to general education, it is of importance to improve the quality and accessibility of preschool education services, and address the issue of territorial disparities.

At all levels of professional education ensuring equal opportunities for able youth of all population groups to study at vocational educational institutions, to increase the enrolment through introduction of programs raising the accessibility of professional education and to mitigate its great inequality are of key importance.

Another important challenge is the increase of quality of professional education and its compliance with labor market demands, strategic educational and development objectives of the country, international standards and provisions of Bologna Process.

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Annexes

Annex 1.3.1 Measuring Employment and Unemployment

Information on the social and economic situation in the labor market in Armenia is compiled by the NSS using the following sources and methods:

- (a) The data are collected from all large and medium-sized public and private enterprises;
- (b) Small and micro public enterprises;
- (c) Sample survey of small end micro private enterprises;
- (d) Administrative source of data – data on registered unemployment collects the SESA;
- (e) Labor force surveys (LFS) – the first LFS was implemented in 1996 (supported by ILO and UNDP), then in 1999 there was implemented another LFS jointly with Integrated Survey of Living Standards (ISLS) and then starting from 2001 on yearly basis, using the same household samples as the ILCS, except for 2004 (survey was conducted with support of EU TACIS). Although since 2001 the LFS were conducted on regular basis, but still there exists consistency and comparability issue, since in different years for LFS were used different sample sizes, the seasonality issue isn't solved yet, duration of surveys vary, there have been occasional changes in methodology applied.

In official labor market statistics the same indicators included in Handbook "Labor Market in the Republic of Armenia" and in the "Statistical Yearbook of Armenia" differ from each other by source of formation and some methodological peculiarities. The findings of administrative registers and the integrated information from other sources are presented by time series (five years interval) in the "Statistical Yearbook of Armenia" and in the first part of Handbook "Labor Market in the Republic of Armenia". The Handbook also includes the separate section concerning the results of observation of labor resources of RA conducted within the framework of Households Integrated Living Condition Survey beginning in 2001. It should be mentioned that the employment and unemployment data from mentioned sources diverge from each other and while using it one has to be careful: these data are not comparable and there exists a comparability issue even within the LFS data, due to methodology change the data are comparable only for 2007 and 2008.

However, it should be mentioned that there are number of indicators, such as real (self-reported) unemployment level, employment level in subsistence agriculture, or the informal activities, as well statistics on labor force by gender and age group, by education attainment, by marzes and so on is the LFS. Thus, in the report there is reference to both sources.

Annex 1.5.1 Migration Statistics of Republic of Armenia

The current migration statistics are based on the procedure of the administrative system of registration/recording. A key element in the periodically updated registration process of the *de jure* population after the census of 2001, does not allow for the receipt of statistical data about the actual levels of migration flows for both objective and subjective reasons, since not all the migrants tend to carry out their departure(s) and arrival(s) through the administrative registration (recording) procedures, thus remaining outside of the statistical framework.

An alternative for the above-mentioned administrative information source is the households' survey that enables to derive information on destination country and reasons for departing of the household members at the age 15 and over who are in migration.

The NSS of RA in cooperation with UNFPA in 2007 conducted a sample survey on external and internal migration, which was aimed at the assessment of the changes that took place in the foreign and domestic migration tendencies due to social and economic reforms within the country during the period of 2002-2007 (the period that preceded the survey), with consideration of the fact that according to the results of the census launched in Armenia on October 10, 2001, the levels of migration during the previous decade were evaluated. Based on the results of the survey, the "Report on Sample Survey of External and Internal Migration in RA" was prepared (<http://www.armstat.am/en/?nid=82&year=2008>), which includes the volumetric and quantitative characteristics of individual population groups involved in migration processes during the period of the survey, their social and demographic and economic description, as well as the data about their future migration plans.

The survey disclosed some of the factors that had stipulated the migration to a foreign country by those household members that have returned from foreign countries.

Tables

Table 1.1 Selected macroeconomic indicators, 1990-2009

	1990	1991	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Nominal GDP, EUR bln	N/A	N/A	N/A	2.1	2.4	2.5	2.5	2.9	3.9	5.1	6.7	7.9	6.1
Nominal GDP EUR per capita	N/A	N/A	N/A	642	736	783	774	896	1222	1582	2086	2451	1885
Real GDP growth rate, %	-	-	106.9	105.9	109.6	113.2	114.0	110.5	113.9	113.2	113.7	106.9	85.8
Industry, % of GDP	30.2		24.3	25.2	23.2	22.6	22.5	22.1	21.7	17.2	15.0	13.3	13.8
Agriculture, % of GDP	15.8		40.7	23.2	25.6	23.5	21.5	22.6	19.1	18.7	18.3	16.3	16.6
Services, % of GDP	54.0		35.0	51.6	51.2	53.9	56.0	55.3	59.2	64.1	66.7	70.4	69.6
Inflation (cPI), % yoy	107.8		276	99.2	103.1	101.1	104.7	107.0	100.6	102.9	104.4	109.0	103.4
Memorandum indicators ⁷													
Population, mln, aop	3.515		3.753	3.803	3.802	3.213	3.210	3.212	3.216	3.219	3.223	3.230	3238.0
Exchange rate,				498.7	497.2	541.6	653.8	662.3	570.4	521.2	467.8	450.2	507.35

** There was a methodology change in 2008 which caused decline in number of self-reported unemployed (discouraged non active population previously was included in the number of unemployed, starting from 2008 they are classified as economically non-active).

Source: NSS of RA www.armstat.am Publications; (i) "Labor Force of the Republic of Armenia, 2001-2006", (Armenian) pages 16, 17, 49; (ii) "Labor Market in the Republic of Armenia, 2004-2008", pages 98, 101,107, 110, and 142; (iii) "Labor market in the Republic of Armenia, 2005-2009" (at: <http://armstat.am/en/?nid=81&id=1206>)

Table 1.4 Employment by Economic Activities, as % of Total Employment, 2002-2009

	2002	2003	2004	2005	2006	2007	2008	2009
Employed , total	100	100	100	100	100	100	100	100
Agriculture, hunting , forestry, fishing	45.3	45.9	46.9	46.2	46.2	46.0	44.1	45.6
Mining & quarrying	0.7	0.7	0.6	0.6	0.7	0.8	0.7	0.7
Manufacturing	10.7	10.3	10.3	10.4	10.1	9.4	8.5	7.7
Electricity, gas & water supply	2.3	2.1	2.0	1.7	2.1	2.1	2.2	2.2
Construction	3.3	3.4	3.1	3.2	2.7	2.8	5.4	4.6
Wholesale and retail trade, repair of motor vehicles, motorcycles & personal household goods	8.8	9.2	9.5	9.9	9.7	9.6	10.1	9.6
Hotels & restaurants	0.2	0.4	0.4	0.5	0.7	0.8	1.1	1.1
Transport & communication	3.6	3.8	4.3	4.5	4.4	4.3	4.6	4.9
Financial intermediation	0.5	0.5	0.5	0.6	0.6	0.8	1.0	1.0
Real estate, renting & business activities	1.7	1.8	1.7	1.7	2.1	2.4	2.4	2.4
Public administration	2.4	2.5	2.7	2.6	3.2	3.4	3.6	3.7
Education	10.6	10.1	9.3	9.0	9.2	9.2	9.0	9.2
Health & social work	6.0	5.4	4.6	4.6	4.5	4.6	4.0	4.2
Community, social & personal services	3.8	3.9	4.1	4.4	3.7	3.8	3.3	3.1

Source: NSS of RA www.armstat.am "Statistical Yearbook of Armenia", year 2010, page 57, year 2007, page 55.

Table 1.5 Dynamics of Average Nominal and Minimum Wages, 1994-2009

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average nominal wage, AMD	20157	22706	24483	27324	34783	43445	52060	62293	74227	87406	96019
Average nominal wage, EUR	35.3	45.5	49.2	32.5	53.2	65.6	91.3	119.5	158.7	194.1	189.3
Real wage growth, %	121.0	114.2	103.7	113.8	122.9	122.2	127.0	117.4	117.4	112.8	115.8
Minimum wage, AMD	5000	5000	5000	5000	5000	13000	13000	15000	20000	25000	30000
Minimum wage, EUR	8.7	10.0	10.1	5.9	7.6	19.6	22.8	28.8	42.8	55.5	59.1

Source: NSS of RA www.armstat.am "Statistical Yearbook" for relevant years, section on "Living Conditions" and 2010 Publication of "Labor Market in the Republic of Armenia", page 52.

Table 1.6 Selected Indicators on the Educational System in Armenia, 1990-2009 (end of period)

Source: NSS of RA www.armstat.am Publications: "Social Situation of RA" for relevant years, chapters on education (1-8).

	1990	1995	2000	2003	2004	2005	2006	2007	2008	2009
Institutions providing pre-school education	1192	1081	769	699	653	645	645	637	628	622
Children, thsd.	142.9	71.3	46.6	46.9	46.0	48.7	48.0	50.5	53.7	53.9
The share of children, attaining pre-school institutions, %	30.8	17.6	17.2	19.1	20.0	21.8	21.8	23.3	28.9	24.3
urban areas	N/A	N/A	27.6	27.9	27.4	29.7	29.0	31.1	39.3	31.5
rural areas	N/A	N/A	7.8	8.1	8.7	9.6	10.5	10.3	13.6	11.7
Institutions providing general secondary education, including private	1397	1466	1458	1472	1434	1467	1467	1452	1475	1457
Pupils, thsd.	608.8	583.5	574.2	501.9	488.1	477.9	465.4	431.3	414.8	392.9
Pupil/teacher ratio	9.4	10.6	9.8	10.8	11.3	11.2	10.8	10.3	10.0	9.5
urban areas	N/A									
rural areas	N/A									
Institutions providing vocational training	N/A	N/A	56	N/A	N/A	N/A	N/A	N/A	N/A	46
Students, thsd.	N/A	N/A	5.1	N/A	N/A	N/A	N/A	N/A	N/A	5.6
Institutions providing secondary specialized education, including private	70	72	105	105	108	111	108	106	104	102
Students, thsd.	45.9	21.1	28.7	31.1	30.5	30.8	30.8	31.1	31.8	30.0
Secondary specialized education, entrants, 1000	15.7	9.8	11.1	11.6	11.1	11.6	11.7	12.1	11.9	10.9
Secondary specialized education graduates, 1000	19.1	6.9	8.1	8.5	9.4	8.7	8.4	8.2	8.6	8.6
Institutions providing higher education, including private	14	15	90	93	88	89	87	85	90	77
Students, thsd.	68.4	39.4	60.7	77.9	85.1	97.8	105.8	112.2	114.4	114.6
Higher education entrants, thsd.	13.3	6.9	15.5	21.5	23.0	24.6	25.6	26.2	27.7	26.5
Higher education graduated, thsd.	10.5	9.8	9.7	11.7	12.2	13.3	15.5	17.9	26.1	23.4

Table 1.7 Women's Share in the Total Number of Students (%)

	2000/2001	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
In secondary specialized education	66.2	69.8	69.2	66.9	65.6	65.3	63.1
In higher education	54.9	55.8	55.8	54.8	55.0	54.9	51.9

Source: NSS of RA www.armstat.am Publications: "Social Situation of RA" for relevant years, chapters on education (1-8).

Table 1.8 Selected Demographic Indicators, 1990-2009 (per 1,000 of population, average of period)

	Birth rate	Death rate	Natural increase	Migration	Marriages	Divorces	Fertility rate
1990	22.5	6.2	16.3	1.7	8.0	1.2	2.62
1991	21.6	6.5	15.1	4.4	7.8	1.1	N/A
1992	19.9	7.3	12.6	-214.3	6.5	0.9	N/A
1993	17.3	8.1	9.2	-138.6	6.3	0.9	N/A
1994	15.5	7.5	8.0	-122.9	5.2	1.0	N/A
1995	15.0	7.6	7.4	-35.6	4.9	0.8	1.84
1996	14.8	7.7	7.1	-26.0	4.4	0.8	N/A
1997	135.	7.4	6.1	-27.8	3.9	0.7	N/A

1998	12.2	7.2	5.0	-22.3	3.5	0.5	N/A
1999	11.3	7.5	3.8	-17.6	3.9	0.4	N/A
2000	10.6	7.5	3.1	-21.9	3.4	0.4	1.31
2001	10.0	7.5	2.5	-10.5	3.8	0.6	1.24
2002	10.1	8.0	2.1	-9.2	4.3	0.5	1.21
2003	11.2	8.1	3.1	-7.9	4.8	0.6	1.35
2004	11.7	8.0	3.7	-8.2	5.3	0.6	1.38
2005	11.7	8.2	3.5	-7.7	5.2	0.8	1.37
2006	11.7	8.5	3.2	-6.7	5.2	0.9	1.35
2007	12.4	8.3	4.1	-6.1	5.6	0.9	1.42
2008	12.7	8.5	4.2	-5.9	5.7	0.9	1.44
2009	13.7	8.5	5.2	-1.3	5.8	0.9	1.55

Source: NSS of RA www.armstat.am Publications: "The Demographic Handbook of Armenia" for the relevant years, Part 2: Population.

Table 1.9 Migrant Household Members of Age 15 and above by Location and Reason of Leaving (%)

Location	Total number of migrant household members of age 15 and above			By reasons							
				Job search		Work		Study		Other	
	2004	2008	2009	2004	2008	2004	2008	2004	2008	2004	2008
Yerevan	9.5	10.3	14.5	5.5	0.7	9.6	26.5	45.9	51.7	39.0	21.1
Other town in Armenia	14.6	15.2	19.3	1.9	1.0	4.2	6.8	7.0	5.6	86.9	86.6
Village in Armenia	9.3	5.4		0.0	1.1	9.0	8.5	0.0	0.0	91.0	90.4
Russian Federation	53.3	57.0	53.6	32.4	14.4	50.4	73.9	2.2	1.3	15.0	10.4
Other CIS country	3.0	2.3	2.2	16.9	13.7	29.1	27.9	6.3	0.0	47.7	58.4
Europe	3.3	2.5	2.9	47.5	3.9	29.1	78.3	10.1	5.1	13.4	12.7
US and Canada	1.7	0.8	0.1	29.1	5.3	26.2	57.4	10.0	0.0	34.7	37.3
Other	5.3	6.5	7.4	4.2	0.0	8.6	14.1	3.1	0.8	84.1	85.1
Total	100	100	100	20.9	8.9	32.0	50.3	7.4	7.1	39.7	33.7

Source: NSS of RA www.armstat.am Publications, "Social Snapshot and Poverty in Armenia" Statistical Analytical Report Based on the Results of the 2008 ILCS, page 21.

"Social Snapshot and Poverty in Armenia" 2010, page 23.

Table 1.10 Interstate Migration (thousand persons)

	Net migration (+, -)		Net migration (+, -)
2002		2006	
Total	-9.2	Total	-6.7
CIS	-7.4	CIS	-5.2
Other counties	-1.8	Other counties	-1.5
2003		2007	
Total	-7.6	Total	-6.4
CIS	-6.3	CIS	-4.7
Other counties	-1.3	Other counties	-1.7
2004		2008	
Total	-7.7	Total	-5.8
CIS	-6.4	CIS	-4.1
Other counties	-1.3	Other counties	-1.7
2005		2009	
Total	-7.8	Total	-4.4
CIS	-6.2	CIS	n/a
Other counties	-1.6	Other counties	n/a

Source: NSS of RA www.armstat.am Publications: "The Demographic Handbook of Armenia, 2009", page 113.

Table 1.11 Structure of Households Receiving Money Transfers by Urban and Rural population (%)

	Households	Rural population	Urban Population without Yerevan City	Yerevan City	Total
2005	Received from seasonal workers	15.0	15.0	3.0	10.6
	Received from migrants	19.2	26.0	27.9	24.6
	1. Total Recipients (as % of total households number)	34.2	41.0	30.9	35.1
2006	Received from seasonal workers	20.3	11.6	2.0	11.1
	Received from migrants	21.3	26.9	25.6	24.7
	2. Total Recipients (as % of total households number)	41.5	38.5	27.6	35.9

Source: CBA www.cba.am; "Result of Survey Conducted in 2006 to Estimate the Real Volume of Money Transfers Received by Households from Abroad", page 65.

Table 1.12 Amount of Incoming Remittances in 2001-2009 (million Euros)

	Workers' remittances	Migrants' transfers	Compensation of employees*	Diaspora transfers	Total	As % to:	
						a year ago	GDP
2001	4.22	-2.74	80.97	128.28	210.74	...	8.9
2002	3.82	-2.24	111.60	140.68	253.86	120.5	10.1
2003	3.31	2.93	118.40	153.77	278.41	109.7	11.2
2004	21.01	3.48	144.02	237.62	406.13	145.9	14.1
2005	33.66	6.83	237.32	371.67	649.48	159.9	16.5
2006	44.58	1.80	356.27	485.35	888.00	136.7	17.4
2007	65.12	3.00	421.62	583.80	1073.53	120.9	15.9
2008	76.55	2.78	516.66	696.69	1292.68	120.4	16.3
2009	53.57	1.92	391.53	497.82	944.84	73.1	15.4

* Including border, seasonal and other workers

Source: NSS of RA www.armstat.am "Balance of Payment of Armenia", years 2006, 2009, 2010, page 18-21.

Chapter 2. Social Protection System

2.1 Overview of Social Protection System

The social protection system of Armenia plays an important role in providing social support to the population and in alleviating extreme poverty. Since independence, there has been an essential move to gradually improve the social protection system, particularly in reducing the social risks related to the low and inconsistent incomes of vulnerable groups and to ensure their minimum level of welfare. However, efficiency and effectiveness of social protection programs can still be enhanced: for some programs - through improved administration, targeting and monitoring, for others - through restructuring.

Legislatively, the key framework laws regulating social protection are:

- *Labor Code*: regulates collective and individual labor relations and defines the bases for appearance, alteration and termination of those relations and the mechanisms for their implementation. It provides for the rights and responsibilities of parties representing labor relations;
- *Law on Employment of the Population and Social Protection in Case of Unemployment*: provides legal framework for the promotion of employment and the regulation of social protection of people under unemployment;

- *Law on Social Assistance*: establishes a legal basis for providing social support in Armenia. It defines the concept, the principles and mechanisms to organize and provide the social assistance. It indicates categories of the various forms that social assistance can take, as well as the types and role of organizations that implement such services;
- *The Law on State Benefits*: defines four types of social allowances: family benefit (basic assistance benefit), lump-sum benefit during child birth, child care benefit and special survivor's benefit;
- *Law on State Pensions*: regulates the relations concerning organization, governance and financing of pension system.

Social protection in Armenia is administered by The Ministry of Labor and Social Issues (MLSI) that is responsible for policymaking and implementation in all branches of the labor and social protection system except health care.

The social protection policy in Armenia is aimed at managing social risks by the state via prevention, reduction, and regulation. All the risks and needs that are subject to social protection, are classified into the following groups:

- *Sickness*: includes sickness/temporary incapacity benefit (persons with disabilities excluded);
- *Disability*: includes financial and non-financial, non-medical assistance to disabled people to overcome difficulties faced by them with regard to social and economic inclusion;
- *Old-age*: includes financial and non-financial non-medical assistance with regard to old age;
- *Survivors/surviving relatives*: includes financial and non-financial assistance connected with the death of the family member;
- *Family/children*: includes financial and non financial, non-medical assistance with regard to pregnancy, delivery, adoption, child care as well as social assistance and protection to families and children;
- *Unemployment*: includes financial and non-financial assistance connected with unemployment;
- *Housing strategy*: includes various state sponsored mechanisms aimed at assisting households and individuals in finding solutions to their housing problems;
- *Other types of social isolation*: include financial and non-financial assistance with regard to other types and cases of social isolation that were not listed above.

The functions of the state system of social protection for each of the above mentioned groups are clearly defined, based on which, within the social protection system, corresponding programs are provided for vulnerable population groups:

- State Social Assistance Programs, including family benefits, disability and other social pensions, one-off pregnancy and childbirth allowances, child care benefits, as well as other monetary and non-monetary social services, which enables the state to minimize the social risks of income reduction or persisting low levels of income among vulnerable groups of the population, as well as to ensure minimum living standards for them;
- Social security programs for disabled, veterans and children, in particular rehabilitation programs for disabled based on data concerning specific individual rehabilitation needs of disabled, as well as social programs aimed at servicing disabled, veterans and children at home and in corresponding specialized institutions;
- Social protection programs for the disabled, veterans and children, in particular social-medical recreation programs, social programs for providing services to the children, elderly and disabled at home and in specialized institutions;
- State Social Insurance programs, that consist of old- age and disability pensions, as well as temporary incapacity and pregnancy benefits and provides protection against certain social risks (as risks related to old age or disease), through the allocation of adequate resources throughout the working period of individuals;

- Employment programs, including unemployment benefits, retraining the unemployed, ALMP-s that govern the social risks related to employment and salary;
- A system of allowances for separate target population groups.

2.2 Current Social Protection System

All the programs mentioned are currently funded from the state budget. However, they can be divided into contributory and noncontributory programs. The family and other benefits, pensions of military servicemen, social programs and public works and social pensions are non-contributory social programs. The state pensions, unemployment benefits, temporary disability and pregnancy allowances are contributory benefits. Donors' involvement is substantial in a number of social programs.

Social Insurance

As was mentioned above, social insurance provides protection against specific contingencies, including poverty, old age, disability, unemployment and others. *It is contributory-based protection provision.* Until 2008, the Social Insurance Fund (SIF) was responsible for collecting and allocating social contributions from employers and employees. Beginning in January 2008 the SIF was reorganized into State Social Security Service (SSSS) and the social contributions are directly channeled to the state budget, which in turn finances all the insurance-based covered programs. The rate for social contribution for employees is flat and equal to 3% of nominal wage. For employers the social contribution scale is regressive and set as the following:

- for wages up to 20,000 AMD (39.4 EUR) employer pays fixed 7,000 AMD (13.8 EUR);
- for wages between 20,000 – 100,000 AMD (39.4 – 197.1 EUR) employer pays 7,000 AMD (13.8 EUR) plus 15% of the amount exceeding the 20,000;
- for wages more than 100,000 AMD (197.1 EUR) employer pays 19,000 (37.4 EUR) plus 5% of the amount exceeding the 100,000 AMD (197.1 EUR).

Thus, the social contribution rate in average comprises 23%. The regressive scale of social contributions and the rates largely contribute to the underreporting of nominal wages: 89% of salaried workers are concentrated around the economy wide average wage.

The employers' social contributions finance not only the contributory based pensions (although the main part is directed to that article), but also sickness and maternity leave, work injury, and unemployment benefits.

Undeclared workers or self-employed in the informal sector, including those engaged in subsistence agricultural farming¹¹², are not provided with the contributory based benefits, and are thus more vulnerable to social risks related to employment and salary.

Armenia's pension system provides labor (or insurance) pensions based on the social contribution payment. Benefits comprise old-age, disability and survivor's pensions. The statutory retirement age in Armenia has been increased gradually (half a year per calendar year) since 1996 and it was supposed to reach 65 (men) and 63 (women) in 2005 and 2011, respectively. In 2004 there were changes in the Law and currently the retirement age is set at 63 for men and 62.5 for women (which will reach to 63 in 2011), on the condition that they have at least five years of contributory employment history. Although significantly reduced, early retirement provisions still exist in Armenia. However, privileged pension conditions will phase out: in 2009 6276 pensioners or 1.3% of total number of the recipients of labor pensions have retired under the privileged conditions, while the indicator in 2004 comprised respectively 21,489 persons and 4.4%¹¹³. Pensioners in

¹¹² Mass land re-distributions have left many Armenians owning land, which is not able to generate a livelihood, but have prevented the owners from obtaining employment transition assistance.

¹¹³ NSS of RA, www.armstat.am Publications: "Socio-Economic Situation of RA, January-March 2010", page 144 and "Social Situation of RA in 2004", page170.

Armenia are allowed to work and continue receiving pensions. The average level of labor (or insured) pensions in 2008 comprised 24.1% of average economy-wide wage and 86.9% of minimum wage.

Disability pension are certified in Armenia by special commission, Social Medical Expertise Commission (SMEC) operating under the MLSI. Family members of deceased pensioners or a person, who qualified for a pension before he/she has died, are eligible for a survivor's pension. Individuals with less than five years of working history, invalids since childhood, and other individuals not qualified for a labor pension are entitled to a social pension (see Chapter 4 on Pensions).

Since the labor pension consists of two components, basic pension and year value part, the disability labor pension size varies depending on length of contributory service and disability category. The disability category definitions are set by the SMEC and disabled people are divided among three groups. Disability basic pension is set at: (i) 140% of the basic pension for persons in Group I; (ii) 120% of the basic pension for persons in Group II, and (iii) 100% of the basic pension for persons in Group III.

Certain challenges arise from the present mode of assessment for the purpose of awarding insurance benefits. SMEC is the main body responsible for granting disability status to persons and proving their eligibility for certain benefits or services and preparing further individual rehabilitation programs for each person with a disability. In practice, these rehabilitation programs are weak, and prepared by medical, rather than vocational professionals. It is a rare plan that is followed, and a rarer one that has a suitable employment outcome. Without the disability determination from SMEC, however, the person is not eligible for whatever state rehabilitation assistance is available. MLSI is responsible for the policy and for the provision of mechanisms available to assist social integration. It also provides services and other benefits like assistive devices for people with disabilities.

The present disability insurance system operates in a way that gives incentive to withdrawal from normal life and that is open to corruption. The key remedy is to establish mechanisms that promote a more social public view towards people with disabilities. The overriding principle is maximum inclusion for all. Adequate provisions for vocational rehabilitation, social integration and reasonable accommodation for all people with disabilities should be prioritized; SMEC must provide real labor market-based determinations of employability, which means examining commissions should have relevant professionals who could advice on these issues.

Disability statistics in Armenia illustrate the lack of rehabilitation: in 2009 the number of registered people with disabilities was 179257, with women comprising 44.7% (indicators for 2001 comprised respectively 57130 people and 36.2%) and only 1687 people were recognized as not disabled after a reexamination, suggesting 0.9% rehabilitation rate (compare to 0.5% in 2008 and about 1% in 2001).¹¹⁴ These statistics describes the true dynamics of the existing disability insurance system in Armenia, which is an exit door from the labor market.

The main challenges of the institutional framework are the separate arrangements on the status of disability, social insurance, employability, rehabilitation programs affecting general improvement of the life of people with disabilities, development independent living skills, and social protection.

Certain privileges for people with disabilities are provided under current law relating to the employment relationships, and subsidized medicine or transportation. In 2005, the Government of Armenia adopted the Strategy of Social Protection of Disabled Persons for 2006-2015, which outlined its main policy going forward. It recognizes a need to ensure equal rights and opportunities: access for people with disabilities in all spheres of social life, accessible education for

¹¹⁴ NSS of RA, www.armstat.am Publications: "Social Situation of RA" for relevant years (2010 – page 227, 2001- page 97), section "Disabled People and Activity of Medical and Social Examination Commissions".

handicapped children, promotion of employment, implementing mechanisms of social partnership between the state and non-state institutions to resolve problems relating to people with disabilities, and increased public awareness and public education on disability issues. Despite quite a comprehensive set-up of administration regarding disability issues, the existence of corresponding laws are not, in reality, adequate with regards to assuring real integration of the disabled into economic, social, cultural and simply everyday life. Some changes occurred recently with regards to improvement of access for disabled to public buildings. However, this norm is not still being followed comprehensively.

Unemployment Insurance Coverage: The current Armenian statute governing unemployment insurance benefits is the Law “On Employment of Population and Social Protection in Case of Unemployment”. The unemployment benefit in Armenia aims to replace lost income, as defined by the Law. Benefits also include income lost by an older worker who retires from gainful employment before the legal retirement age because of job reductions for economic reasons (redundancy). Unemployment benefits may also include the cost of training or re-training people looking for employment, as well as assistance for unemployed persons to meet the cost of traveling or relocating to obtain employment.

The State Employment Services Agency (SESA) is the implementing agency for Armenia’s unemployment insurance. It accepts applications and grants or declines benefits (see: Subchapter 1.3 on Unemployment).

Although the current law regulating the field generally corresponds to European standards, one notable area in which it diverges from European standards is agriculture. In the current law, Article 4 defines the activities that are considered as employment and farming is not in that list. Therefore, peasants engaged in subsistence farming cannot be registered as unemployed and consequently, not only are not eligible to receive unemployment benefit, but also are not eligible for the active labor market measures (the issue is even deeper, since according to the current Law on Social Contributions, the employed in agricultural farming are not a subject to make social contributions, so they do not accrue any pension rights. Therefore, in the future considerable part of them will join to the “army” of social pensioners putting a substantial financial burden on the budget). However, a round of draft changes and amendments to the law has been developed in 2009, according to which the people engaged in substantial farming will be eligible to be involved in LMP-s, except for receiving unemployment benefits.

The ratio of average unemployment benefit to average wage is quite low: in 2001, this ratio amounted to 13. % of average wage (being equal to 6.4 EUR), later as the wages began to grow in higher rates, the ration dropped to 7.8% in 2004, and since then showed increasing then and amounted to 15.8% of average wage (being equal to 33.6 EUR) in 2009¹¹⁵. Thus, although the unemployment benefit is too small to visibly affect poverty, nevertheless those who receive it, feel it adds in visible measure to their income. According to the ILCS 2009 data, state pensions and benefits amounted to 15.9% of household monetary income (compare to 16.6% in 2008)¹¹⁶. Although the Armenian economy was hard hit by the global crises, the Government in 2009 could preserve the unemployment benefit to average wage level equal to 2008 level, despite the increase of number of unemployment beneficiaries by 54% at the end of 2009 compare to end of 2008¹¹⁷.

Maternity Benefit: Although state policy¹¹⁸ and public opinion in Armenia favor maternity and pregnancy, however, the motherhood in the labor market is not unequivocally valued today. The Labor Code specifies that employees have a right for maternity and child care (parental) leave. The law regulating the issue is called the Law on Mandatory Social Insurance in Cases of Temporary Incapacity (or Disability), adopted in November 2005. The law provides payments through the State

¹¹⁵ NSS of RA, www.armstat.am “Statistical Yearbook of Armenia” for relevant years, section “Living Conditions”

¹¹⁶ NSS of RA www.armstat.am “Publications: Social Snapshot and Poverty in Armenia”, 2010, page 191.

¹¹⁷ NSS of RA, www.armstat.am “Socio- Economic Situation of RA, January-December 2009”, page 74.

¹¹⁸ The 2004 Labor Code has the guarantees for pregnant women and working mothers with children under age three.

Social Security Service (SSSS) to employers to cover the expenses of employees who are on maternity or child care leaves. All employees, as was mentioned previously, pay 3% of salary as a social “contribution,” which cover the benefits under this law: if a worker claims the leave, an employer will pay the employee benefits as per their normal salary, but, most importantly, be compensated by SSSS by deducting the amount of paid benefits from the employee’s social insurance payments and returning it to the employer. If the amount of paid benefits is more than the total amount of employer’s social contributions the employer gets compensation from the Government. However, very few women enjoy the seemingly generous Labor Code maternity provisions because of high informality and high level of women unemployment. The share of female employed in non formal sector of economy (including agriculture) in 2009 in different sectors of economy varied between 52% to 89%; the self-reported unemployment rate comprised 19.9% (see: Subchapter 1.3 on Informality and Unemployment).

Child Care Benefit for Children under 2 Years Old: Under the RA Law on the State Benefits the child’s care benefit or allowance for children care under 2 years of age is paid only to working women. It is a contributory benefit and is given to working mothers only, who are in maternity leave. As for other groups, such as housewives, informally working women or unpaid family workers, they are not qualified for this particular benefit.

The amount of benefit equaled to 3,000 AMD (6.7 EUR) in 2008 and was increased to 18,000 AMD (35.4 EUR) in 2009: although it has been increased essentially, but it is still low -18% of nominal average wage. Thus, not surprisingly, the number of beneficiaries has been declining – 4,488 in 2008 compare to 10,450 in 1999 (by more than two times), but the 2009 increase resulted in the doubling the number of beneficiaries:

Table 2.2.1 Number of Children Receiving Benefit and Average Size of Benefit, 1999-2009

(As of January 1st)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Number of children under 2 years old receiving benefit	24176	10793	10490	9226	7721	7610	7171	6325	5000	4488	7140
Average size of benefit, AMD (EUR)*	1800 (3.1)	2256 (4.5)	2262 (4.5)	2151 (4.0)	2241 (3.4)	2237 (3.4)	2195 (3.8)	2210 (4.2)	3000 (6.4)	3000 (6.7)	18000 (35.5)

* The average size of benefit in EUR is calculated based on the relevant year’s exchange rate.

Source: NSS of RA www.armstat.am “Statistical Yearbook” 2010 (page 100), 2009” (page 84), 2007(page 83) and 2003 (page 85).

The decrease the number of beneficiaries is explained not only by the fact that the low level of benefits are not encouraging to give birth to a child and take care up 2 years old. It should be mentioned that Armenia faces demographic challenges and one of those is declining rate of fertility; from 2.62 in 1999 to 1.44 in 2008 (see: Subchapter 1.6).

Out of the total number of women employed in the economy in 2009, only 13.3% (compare to 0.8% in 2008) received child care allowance for 2 years.¹¹⁹ Thus, most women in Armenia received neither paid maternity leave nor child care leave. This simply reflects the fact that such payments are made only to the formal sector. The fact that employers are bound by the Labor Code to provide maternity benefits that are not always reimbursed or credited serves as a deterrent to hiring women of childbearing age. So it could be said that there is discrimination against young women in the workplace, pressure on young women workers not to marry, and a stimulus to informality. In some cases women are warned that they are not encouraged to get pregnant during the next coming years: interviewers prefer not to employ newly married women to avoid paying of compensations under the Labor Code. These cases are underreported, and coupled with low awareness on rights of women, national legislation mechanisms, etc. are complementing to gender inequality in the labor market.

¹¹⁹ The indicator is calculated based on data: NSS of RA, www.armstat.am “Statistical Yearbook of Armenia 2010”, pages 54, 100.

Temporary Incapacity Coverage: In Armenia benefit payments to all workers who are temporarily incapacitated are regulated by the Law on Mandatory Social Insurance in Cases of Temporary Incapacity. The law defines the concept of mandatory social insurance for cases of temporary incapacity, except long-term disability. It is an essential component of the social protection system and is funded from the state budget.

Temporary incapacity benefits are paid if the entitlement rights have occurred during work. The law provides that workers who have made contributions are entitled to receive continued wages or wage replacement under the following temporarily incapacitating conditions: (i) temporary disability caused by disease (injury), (ii) temporary disability caused by prosthesis, (iii) temporary disability caused by need for sanatorium; (iv) maternity and pregnancy benefits; (v) family member care benefit. The benefit is paid during the whole period of disease while there are mandatory re-examinations. The benefit is calculated based on average wages or salaries of workers.

Armenia's current system of wage protection for short-term illness is bundled with protection for other types of incapacity. This is different from the more common international standard wherein the parameters for allowance and compensation are set in the applicable Labor Code, and coverage is provided according to terms negotiated in collective or individual labor contracts. A system where an employer applies for credit from a state agency to which he/she pays social taxes, and where short-term illness therefore is funded under the state budget, is not common. Rather, sick leave is more often considered part of the labor costs for an employer. Thus, Armenia is out of step with international good practice with regard to sick leave. The institutional relationship to a state agency makes the incapacity of informal employees or civil contractors difficult to credit. The protection is, therefore, uneven and dependent upon a highly bureaucratic record-keeping process. Because the state ultimately assumes the cost burden in all cases, little has been done to differentiate work-related incapacity from other illnesses or injuries. Defining different types of temporary incapacity benefits according to the social purpose of the benefit is important. Some of those benefits, like maternal and parental leaves, may remain reimbursable as part of a demographic stimulation package, and should not be connected to employer-employee status, if births are what are being promoted.¹²⁰

Workers' compensation/occupational injury coverage: Armenia inherited its current occupational disability payment systems from the Soviet Union, where an injury benefits payment system for the incapacitated was in use. Since all people worked only for the government, there was no allocation of financing of injury or disability payments as all funds were under state control. State enterprises compensated the injured/incapacitated worker according to the amount state medical authorities considered appropriate, based upon a presumption of the guilt of the employee (in practice, it was assumed that the rules were always correct and that workers themselves were to blame if accidents happened). After independence, this occupational injury payment system continued to be used. With the advent of private property and private business, new employers in the country began to pay disability benefits, while the government took responsibility for paying employees from dissolved state enterprises. In effect, a voluntary self-insurance system operated. As the pain of transition continued and the economy declined, less attention was paid to occupational injury compensation systems, and the priority of reviving the economy superseded the idea of developing more appropriate workers' compensation systems. It is only recently that the government has again turned its attention to social insurance for occupational injuries.¹²¹

National legislation affecting regulation of occupational injury payments includes: the Civil Code, the Labor Code, several Government Decrees, a Law on Temporary Disability, and the Bankruptcy Law. Administrative structures dealing with workers' compensation include the Labor Inspectorate, the SSSS, and the SMEC operating under the MLSI. These agencies interact in a variety of ways to both register claims and organize payments of workers' compensation.

¹²⁰ USAID/SPSS Project, "Development of a Comprehensive Social Insurance Policy for the Republic of Armenia", p. 8.

¹²¹ USAID/SPSS Project "Development of a Comprehensive Social Insurance Policy for the Republic of Armenia", p.9.

Investigation of the accident is launched after the fact, and an accident report is issued. In case the investigation proves that employer is at fault and admits the fault, the injured employee takes a copy of the accident report and medical records to SMEC. At SMEC, the employee undergoes a medical examination for the purpose of deciding the percentage of “loss of working abilities”. There are two possible outcomes from this SMEC assessment:

- SMEC may determine that the workers’ loss of work capacity is less than 30%;
- SMEC may determine that the workers’ loss of earning capacity (degree of disability) is either group 1 (90% or more), group 2 (70 to 89%), or group 3 (30 to 69%), and the duration of the disability is 1 year, 2 years, or permanent

If the loss of capacity is less than 30%, the employer is obliged to pay a SMEC-assigned percentage of the workers’ normal salary for the estimated duration of his disability (the disability benefit can be further decreased if the industrial or occupational disease act states that employee was partly to blame for the accident or disease).

If employees are characterized by more complicated disability categories, the injured worker receives a disability pension from SSSS in addition to any compensation received from the employer. SSSS disability pensions are financed from the state budget and social security contributions and cover all types of disabilities. In cases of death, SMEC also determines whether the death of a disabled worker is the result of his injury or disease, as this would entitle his survivors to a pension. It is also noteworthy that the benefit payments made to the survivors of a worker who died in a workplace accident are paid by the workers’ employer, and not by SSSS. Appeal of this decision goes through the court system. The system of workers’ compensation in Armenia has remained relatively unchanged throughout the transition. Government has started paying more attention to occupational disability insurance issues.

The current legislative framework regarding workers’ compensation is challenging: under the current mandatory social insurance law, in case of temporary disability, both the employee is compensated for the injury and the employer is reimbursed for these payments, so there is no incentive to enter the formal disability system where the employer will lose money and the employee may lose his or her job thus it is much easier to use the temporary incapacity social benefit. SSSS requires only that the employer claim a credit for the wage replacement payments. The employee needs only to provide his employer with documentation from a medical practitioner to support his request.

The whole system of workers’ compensation insurance needs to be reviewed with regards to redefining legislation and practice system of benefits for work-related injuries. The key provision would be the international good practice of workers’ compensation insurance being mandatory for employers over a certain threshold. Injury, insurance and social security should be mainstreamed by prevention practices including significant improvement in labor inspections to assure healthy work conditions in parallel with raising public awareness Occupational Safety and Health.

Social Assistance System

The system of state social assistance in Armenia has been structured and mainstreamed following the former Soviet approach where benefits were provided to the “*at risk*” groups within Armenian society defined as per their types and belonging, such as elderly, children, people with disabilities, citizens who performed a special service to the state, participants in the Great Patriotic War, heroes of labor, others.

The basis for state allowances in Armenia was established in Soviet times by introducing a law on the “Allowances for Children from Less Secure Families”. The system of allowances has undergone many modifications, including monthly allowances paid to children under 17, privileges related compensations to certain categories, etc. In 1997, the new procedures were established to provide

monetary compensation to certain groups of the population defined by the legislation, rather than based on privileges and decree was passed to replace child allowances and other social benefits with a family benefit targeted to poor families. The family benefit was actually introduced in January, 1999 and was a major shift from the categorical system oriented to socially deserving members of society to a system focusing on protecting the poor¹²².

The Family Benefit (FB) is the most important social assistance program in terms of coverage, resources and poverty impact. The FB system (FBS) is based on vulnerability assessment of families registered in the system by applying the self-identification principle. The eligibility of a family registered in the system to receive benefit and its amount are determined on the basis of the assessed vulnerability score for that family. Prior to 1999, the social assistance system comprised 26 small, uncoordinated categories of cash benefit, the allocation of which was done on the individual level. When the new benefit was introduced, more than 200 thousand families or 28% of estimated total number of families were receiving the benefit. Gradually, as the targeting and benefit administration was improved, the number of recipient families was reduced: in 2009 there were 108,460 FB recipient families or 13.7% of estimated total number of families, the number of registered in FBS families has declined as well: by 3.5 times between 1999 and 2009. As the recipient - to reregister family ratio, it has increase from 40.7% in 1999 to 73.7% in 2009 (see the table 2.2.2 below). The declining number of the FBS registered and consequently beneficiary families is explained by the reduction of poverty and, especially, extreme poverty in the country (see Chapter 3 on Poverty and Social Inclusion).

Table 2.2.2 Dynamics of the Number of the FBS Registered and Beneficiary Families

	1999	2004	2005	2006	2007	2008	2009
Number of registered families in FBS	520009	210053	208910	181907	172484	165461	147188
Number of FB recipient families	211555	120248	146726	139670	136917	129414	123293
Share of FB recipient families in total number of registered families, %	40.7	57.2	70.2	76.8	79.4	78.2	83.8
Average size of monthly benefit, per family, AMD (EUR)	n/a	n/a	13328 (23.4)	15200 (29.2)	17500 (37.4)	21100 (46.9)	23560 (46.4)

Source: SDP (or PRSP-2), page 198, NSS of RA, www.armstat.am "Statistical Yearbook" year 2009, page 84; year 2010, page 115.

Although the ratio of households applying to the FB system decreased year by year (in 2004, 29.9% of Armenian households applied to the FB system, in 2007 - 21.8%, in 2008 - 18.4% and 18.6% in 2009), share of benefit recipients among the applicants increased (in 2004 out of all applicants of the system 57.2% were entitled to benefit, in 2007 – 71.8% and in 2008 – 67.63% and 73.7 in 2009).

Studies show that on one hand the number of beneficiary families is 1.5 times larger than the number of extremely poor families, on the other hand more than half of beneficiary families are not

¹²² Armenia has been receiving humanitarian assistance after the destructive earthquake in 1988. Distribution of humanitarian aid has been implemented in parallel with distribution of regular social allotments and compensations. During the worst years of the economic collapse (1992-1995), Armenia has been getting humanitarian assistance almost all the time, which was distributed nearly among 80% of the population. However distribution has also been done to the targeted at risk groups (like children under the age of 2, etc.) and many persons under the same social category were living in households with different levels of welfare.

In 1994 and 1995, the Armenian government introduced a proxy means testing method called the Paros program to serve as the targeting mechanism for the large quantities of humanitarian aid flowing into the economy. In 1996, it became the official system through which all humanitarian aid was distributed in Armenia. The government of Armenia continued undertaking major reform of social assistance programs. Since January 1999, the primary social assistance program is the Family Benefit Program (FBP), replacing all existing cash benefit programs including child allowances and other social transfers.

poor families¹²³. It should be taken into account that the system is based on vulnerability rather than on poverty concept. This makes the system more flexible and, from the poverty perspective, able to assure quite high targeting, meaning that the poverty correlations are taken into account while assessing the level of eligibility. However, for the FBS targeting and efficiency improvement is still an issue and in order to achieve the goal it is critical to improve the family vulnerability assessment mechanisms, the public awareness, and the mechanism of gathering necessary documents by poor families without destroying the functioning system. The most challenging issue is the assessment of real living standard of families that applied, which directly affects the efficiency of the system. Another challenge is to find out those extremely poor families that are not registered in the system or are excluded from the system.

Despite of the results achieved, the need for improving targeting of the FBS is recognized: according to 2009 ILCS data¹²⁴ about 44% of the 20% of poorest population is not covered by monetary assistance programs. Assistance programs do not cover the mentioned population because there is a need for improvement of the FBS, also considerations are to be given to those vulnerable groups actually included in different types of self-employment, agriculture, etc. and registration system for FB should be improved in a way those people are included. There is a range of factors, such as migration, health care indicators, employment rates, the poor state of intra-regional roads, corruption and so on to be taken into account while qualifying families for the FB, meaning that measures still need to be undertaken to make the targeting more inclusive, especially paying attention to the country's poorest population.

The issues of FB system targeting and inclusion of the poor families are in the Government's high priority list. The SDP sets the following priorities to enhance the targeting and effectiveness of system performance:

- Improvement of indirect (score-based) mechanism applied to assess the vulnerability of families registered in the system aiming to reduce the margin of error for coverage of non-poor groups to 10 percent in 2015 at the latest and, thus, to increase targeting up to 90 percent;
- Ensuring high representation of the extremely poor and the poor population registered in the system by bringing the representation of the poorest 10 percent of the population registered in the system to at least 80 percent through application of proactive methods of awareness raising and identification of population and, specifically, the poor, and provision of simple and accessible arrangements for poor population for collection of documents;
- Introduction of a flexible system for regular monitoring and impact assessment.

Childbirth One-off Benefit. The second large program under the State Benefits is the Lump-sum Assistance paid at the child's birth. The aim of this assistance according to the RA Law on the State Benefits is the partial compensation of the family expenditures related to child's birth. In October 2003 the amount of the childbirth one-off benefit increased from 7.6 EUR to 53.5 EUR and up to 70 EUR in 2008 (there was no change in 2009)¹²⁵. Such an increase contributed to reduction of the number of unregistered childbirths nationwide, rather than to birth rate increase. In Armenia, programs aimed at promoting birth rates were being carried out through the system of family benefits, but the number of families registered in that system decreases, while demographic issues continue to remain high on the agenda (see the section 1.7 on Demographic Trends in chapter 1). In order to have a birth rate coefficient that would be more than 2, it is necessary that the number of families having three children grows. Therefore, the issue of third and subsequent births in a family should be a matter of special state concern (which basically is reflected in country's "Demographic Strategy" adopted in July 2009).

¹²³ Socio-Economic Analysis Center (CEAC), "Why the Poor Do Not Apply To the Family Benefit System? (Armenian)", Yerevan 2010, page 37.

¹²⁴ NSS of RA, www.armstat.am Publications: "Social Snapshot and Poverty in Armenia", 2010, page 145

¹²⁵ NSS of RA www.armstat.am Publications:

Since 2009 there exists a one-time childbirth benefit of 50,000 AMD (98 EUR) and to 400,000 AMD (788 EUR) for all subsequent children, available to all newborns as part of a national demographic policy unrelated to social insurance.

There is a paid 4-month maternity leave for women (or caregivers) who, with their employers, make social contributions. In addition, there is a 2-year allowance paid for caregivers who stay home to care for their child, also available only to caregivers who make social contributions. Because maternity leave and child care leave are available only to women who are in the formal sector, most mothers do not receive such support.

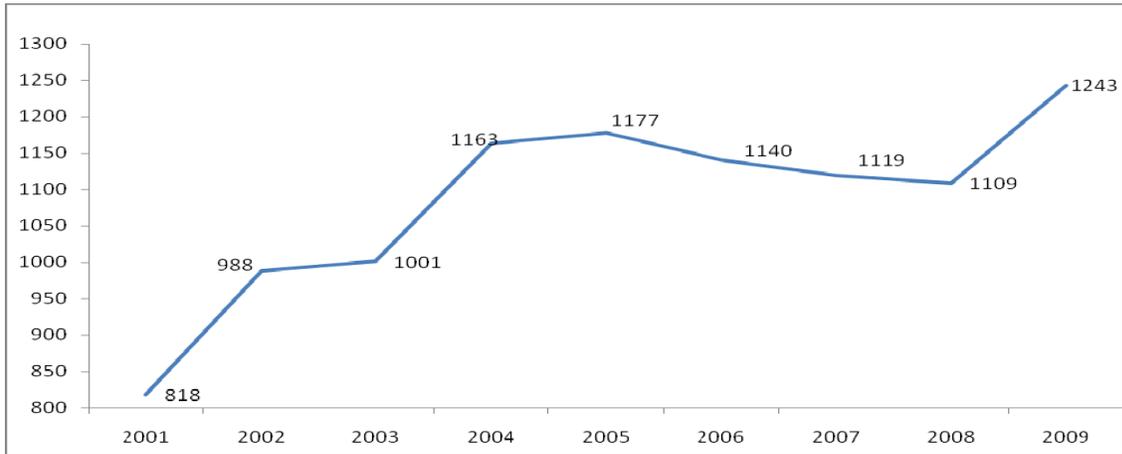
In 2008 over 38,000 women received one-time lump sum birth allowances, but less than one quarter, or only 9,367 women, were paid a 4-month maternity leave. As was mentioned above, very few women enjoy the seemingly generous Labor Code maternity provisions: only 4,488 women in 2008 were able to have a 2-year leave to care for a child (0.8% of total employed women). Thus, most women/caregivers in Armenia received neither paid maternity leave nor child care leave. This simply reflects the fact that such payments are made only to caregivers in the formal sector.

The 2004 Labor Code has guarantees for pregnant women and working mothers with children under age 3. Although its policy and public opinion priorities honor motherhood, the wage protections it offers reach only a minority of mothers because very few women are in formal sector employment. Inclusion of non-formal sector in the state benefit system is still a serious issue since most of the rural women working as farmers in agriculture and/or labor force are not formally included in neither of state social protection schemes.

Most Armenian women do not receive maternity benefits because they are not in the formal labor market. Parents and their children receive no ongoing state support from social insurance. As noted above, there is a paid four-month maternity leave for women who, with their employers, make social contributions. In addition, there is a two-year allowance paid for caregivers who stay home to care for their child, also available only to those who make social contributions.

Other Social Assistance Programs: These programs address the problems of children in difficult living conditions and are high on the agenda. During recent years the number of children appearing in orphanages and special educational institutions due to hard social conditions (unemployment, low living standards of the population, high costs of the medicine and medical service, and lack of capacity among the parents about the care and up-bringing, lack of child care services) showed an increasing trend. The institutions became home not only for orphans or disabled, but also for children from socially vulnerable families. These families usually have many children and are very often women-headed. In order to decrease the number of children in the orphanages and to prevent their accession the programs are aimed at easing the overloading, in particular through returning the children to their biological families or finding adoptive families for them, as well as expanding the system of daycare centers and child-care and protection boarding institutions, which will serve as an alternative for children from orphanages and special general education institutions. Thus, the number of children in state and non-state orphanages shows an increasing trend: compared to 2001 the number of children in state and non-state orphanages in 2009 has increased by 52% (see the Figure 2.2.3 below).

Figure 2.2.3 Dynamics of the Number of Children in Orphanages, 2001-2009
(at the beginning of the period)



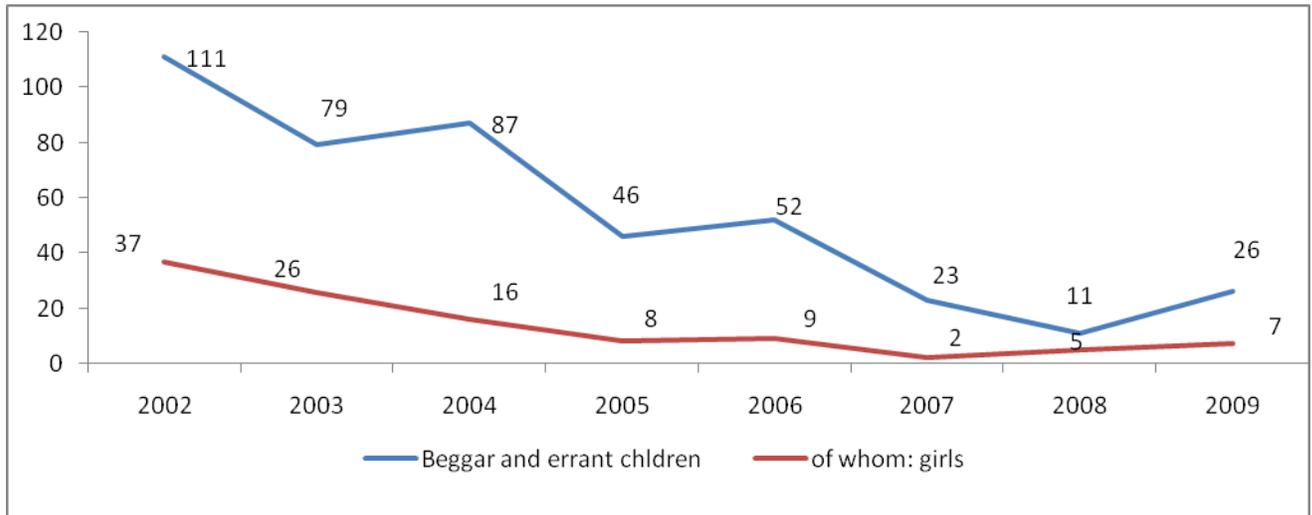
Source: NSS of RA, www.armstat.am Publications: “Social Situation of RA 2008” page 223, for 2003 page 183, “Socio-Economic Situation of RA in January-March 2009”, page 154. Statistics on number of children in orphanages is available starting from 2001.

A new three - level child protection system has been introduced in Armenia: (i) national level: unified and structured child protection policy is ensured; (ii) regional and (iii) community levels: the implementation of the policy is realized. The establishment of a unified system will allow decisions concerning the future life of children in hard living situations to be made based on the results of professional and qualified assessment, a regulated operation of structures dealing with issues concerning children, as well as to create a unified database comprising information about children in hard life situations.

Eight public and four charity orphanages are currently functioning in Armenia, in which in 2009 accordingly were taken care of 870 and 373 children. Two public and one charitable specialized orphanages for disabled children are operating in the country (with correspondingly 370 and 60 children being taken care of). Two of these orphanages provide specialized services: the orphanage of Nor Kharberd for children with learning difficulties from 5 and 18 years of age and the orphanage of Gyumri for children with learning difficulties aged between 0 and 5 years.

Most of the children are social orphans: poverty alongside unemployment and social insecurity is a decisive factor complicating the situation of children without parents: there is another problem with families forcing their children to beg. Forced child labor and street children are under the auspices of the MLSI and Ministry of Internal Affairs and, according to the official statistics, the situation has improved in Armenia:

Figure 2.2.4 Number of Beggar and Errant Children, 2002-2009



Source: NSS of RA, www.armstat.am Publications: "Social Situation of RA 2009", page 255.

The policy aimed at integration of the persons with disabilities in the society derives from the principles and provisions stipulated by the "Convention on Rights of Persons with Disabilities" adopted by UN in December 2006 and signed by Armenia on the 30th of March 2007. However, corresponding amendments to the legislation still need to be made and measures to be taken for the integration of the persons with disabilities in the society, to create equal conditions and opportunities for them, ensure accessibility of transport and information as well as enhance an accessible environment and buildings. The model of eligibility for disability is being revised envisaging a shift from the model of defining disability (currently operating in Armenia) to the model accepted in the European Union defining the level of incapacity to work. The issues of creating integrated community rehabilitation centers for people with disabilities, expanding programs of medical and social rehabilitation for disabled persons, as well as ensuring high quality inclusive education for disabled children remain top priority challenges that should be addressed and solved without delaying.

Social Services Provision

Social services provision in Armenia is delivered through the state and non-state run facilities. To provide state run institutional social, medical and psychological assistance to elderly people and disabled in Armenia, seven boarding houses function, of which four are state run. As of the beginning of 2009, 1017 people live in state boarding houses (9989 in 2008), and some 92 elderly live in non-state boarding houses (90 in 2008). There is also a republican centre of social services for disabled and elderly people living alone. The average monthly expenditure per person under care comprised 108,435 AMD in 2009 (83,865 AMD in 2008) or 213.7 EUR (186.3 EUR in 2008).¹²⁶ At present, citizens that apply for settlement at boarding houses face a waiting period of from 1 to 2 months.

Home care is the primary non-institutional forms of services provision. Approximately 1,200 disabled and elderly people living alone are provided with home care by the state. These services are provided by non-governmental organizations via decentralized community-based service provision systems. It provides elderly services at their homes, and in the case of centralized service provision (local centralization), the services are provided either at home or in community centers. The community-based model of elderly service provision was introduced in Armenia by "Mission Armenia" NGO. The necessity of expanding home care services is obvious not only because they are more acceptable for individuals as they do not have to leave their microenvironment, but also

¹²⁶ The indicator is calculated based on the information obtained from NSS of RA, www.armstat.am "Social Situation of RA 2009", pages 275 and 276; "Social Situation of RA 2008", pages 236 and 237.

because it is less expensive to provide these services at their homes: the average daily expenditure on home care per elderly person living alone in 2008 was 5.4 thousand AMD (12 EUR) per month. Beneficiaries are provided with social and housing services, as well as with legal and psychological consultations, medical first aid, etc. at their homes.

The law on “Social Protection of the Disabled in the Republic of Armenia” includes provisions for medical and social rehabilitation for persons with disability, i.e. facilitating their integration into society and a full life. In this way, they will be able to overcome any psychological fears of being a “burden” on their family and they will be able to work and at least partially satisfy their own needs, as well as reduce the social problems for their family. This approach is covered in the social policy and poverty reduction strategy.

In 2009, 53.2% of 179.3 thousand disabled persons in Armenia needed various types of prosthetic orthopedic and rehabilitation devices of whom about 47.2% are women; 45.9% needed professional rehabilitation (47.3% of whom were women); and 39.4% required social rehabilitation (46.9% of whom were women)¹²⁷. Apart from state institutions, many NGOs, with assistance from international organizations, provide home care services to elderly people living alone in Yerevan and in marzes. All these activities are coordinated with MLSI, which always provides methodological and practical assistance to organizations delivering similar services. Special activities are carried out in Armenia to improve the affordability and accessibility of roads, buildings and facilities for the disabled. Certain changes in legal acts related to disabled persons are currently being developed to bring them into line with UN standards for persons with disabilities.

Currently Armenia’s social sector programs focus is being directed to creating sustainable social protection systems with the long-term goal of building the capacity of the Government and social services NGOs in order to be able to provide encompassing assistance to elderly, disabled, and other vulnerable groups. The concept of integrated social services provision is being actively discussed.

2.3 Financing of Social Protection

Source and Structure of Financing

Total public spending on social protection comprised 6.0% of GDP in 2008 and 7.9% in 2009. Until 2008 the sector was funded by the state budget (social assistance, social welfare services, and military retirement benefits) and by the Social Insurance Fund (SIF) (labor or insured pensions, unemployment and sick leave benefits), but, as was mentioned in subchapter 2.2 (social insurance section) beginning in January 2008 the SIF was reorganized into State Social Security Service and all social protection programs are financed directly from state budget (although there exist contributory and non-contributory based benefits and services, as was discussed in previous subchapters). Out of budget international donors participate in different social assistance programs, however this information is not included in data provided in this paper.

Table 2.3.1 Public Spending on Social Protection and Insurance, 1999-2009 (billion AMD)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009

¹²⁷ The indicators are calculated based on the information obtained from NSS of RA, www.armstat.am Social Situation of RA 2009”, page 243.

Total Social Protection (SP) (mln EUR)	59.7	53.5	60.2	61.4	73.6	84.7	103.8	123.9	149.3	212.6	243.6
	104.5	107.3	121.1	73.0	112.6	127.8	182.0	237.7	319.1	472.1	480.2
As % of GDP	6.1	5.2	5.1	4.5	4.5	4.4	4.6	4.7	4.7	6.0	7.9
As % of State Budget	25.8%	21.0%	21.7%	20.5%	20.2%	21.5%	21.2%	21.8%	20.0%	26.2%	26.2%
State Budget Financed (mln. EUR)	26.1	22.0	26.1	23.8	29.3	35.0	44.1	52.3	63.1	212.6	243.6
	45.7	44.0	52.5	28.3	44.7	52.8	77.4	100.4	134.9	472.1	480.2
As % of State Budget	11.3%	8.6%	9.4%	7.9%	8.0%	8.9%	9.0%	9.2%	8.5%	26.2%	26.2%
SIF (mln. EUR)	33.6	31.6	34.1	37.6	44.4	49.7	59.6	71.6	86.2	-	-
	58.9	63.3	68.6	44.7	67.9	75.0	104.6	137.4	184.2	-	-
As % of SP	56.3%	59.0%	56.6%	61.3%	60.3%	58.7%	57.5%	57.8%	57.7%		

Source: NSS of RA, www.armstat.am "Statistical Yearbook of Armenia 2009", page 362, and relevant years: section "Finances and Credit".

As the chart shows, total expenditure on social protection from the state budget has increased 3.5 times in 2008 and 4.1 times in 2009 compare to 2001. However, the huge share of social protection expenditure, 86-87% of total social protection expenditure is allocated to finance both social and insured (labor) pension provisions and poverty family benefit. With what remains it is difficult to assure other efficient and qualified social protection programs. Moreover, due to improved targeting and administration the share of expenses on FB-s, in total social protection spending shows declining trend, while the share of spending on pensions grows: compared to 1999 the share of spending on FB has declined from 33.3% to 13.8% in 2008, while spending on pension provision for the same period of time has increased from 54.1% to 72.9% (see table 2.3.2 below).

Table 2.3.2 Dynamics of FB and Pension Expenditure, 1999-2009 (billion AMD)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Expenditure on pension provision mln. EUR	32.3	34.7	38.4	42.6	51.9	59.4	75.3	85.1	98.5	154.9	177.6
	56.5	69.6	77.2	50.6	79.4	89.7	132.0	163.3	210.6	343.9	350.0
Expenditure on FB mln. EUR	19.9	14.4	16.1	12.3	12.8	16.0	20.0	24.0	26.4	29.4	31.3
	34.8	28.9	32.4	14.6	19.5	24.2	35.1	46.0	56.4	65.3	61.70
As % of total Social Protection Expenditure*, %											
Pension provision	54.1	64.9	63.8	69.4	70.5	70.2	72.5	68.7	66.0	72.9	72.9
FB	33.3	26.9	26.7	19.9	17.3	18.9	19.3	19.4	17.7	13.8	12.8

Source: PRSP-2; NSS of RA www.armstat.am "Statistical Yearbook of Armenia 2009", page 359, year 2007- page 362.

* Social protection expenditure, besides pension provision and FB, include expenditure on sickness or temporary incapacity benefit, non-financial and non-medical assistance to disabled, financial and non-financial assistance in case of unemployment, housing strategy and other services.

The issues of financial sustainability of the social protection system, in particular the current pension system, the efficient and targeted allocation of limited public resources to the most vulnerable groups are the matter of concern: public expenditures for social protection are predominantly allocated to pension provision (as it is seen from table 2.3.2) and it is foreseen to be increased to 79% in 2021¹²⁸, thus the share of other social protection programs will decrease. Besides, the system fails to generate adequate benefits; the contribution could be considered too high compare to the benefits provided.

Due to the fact that FB play an important role in poverty alleviation and that poverty and extreme poverty still is an issue for Armenia, cash FB program will be maintained as a core of the social

¹²⁸ Government of RA www.gov.am Programs: "Sustainable Development Program" (SDP), page 195.

assistance system. However, given the still high share of informal economic activity and labor migration, the targeting and error of exclusion, the administration should be further improved.

As for the pension system, it has to be mentioned that it is on its way to being reformed (see Chapter 4).

Fiscal Administration and Decentralization

One of the crucial preconditions for establishment of local self-governance (LSG) is the fiscal decentralization. LSG were legislatively granted the power to form their budgets and independently manage their financial resources.

The budgetary system of the country has been restructured and community budgets became indivisible constituents of the financial and particularly budget system. Currently the process of decentralization is being underscored by the Government and most of the development strategies have recently been elaborated.

The budgetary system in Armenia is stipulated and established under the Law on Budgetary System, which regulates budget process in the country. The budgetary system of Armenia includes (i) The state budget, the first level, and (ii) community budgets, the second level. The state budget, community budgets, and the budget of mandatory social insurance constitute the consolidated budget of the Republic of Armenia, the revenues and expenditures of which reflect the aggregate inflows and outflows of the constituting components.

The entirety of these two indicators enables drawing an understanding of the degree to which powers of local self-governments are financed. There is a direct link between decentralization and financial autonomy of the local self-governments. Each country has its own specific way to define powers and financial decentralization. In absolute terms, financial resources incurred to perform each of the functions vary wide from country to country. In some of the former socialist countries which currently joined EU (such as Hungary, Czech Republic, Poland) these are also relatively adequate¹²⁹.

Much more serious allocations of funding to LSG, including special measures on equalization of distribution of resources among the regions are currently an urgent need. Stronger local governments have strengthened its local fiscal administration. Some progress has been achieved with this regard already: LSGs now manage all land and property tax databases and receive all the revenues collected. At the same time, local governments have greater responsibilities; for example in the area of basic education, and it is not clear whether funds are yet adequate for their service responsibilities. The World Bank has been supporting decentralization through the Public Sector Management Project and the Social Investment Fund aimed at building the capacity of communities and local governments. However, Armenia is well behind the other countries both in terms of decentralization and financing of the powers.

RA Government has prioritized decentralization and building a strong fiscal decentralization system in the budget report of 2009: LSG are under the state territorial development program which has projected to implement the following actions targeting improvement of the situation:

- To shift asymmetric territorial development processes into more balanced situation using the strategy of equalization of territorial development;
- Shorten the gap between the economic activities of urban and rural regions (cities and villages) by speeding up development of other regional towns and support investments through targeted program elaboration and implementation.

¹²⁹ Local Government and Public Service Reform Initiative (LGI), United Nations Development Program (UNDP), World Bank Institute (WBI); Policy Paper 2 “Enhancing Fiscal Capacities of Local Self-government Bodies”

Other priorities in this sector include:

- Improved accessibility of services provided;
- Number of assessments of local infrastructure, improvement measures identification and implementation programs to be taken care from the state budget;
- Regional meetings of the GoA in the marzes, which will allow bringing problems of the regions directly to the attention of relevant government responsible being tasked to undertake improvement measures;
- Elaboration of a separate regional development program/strategy for each marz/region of Armenia which will allow to undertake needs assessment of each region and will outline strategic priorities, and give solutions and directions for further development of the regions.

The introduction of performance budgeting at the municipality level has provided an effective entry point and mechanism for enhancing the planning and monitoring capacities of elected authorities and for ensuring transparency and accountability in public service delivery. This program was introduced and implemented by the UNDP Armenia and generates community-based prioritization of community development needs, creates partnership-based implementation structures to convert plans into investment realities, focusing on social infrastructure, economic development priorities and income generation in the poorest and most disadvantaged communities in Armenia.¹³⁰

LSG are going to have their legislative powers clarified and re-adjusted to the current and local needs; financial means will be allotted by the Government to work out indicators and norms for LSG, which will avail opportunity to improve the quality and accessibility of services provided by LSG to the communities. The new system of financial equalization will be introduced to support community financial budgets and assure equalization of communities with different financial capacities. The Government has also planned to establish a centralized information database on LSG which will allow information exchange around the country and in between the marzes.¹³¹

Social assistance public programs or as it sometimes called Social Safety Net is mainly financed from the government budget allocations. Allocation is about 2 % of GDP, or 11.5 % of the state budget. Social Safety Net includes more than 60 specific programs covering five main areas, among which the main expenditures are State benefits or Social transfers (48%) and the Pension fund (30%).

Despite the fact that budget allocations for social transfers are increasing every year they are still very limited with regards to GDP; for example, in 2007 they comprised 4% of GDP. Studies conducted by the IMF have shown that significant efforts and funds are needed to increase social funding for pensions to achieve the 5.8% of the GDP as it has been projected for the year of 2021 according to the calculations per SDP. It is important that the increase of pension expenses is planned under the general budgetary framework of the country, which will lend an opportunity to implement a unified public expenditure policy in accordance with the outlined priorities and without risking macroeconomic stability. According to budgetary framework estimates of program, these targets will be attainable by maintaining the consolidated budget deficit in a secure range, at the level below 2.5 percent of the GDP.

Nonetheless, social assistance, and in particular the family benefit are also the key contributors to poverty reduction process, and notwithstanding the fact that coverage of the family benefit is limited (it covers only 28.6% of the poor (and 65% of very poor population), it is well-targeted as 73 % of all the recipients receive 71 % of resources belong to the two bottom consumption quintiles. Due to the Government efforts directed to improving the targeting of the program, these indicators were improved compared to 2004 (63% of all the recipients were from the two bottom consumption quintiles and were receiving 67% of resources). While this is a satisfactory result, there is ample

¹³⁰ UNDP Armenia, <http://undp.am/?page=HumanPoverty>.

¹³¹ Report: Core Strategies for 2010 within the Socio-Economic, Tax and Budgetary Development of the Republic of Armenia, Government of RA, pages 7-8.

room for improvements since about half of the population in the poorest quintile isn't covered by the program.

Assistance of International Donors

There are many international organizations assisting Armenia in the social protection sphere. Among them are the following organizations:

(a) The Office in Yerevan contributes to the development of democratic institutions in the country, strengthening civil society, promoting OSCE standards and principles. The OSCE office in Yerevan assists the Armenian Government by:

- Supporting the Government's efforts to combat human trafficking. The Office's activities are currently focused on supporting the state and non-governmental actors in developing and implementing a victim-oriented anti-trafficking policy. The Office also closely cooperates with the United Nations Development Programme (UNDP) and the International Labor Organization (ILO) offices in Armenia;
- Supporting economic measures and incentives aimed at creating an economically strong middle class as a significant factor contributing to internal cohesion and social stability. The Office supports activities to enhance the efficiency and impact of the state support to SMEs, introduction of internationally recognized best practices and supports capacities responsible for improving Armenia's business environment. Second priorities include activities aimed at the creation of a free competition environment, overcoming monopolistic trends and market barriers. The Office further facilitates the establishment and development of SMEs in the regions of Armenia, tackling the issue of uneven GDP distribution between different social groups and regions in Armenia;
- Corruption is a major obstacle to the economic, political, and social development of Armenia. The Armenian Government's five-year programme (2007-2012) contains a commitment to fight corruption as part of its overall objective to advance good governance and promote public administration reform. The OSCE Office in Yerevan assists the Armenian authorities and civil society in their efforts to combat this phenomenon.

The OSCE office in Yerevan also supports environmental, gender, good governance, and other activities in Armenia.

(b) *European Commission*: the principal objective of EC assistance to Armenia is to support the development of an increasingly close relationship between the EU and Armenia in the context of ENP and based on the policy objectives defined in the Partnership and Cooperation Agreement (PAC) and the EU-Armenia ENP Action Plan. The EC assistance strategy focuses in particular on strengthening democratic structure and good governance (where public administration reform, including local self government/public finance management/public internal financial control and external audit/fight against corruption are identified as sub-priority), on further support for regulatory reform and administrative capacity building and encouraging further economic development, enhancing poverty reduction and social cohesion. In its priority area of support for poverty and social inequality reduction efforts the EU focuses:

- *On contributing to and assisting in further reforms and upgrades of the education system*, including through exchange programs, with a view to convergence with EU standards and practices, thus reducing poverty level and social inequality through better education. Specific objectives in education are identified as the following (i) higher net enrolment ratio in school education and VET; (ii) match VET with job demand; and (iii) improved education and training systems;
- *On regional development and social services* by developing and implementing programs at regional and local community level, especially aiming to improve the provision of and access to quality social services.

(c) *International Labor Organization /ILO/* is working on projects on the development of employment policy, strengthening of social cooperation, improvement of social protection system, and ensuring the participation of stakeholders to the sustainable management of migration process in the country.

(d) *The main objectives of the United Nations Population Fund (UNFPA)* are to assist countries in providing quality reproductive health and family planning services on the basis of individual choice, and formulate population policies that support sustainable development. The Fund's strategy focuses on meeting the needs of individual women and men rather than on achieving demographic targets. Key to this approach is empowering women and providing them with more choices through expanded access to education, health services and employment opportunities.

UNFPA support areas in Armenia are:

- *Reproductive Health and Family Planning* by supporting quality reproductive health services on the basis of individual choice. Key elements include: meeting the need for family planning; ensuring maternal health and reducing infant mortality; preventing and managing sexually transmitted diseases and reproductive tract infections, and preventing HIV/AIDS;
- *Population and Development Strategies* by supporting the development of national population policies as an integral part of sustainable development strategies, according to the priorities of each government. UNFPA also finances data collection and analysis; interdisciplinary research to clarify population linkages; and research leading to the elaboration of indicators for monitoring the impact of programs. In its data collection activities, UNFPA ensures that all data are gender specific.
- *Gender Equality and Equity* by bringing gender issues to wider attention, promoting legal and policy reforms and gender-sensitive data collection, and supporting projects that empower women economically. The Fund aims to improve the status of women at every stage of their lives.

(e) *UNICEF* is actively supporting the Government of Armenia in tackling challenges posed by poverty and in developing policies and strategies that would bring about results for children and enable the country to achieve the Millennium Development Goals. UNICEF contributes to implementation of reform initiatives in health, education and child welfare areas:

- Working with the Government to ensure that all children in Armenia receive timely vaccinations and proper nutrition, as well as working to improve primary health care services;
- Assisting the Government to ensure that all children in Armenia go to school prepared and receive a quality primary school education;
- Working with the Government, international and non-governmental organizations to ensure that all children are able to enjoy all range of rights accorded to them;
- Promoting young people's participation in various activities and projects; working on educating young people on HIV/AIDS, sexually transmitted diseases and healthy lifestyles.

(f) Considering the role and the strategic importance of the small and medium enterprise (SME) sector for the country's economic development (especially in light of the current financial crisis), *UNDP* continues its support to the SMEs through introducing of new mechanisms for SME support; strengthening the capacity of SME Development National Center, and; improving of business skills and funding opportunities for start-up SMEs. Also, within the framework of UN Global Compact Local Network UNDP fosters multi-stakeholder and public-private partnerships for development. Recognizing the importance of a skilled workforce for ensuring the medium and long-term sustainable development of the country, in 2010, UNDP continues supporting the reforms in the sphere of Vocational Education and Training aimed at meeting of the requirements of labor market. Facilities of selected VET Institutions will be upgraded and a whole chain of educational process starting from development of National Qualification Standards and ending up with new training materials/text books and training programs for trainees on new curricula will be modernized. Using

the CSR and responsible corporate citizenship concepts and the power of collective action, Global Compact Armenia will bring the member companies together and will engage them into the solution of the challenges at community level.

(g) *World Bank* projects are aimed to different areas of countries socio-economic life but the important ones in the context of the current report are:

- Social Protection Administration Project (SPAP) for Armenia is to improve performance (efficiency, effectiveness, quality) by public employment, pension, and social assistance agencies in providing services to the population. It is aimed at improving pension, social assistance, and employment services, their integration and efficiency, simplification of business process, and increasing transparency and accountability of the sector. *As stipulated in its 2008 second Poverty Reduction Strategy Paper (PRSP), the Government recognizes that while absolute priority for poverty reduction is ensuring sustainable economic growth, increased employment, productivity and incomes of population, efficient social protection system that provides meaningful protection to the poor and the most vulnerable population groups is crucial.* The reforms under the ongoing project have led to significant achievements, but gaps in improving the efficiency and effectiveness of the social protection administration remain. While the urgent challenge for the authorities is to mitigate the economic and social impacts of the current global economic crisis, which are likely to persist for several years, there is a need to lay the foundations for an efficient and effective post-crisis social protection system. The fiscal constraints brought about by the crisis have added the impetus for reforming the pension system, enhancing the efficacy of the social assistance programs, integrating social services, and strengthening the monitoring and evaluation system;
- *The development objectives of the Second Adaptable Program Lending for the Education Quality and Relevance Project for Armenia* are to enhance school learning in general education and improve the school readiness of children entering primary education; and support the integration of Armenian tertiary education system into the European higher education area;
- *The objective of the Rural Enterprise and Small-Scale Commercial Agriculture Development Project is to support the development of Armenia's small and medium scale rural businesses* by improving the ability of farmers and rural entrepreneurs to access markets and by stimulating market-oriented private and public investments in rural areas. The additional financing will enhance the project's impact and development effectiveness by increasing the total number of communities benefiting from project activities under the community-focused economic development (CED) component. It will generate additional employment, improve incomes, and access to services for a wider segment of Armenia's rural population than under the original project.

(h) *The USAID's goal is to assist Armenia in achieving sustainable development through increased competitiveness, higher quality social services, and a more empowered civil society.* The strategic approach to realizing this vision is based on the principles of empowering agents of change, increasing Armenian society's access to information and networks, and maximizing opportunities for alliances with development partners.

The USAID Mission to Armenia is working with civil society, alternative media, local government, women and youth, and reformers within the Government of Armenia to promote democratic governance. USAID's democracy/governance programs are taking an "active citizen" approach to democracy development, focusing on citizen participation in communities, political parties, and government institutions to build their capacity to be responsive to citizen needs.

The USAID is helping Armenia to accelerate the emergence of a more competitive and diversified private sector. The program will focus on increasing the competitiveness of enterprises in selected

sectors based upon their growth potential to achieve productivity gains, increases in both domestic and export sales, and consequently, the incomes of Armenians and overall economic sustainability. Assistance will also include support to improve key infrastructure services, water, energy, and telecom services, needed for enterprise growth and development.

Shifting from humanitarian to technical assistance over the past decade, USAID's social sector programs now focus on creating sustainable social protection systems with the long-term goal of building the capacity of the Government and social services NGOs. USAID projects contribute to the establishment of an active labor market, encompassing job-search assistance, counseling and job-matching, and increased employment services for youth, disabled and other vulnerable groups. Impressive strides have been made through USAID's programs in the areas of social insurance, social assistance programs, social service provision for vulnerable populations, training and employment, and public awareness of the Government of Armenia's social protection systems.

Overall, USAID's program is helping Armenia develop an efficient, reliable, and cost-effective energy sector to support its emerging market economy. The three most vexing threats to Armenia's energy security are increases in the price of natural gas imports, the need to close down Armenia's aging and dangerous nuclear power plant, and increasing dependence on Russia for energy supplies. To help Armenia achieve energy security, USAID's supports efforts to i) secure diversified sources, including nuclear and renewable, and ii) secure investment to ensure efficient and economically sustainable usage in national and regional contexts.

2.4 Key challenges

The social protection challenge for Armenia is to strike the right balance between providing an adequate social safety net and promoting economic growth. Armenia has recovered from the collapse of the Soviet Union, reduced poverty, and reestablished its social protection system, yet faces a global economic downturn that seriously threatens the robust poverty reduction that Armenia enjoyed in recent years.

The design and development of the social assistance policies assure the transition from solely monetary and non-monetary aids to delivering comprehensive social services (in package) that are driven from needs of the clients and are based on need assessment.

Due to high informality about half of the employed are at risk of not benefiting from contributory based social insurance programs, such as unemployment benefit, maternity leave or child care benefit for children up to 2 years old and etc. Furthermore, their future rights for a labor pension provision is endangered.

Although the FB system is based on vulnerability rather than on poverty concept that makes the system more flexible and, from the poverty perspective, able to assure quite high targeting, still its improvement and efficiency is an issue. To achieve the goal it is critical to improve the family vulnerability assessment mechanisms, the public awareness, and the mechanism of gathering necessary documents by poor families. The most challenging issue is the assessment of real living standard of families applied, which directly affects the efficiency of the system. Another challenge is to find out those extremely poor families that are not registered in the system or are excluded from the system.

Inadequacy of institutions, existing gaps in legislation, and inadequate mechanisms for the inclusion of needy people in the system, the high level of poverty, weak supervision, bureaucratic hassles, lack of transparency, and inadequate monitoring still remain a challenge for the Armenian social transfer system.

Although the law on "Social Protection of the Disabled in the Republic of Armenia" includes provisions for medical and social rehabilitation for persons with disability, policies facilitating their

integration into society and a full life need to be implemented more properly and paid more attention.

Financing of the social protection system and allocation of funds within the system is another challenge for Armenia. Despite the fact that total expenditure on social protection from the state budget has increased 4.1 times in 2009 compared to 2001, the large share of that expenditure (86-87%) is allocated to finance both social and insured (labor) pension provisions and poverty family benefit. With what is left it is difficult to assure other efficient and qualified social protection programs. As the social protection system should not weaken the economic motivation of all the circles of the society for proactive participation in the economic growth through efficient and targeted allocation of limited public resources to the most vulnerable groups, the increase public expenditure for this sector is essential.

Lack of gender analysis, gender disaggregated statistical data, especially regarding vulnerable groups of population, infrequent use of gender indicators in poverty alleviation, development, financial planning, strategic level leaves beneficiaries of social assistance programs outside of the scope and coverage making it difficult to target different needs of women and men leaving the reality in shadow and social assistance – non comprehensive. Low awareness among both women and men on gender roles and gender equality creates gender stereotypes leaving women's needs, in many cases, unattended.

During recent years many children appeared in orphanages and special educational institutions because of difficult social conditions: unemployment, low living standards of the population, high costs of medicine and medical service, lack of capacity among the parents for the care and upbringing and lack of child care services. The institutions became homes not only for orphans or the disabled, but also for children from socially vulnerable families. These families usually have many children and very often headed by women.

It is necessary to expand the home care services in this area and not only because they are more acceptable for individuals as they do not have to leave their microenvironment. The amount of allocations for social home care should be institutionalized and financed by the government to make the system work.

LSG still don't have their legislative powers clarified and re-adjusted to the current and local needs: financial means by the Government should be provided to work out indicators and norms for LSG, which should avail opportunity to improve the quality and accessibility of services provided by LSG to the communities.

The new system of financial equalization should have not only good strategic but also means tested methodology and mechanisms of implementation to support community financial budgets, and assure equalization of communities with different financial capacities. Awareness of communities on social assistance programs, unified information database on LSG which will allow information exchange around the country and in between the marzes, improved capacities of LSG on planning, budgeting, analysis of development strategies and practical mechanisms for improved development, should be focused upon.

Despite quite a comprehensive set-up of administration regarding disability issues, existence of corresponding laws, the reality is not that clear with regards to assuring real integration of disabled into economic, social, cultural and simply everyday life. Some changes occurred recently with regards to improvement of access for disabled to the public buildings. However, this norm is not still being followed comprehensively.

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Annexes

Annex 2.1 Eligibility criteria for FB and household vulnerability assessment system

Family Benefit (FB) is awarded to eligible households (not individuals). It is a proxy means-tested targeting mechanism. FB program has been in operation since 1999 and is the largest both by coverage of population and by financing allocated through the state budget for these purposes. The FBP is targeting the following three factors and includes:

1. Fiscal restrictions that require precise targeting mechanisms and an emphasis on family as the object of assistance;
2. Poverty profile in Armenia, as well as the priority directions of the policy, where poverty is closely linked with the number of children in families.

The program underwent changes since it was implemented both in terms of modifications of family means test system, formulas for the determination of family benefit amount as well as great attention was paid to the improved administration of the program. Reforms implemented in the FB system since 2003 were mainly in line with strategic trends set out by the PRSP, findings of annual household surveys conducted by the NSS.

Entitlement to FB is determined by a family vulnerability score determined by a family means test procedure approved by the Government of Armenia Decree N 2317-N dated December 29, 2005. According to that Procedure a number of indicators are used for the family means test system, including social group of each member of the family, number of family members incapable of working, residence place, dwelling conditions, average monthly income of the family, etc. Each indicator has its numerical value the sum of which determines the family's vulnerability score. The higher this score is the higher the vulnerability of the family.

Means targeted at remuneration of family members' work and incomes equalized to them, pension, unemployment benefit as well as income received from cattle breeding and agriculture make the average total monthly income of the family.

Taking into consideration increase in primary incomes (i.e. pension, wages, etc.) in the country in the second half, the marginal score entitling to FB was lowered by Government Decrees from 36.00 in 2003 to 30.00 in 2008. This enabled many families to uphold their FB entitlement regardless of the growth in the family's incomes during the previous year. However, because in 2008 *the pensions were increased faster than the wages the FB system was facing an objective of pursuing such a policy for those pensioners that are socially more vulnerable enabling them to retain possibly higher living standards by upholding the FB entitlement for their family.*

Thus, from January 1, 2008, privileged terms for FB entitlement were defined for heirless pensioners: heirless lonely pensioners receiving a pension below AMD 30000 become entitled to Family Benefit and marginal score of Family Benefit was set to "30.00" enabling to cover families having pensioners by the system in the case of increased pensions. In compliance with the Law on State Benefits clear-cut grounds for allocation of lump-sum assistance were defined: child birth, child's enrolment in primary education and in case of death, i.e. funeral of a family member (if he/she is not a pensioner, employee as well as unemployed person having at least one year of length of service) entitled to benefit.

FB is based on procedures that define the level of household vulnerability according to the vulnerability scores, which, among other factors, considers the presence of socially vulnerable groups within the households, and gives opportunity for zooming realistic needs of the households' vulnerability taking into consideration their place of residence.

Table A2.1 Changes Made in the Family Benefit System, 2005-2009

	2005	2006	2007	2008	2009
Eligibility score	34.00	33.00	33.00	30.00	30.00
Base benefit (flat, awarded to each eligible family), AMD (EUR)	6000 (10.5)	7000 (13.4)	7000 (15.0)	8000 (17.8)	10000 (19.7)

Contribution to each member under 18	Differentiation						
	Before 2008 33.01-37.00 Starting from 2008 30.01-35.00			4000 (7.7)	4500 (9.6)	5000 (11.01)	5500 (10.8)
		In case of 4 and more under age children (family with multiple children)		5000 (9.6)	5500 (11.8)	6000 (13.3)	6500 (12.8)
		H/A and B/L settlements		4500 (6.8)	5000 (10.7)	5500 (12.2)	6000 (11.8))
		Family with multiple children in H/A and B/L settlements		3500 (6.7)	6000 (12.8)	6500 (14.4)	7000 (13.8)
	Before 2008 37.01-40.00 Starting from 2008 35.01-39.00			4500 (6.8)	5000 (10.7)	6000 (13.3)	6500 (12.8)
		In case of 4 and more under age children (family with multiple children)		5500 (10.6)	6000 (12.8)	6500 (14.4)	7000 (13.8)
		H/A and B/L settlements		5000 (9.6)	5500 (11.8)	6000 (13.3)	6500 (12.8)
		Family with multiple children in H/A and B/L settlements		6000 (11.5)	6500 (13.9)	7000 (15.5)	7500 (14.8)
	Before 2008 40.01 and above Starting from 2008 39.01 and above			5000 (9.6)	5500 (11.8)	6000 (13.3))	6500 (12.8)
		In case of 4 and more under age children (family with multiple children)		6000 (11.5)	6500 (13.9)	7000 (15.5)	7500 (14.8)
		H/A and B/L settlements		5500 (10.6)	6000 (12.8)	6500 (14.4)	7000 (13.8)
		Family with multiple children in H/A and B/L settlements		6500 (12.5)	7000 (15.0)	7500 (16.7)	8000 (15.8)
	Emergency allowance (per eligible family)		6000 (10.5)	7000 (13.4)	7500 (16.01)	8000 (17.8)	10000 (19.7)
	One-off monetary allowance, including:						
For a childbirth		35000 (61.4)	35000 (67.2)	35000 (74.8)	35000 (77.7)	50000 (98.6)	
For the third and any subsequent child				200000 (427.5)	300000 (666.3)	300000 (591.3)	
For enrolment in primary education		20000 (35.1)	20000 (38.4)	20000 (42.8)	20000 (44.4)	25000 (49.3)	
Funeral allowance			250000 (479.7)	250000 (534.4)	500000 (1110.5)	500000 (985.5)	
Finances allocated, billion AMD (million EUR)		20.0 (35.1)	24.0 (46.0)	26.4 (56.4)	29.4 (65.3)	32.3 (63.7)	
Average benefit, AMD (EUR)		13328 (23.4)	15200 (29.2)	17500 (37.4)	21100 (46.9)	23560 (46.4)	
Number of beneficiary families		115068	130406	123792	111918	108460	

Source: NSS of RA, www.armstat.am Publications: "Social Snapshot and Poverty in Armenia" Report 2009, page 113; MLSI of RA, administrative data.

The income of household has an important role in defining the level of vulnerability: the lower is the average monthly income the higher is the vulnerability score.

Registration in the system is voluntary and families are free to apply for registration if they consider themselves vulnerable/poor and expect certain assistance from the state.

The vulnerability scoring of households is under continuous revisions based on the results of the analysis of the data received from the households' living conditions surveys conducted by NSS and according to suggestions and recommendations from the regional social assistance agencies and citizens. The differentiated approach to the amount of benefits has been introduced in 2004 and was further developed in the later years. As a result, the average monthly benefit of the most vulnerable households with many children and residents of high mountainous and bordering

regions is higher compared to families with equal conditions but residing in more favorable regions and with fewer children.

FB administration and targeting efficiency play a critical role while assessing the impact of the program.

According to ILCS 2009 data FB was indicated as a source of income by 11.4% of respondent households (compare to 14.1% in 2008). Estimations, done based on the survey data, prove it is hard to overestimate the influence of FB. For instance, if payment of FB were terminated extreme poverty would increase by 2.8 percentage points (from 3.6% to 6.4%) and the poverty level would increase by 2.4 percentage points (from 34.1% to 36.5%) (see Table A2.1.2 below). These indicators are evidence of the fact that FB particularly great influence on extreme poverty.

Table A2.2 Implication of Social Transfers on Poverty Mitigation, 2009 (%)

	Poverty level			Extremely poor		
	Poverty level	Poverty gap	Poverty severity	Poverty level	Poverty gap	Poverty severity
Post-transfer level(post-pension and post-social assistance)	34.1	7.8	2.4	3.6	0.4	0.1
Pre-transfer level (pre-pension and pre-social assistance)	51.7	21.1	13.8	20.4	9.9	10.0
Before payment of pensions (pre-pension and post social assistance)	49.6	18.7	11.6	17.5	7.8	8.1
Prior to total social assistance payments (pre-FB and other social assistance, post-pension)	36.9	9.7	3.6	6.7	1.3	0.4
Prior to FB payment (pre-FB, post-pension and other social assistance)	36.5	9.5	3.5	6.4	1.2	0.4

Source: NSS of RA, www.armstat.am Publications: "Social Snapshot and Poverty in Armenia", 2010, page 141.

In terms of poverty groups, the FBS targeting is around 60%. Margin of error of mechanism applied to assess family vulnerability level could be determined through a comparison of the FB system registered and beneficiary population. 92% of pre-benefit "net" extremely poor families registered in the FB system receive allowance. Thus, the system's margin of error for registered "net" extremely poor families comprises 8% and the vulnerability assessment formula, essentially, does not leave the extremely poor outside of the benefit recipients' circle. In general, 80% of registered "net" poor families receive allowance. In this case the system's margin of error is 20% i.e., the formula applied to the poor is much more "rigid". At the same time, 67% of registered non-poor families receive allowance. In the case of non-poor families the margin of error of the system is 3 times higher than for poor families. Therefore, the improvement of system's targeting and effectiveness is linked mainly to the reduction of error in coverage of non-poor families.

However, it must be taken into account that the vulnerability assessment of families is based on a somewhat different, more inclusive, mechanism than population's differentiation by poverty groups only; it considers also population vulnerability (or poverty risk). Due to this reason precisely the FBS impact is targeting the poorest groups and carrying out the assessment of the system's targeting for the poorest groups of population is more justified.

A significant part of the poor population is not registering in the FBS. The 2005 survey data (the latest estimate available) results suggest that more than half of the FBS registered families (55.9%) were pre-benefit "net" non-poor families. The "net" poor comprised 44.1% of families registered in the system, including only 14.9% of the "net" extremely poor; i.e., a *considerable number of relatively well-off families were registered in the system*. The 39.1% of "net" poor families were registered in the FBS, including 60.7% of "net" extremely poor and 12.6% of non-poor families; i.e., around 60% of "net" poor families and 40% of "net" extremely poor families were not registered in the system altogether. Therefore, the improvement of the system should be also linked with increasing the number of poor applying to system.

Chapter 3. Poverty and Social Inclusion in Armenia¹³²

3.1 General Overview

Poverty as a phenomenon in Armenia was recognized only in the post socialist period. An extremely sharp fall in output and collapse of the economy in the early 1990-s resulted in the emergence of transitional poverty as the most negative consequence. The drop in GDP of more than 60% between 1992 and 1994 resulted in the severe decline of household incomes and living standards. The decrease of real wages, high unemployment level and widespread unpaid leave or reduced pay for shorter working hours, progressive removal of subsidies¹³³, cuts in spending on social services, including social transfers, health, education and infrastructure, deteriorated living standards of the population. Both the government and society faced the difficult problem of understanding and coming to terms with this new phenomenon.

The sharp decline in tax collection since independence (only 12% of GDP in 1996) has forced the government to drastically cut public expenditures. Capital expenditures¹³⁴ and expenditures on wages, in particular, have been considerably reduced. Social expenditures have been seriously diminished (government expenditure on health is estimated to have fallen from 8% to 3% of total government expenditures and from 5% to 1% of GDP between 1992 and 1994, a period of steep fall in GDP). The situation is similar in the education sector (public funding for the education sector is estimated to have declined from 7% to 2% of GDP and from 11% to 5% of total government spending between 1992 and 1994).

The main coping mechanisms for the poor in Armenia became family transfers, remittances, humanitarian assistance, and informal self-employment, mostly in open-air trade-markets and in agriculture. Particularly, many unemployed, originally from rural areas and unable to work during the crisis of industrial enterprises, returned to their villages for agricultural activities¹³⁵. As a result, employment in the agriculture sector increased approximately two times in the period of 1990-1997.

Based on Living Standards Measurement Survey (LSMS) (1996) and Integrated Living Conditions Survey (ILCS) 1998/99 data in 1996 54.7% of the population was poor, half of which was in absolute poverty with per capita expenditures below the food poverty line.

¹³² The three Common Objectives related to social inclusion adopted by the European Council are: access for all to the resources, rights and services for participation in society, preventing exclusion, and fighting all forms of discrimination leading to exclusion; the active social inclusion of all, both by promoting participation in labor market and by fighting poverty and exclusion; and ensuring that social inclusion policies are well-coordinated and involve all levels of government and relevant actors, including people experiencing poverty, that they are efficient and effective and mainstreamed into all relevant public policies, including budgetary, education and training policies and structural funds programmes.

¹³³ Starting from 1992 there were large reductions in range of subsidies. The most significant for poor were reductions in food subsidies, in particular on bread, since many households increased their consumption of bread in order to survive on low wages.

¹³⁴ Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. This type of outlay is made by companies to maintain or increase the scope of their operations.

¹³⁵ The law on land privatization (adopted in 1992) granted the right of urban population to the land of their origin. Later, because of the tense situation in the labor market, many unemployed from rural origins acquired land parcels they were entitled to and resided to their parental homes to be engaged in agricultural activities. Agricultural activities served as the means of subsistence for hundred thousands of unemployed who became able, firstly, to ensure their families' minimum food needs (that's why in Armenia the rural poverty was less spread than the urban poverty) and, secondly, to earn monetary income as well by selling the produced food on the cities' streets and yards of big buildings (till now open-air food-markets are common phenomenon in Yerevan and other towns of Armenia).

Economic growth observed since the mid-1990-s played an essential role in poverty reduction, but was not sufficient to erase poverty either in the short or long term. In 2008 the poverty in the country reduced to 23.5%, and the extreme – to 3.1%¹³⁶ (see annex 3.1). However, the economic crisis seriously affected the economic growth and poverty reduction path. Although the Government has taken a number of steps to cushion the impact of the crisis by providing protection to the poor by keeping a consistent level of public spending on social protection at the pre-crisis level and pro-poor programs. However, the steps undertaken were not enough to avoid an essential deterioration of the situation: in 2009 the poverty incidence increased to 34.1%, compared to 27.9% in 2008 (recalculated based on 2009 methodology), the share of extremely poor increased from 1.6% in 2008 to 3.6% in 2009¹³⁷. Thus, the vulnerable groups are high on the agenda today: the magnitude of disparities in the living conditions of the population are large. These groups include households living in geographical areas that suffered from destruction of infrastructure (like earthquake zones, border areas), or in rural areas where the land is scarce and of poor agriculture quality, families whose children drop out of school or who are unable to afford good quality education, families that are unable to invest adequate health care, worker whose skills are not adapted to labor market demand, or who work in informal sector due to lack of any alternative.

3.2 Poverty Profile: Recent Trends

The main source of statistics on poverty is the Integrated Living Conditions Survey (ILCS) that was first introduced in Armenia in 1996. Integrated Living Standards Measurement Survey (ILSMS) was carried out in 1998/99 and then annually since 2001. Unfortunately, the poverty estimates in Armenia are not always comparable over time. There are methodological differences between the series of surveys, the results from the 2001-2003, 2004-2008, and 2009. The survey results serve primarily to assess the level of consumption-based poverty in the country. A consumption aggregate is used to approximate well-being in Armenia, assuming that it is better declared and is less sensitive to short-term fluctuations than income. The consumption aggregate is estimated based on the ILCS data.

Measures of Poverty

The key indicator used in Armenia to estimate the welfare and living standards of the population is the poverty incidence. The poverty is evaluated as the inability to ensure an acceptable minimum of certain living standards. The methodology used in 2009 provides the assessment of consumption aggregate and the poverty line is based on a three tier method of poverty assessment (see Annex 3.2). Based on this methodology the poor are defined as those with consumption per adult equivalent below the upper general poverty line; the very poor are defined as those with consumption per adult equivalent below the lower general poverty line, and the extremely poor are defined as those with consumption per adult equivalent below the food poverty line.

Poverty Lines

Beginning in 2009, the National Statistical Service (NSS), based on Integrated Living Conditions Survey (ILCS) data, calculates the following poverty lines:

¹³⁶ The indicators for 2008 later on would differ from the once mentioned here due to methodology change in 2009 and recalculation of poverty indicators for 2008 for consistency purposes.

¹³⁷ NSS of RA www.armstat.am; "Social Snapshot and Poverty in Armenia", 2010, page 30.

Food or extreme poverty line estimates monetary value of minimum food basket. The recommended food poverty line in 2009 was estimated to be as much as 17483 AMD (34.4 EUR)¹³⁸ per month per adult equivalent.

The lower poverty line: consists of two components: food line and the value of non-food allowance. The calculation is based on consumption basket method, which defines the food share in basket equal to 70%. Thus, the recommended lower poverty line is equal to 25217 AMD (49.7 EUR).

The upper poverty line is calculated based on food expenditure method, according to which the food share in total consumption of those households, whose food consumption value is around the food poverty line, estimates the food share to be 56.5%. The recommended upper poverty line per adult equivalent comprised 30920 AMD (61 EUR) per adult equivalent per month¹³⁹.

Poverty Indicators and Trends

The poverty in Armenia notably diminished during 2004-2008. More than 350,000 people were able to move out of poverty and the share of poor people dropped from 34.6% in 2004 to 23.5% in 2008. The 2009 data suggest an increase in poverty partially due to methodology change and partially due to the economic crisis¹⁴⁰ (see table 3.1). During 2009, 214 thousand people in Armenia became poor, raising the number of poor to 1.1 million. During the same period approximately 245 thousand people became very poor, raising the number to about 650 thousand. Finally, 65 thousand became extremely poor, raising the number to around 117 thousand.

The key factor behind the increase of poverty incidence over 2008-2009 was the deep recession of the economy – 14.2%. Along with increasing income inequality the deep recession contributed to a decline in consumption of the population. The ILCS 2009 data suggest that consumption has declined by 6.1% compared to 2008 and the decline is observed in all quintiles of consumption.

Poverty Dimensions

Since the early 2000-s, the poverty profile in Armenia has become clearer and the estimates point to stabilization of it, permitting to identify main factors closely associated with country's poverty. The main correlates of poverty in Armenia are¹⁴¹: (a) the territorial dimension, particularly urban-rural and regional (by marzes) dimensions; (b) household composition; (c) age groups and gender; (d) employment status; (e) human capital status; and (f) landlessness and quality of land.

The poverty level significantly varied by rural and urban areas through 2009. This fact mainly was explained both by the existing differences of economic development, and by the specific features of geographical and infrastructural development of different marzes. Since the moment poverty was recognized as a problem in Armenia (early 1990-s), it was more severe in urban than in rural areas, reflecting the very low level of wages in urban areas and the importance of access to land for food production¹⁴². However, 2009 data suggested that poverty indicators did not significantly differ by

¹³⁸ The average caloric requirement for Armenia is calculated using information on caloric requirements of different demographic groups according to the World Health Organization (1985) standards and information on population shares of these demographic groups. In that way, the average caloric requirement for Armenia is estimated by the World Bank experts at 2,232 kilocalories per day per capita. In parallel, the Ministry of Health of the Republic of Armenia recommended another composition of food. The caloric requirement calculated based on that composition amounts 2,412.1 kilocalories per day per capita

¹³⁹ Relative poverty line is not calculated in Armenia.

¹⁴⁰ NSS of RA, www.armstat.am "Social Snapshot and Poverty in Armenia" 2010, page 32.

¹⁴¹ Data analysis and main conclusions of this chapter are based on "Social Snapshot and Poverty in Armenia" statistical analytical report produced by NSSA in 2009.

¹⁴² The land and asset privatization scheme was among the most comprehensive adopted by FSU republics, and has been an effective social safety net for a large part of the population. (Zvi Lerman and Astghik Mirzakhanyan, 2001 "Private Agriculture in Armenia"). However, the principles guiding privatization have led to the emergence of a clear link between land and asset ownership and poverty status. The rural poor have significantly less land, livestock and farm

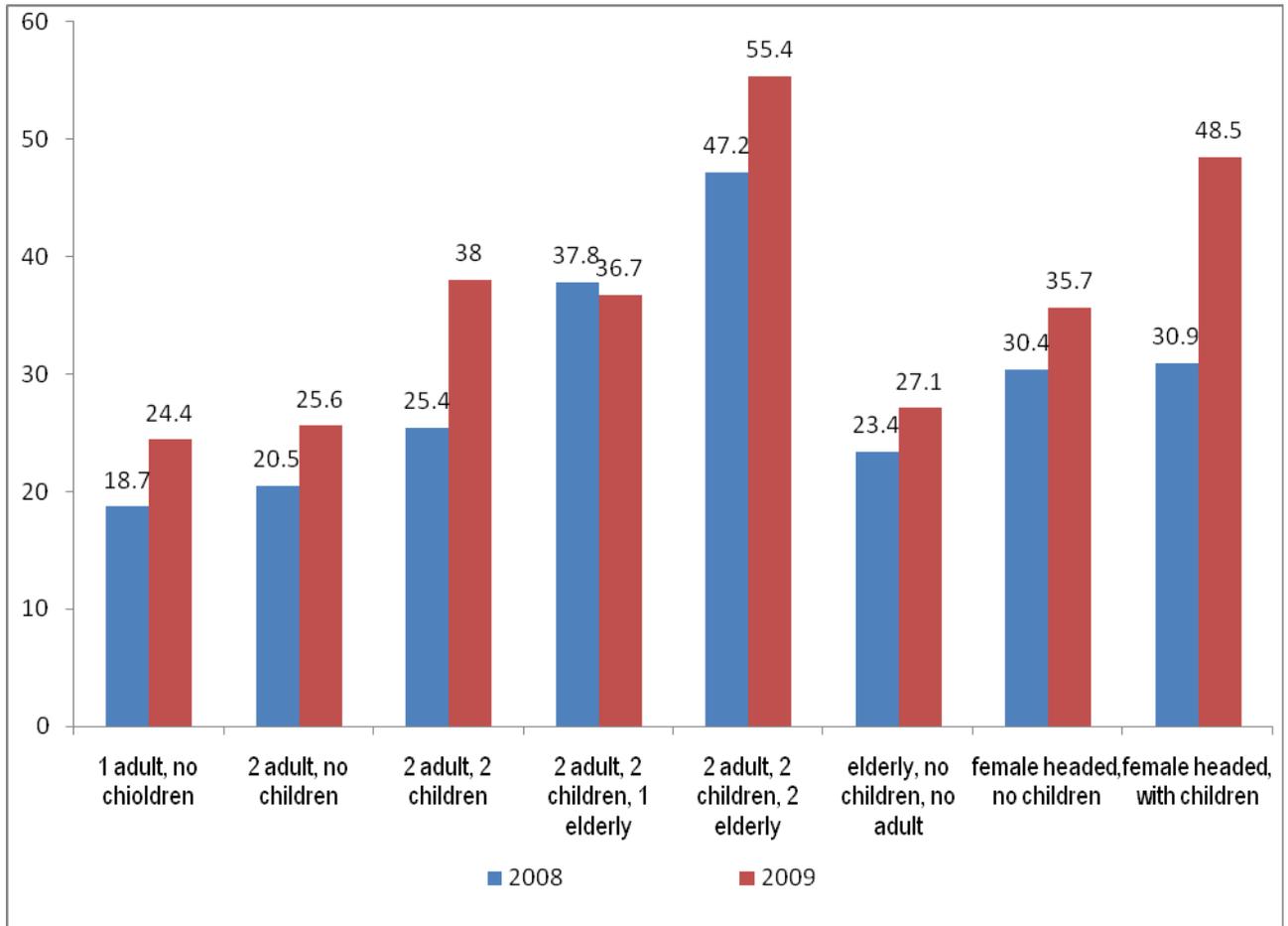
urban and rural areas, comprising 33.7% and 34.9% respectively. Thus, in 2009 rural poverty predominated compared to urban poverty for the first time. However, the extreme poverty level in urban areas always has been approximately twice as high than in rural areas and this trend was preserved during 2009 as well (see: Subchapter 3.7, “Tables”, Table 3.1). Moreover, during the period of 2004-2008 the extreme poverty in rural areas declined faster than in urban areas, indicating that subsistence agriculture played an important role in protecting people from falling into extreme poverty. The subsistence agriculture remains a coping strategy against poverty: although the extreme poverty has increased from 1.6% in 2008 to 3.6% in 2009, it has increased faster in urban areas (from 1.9% in 2008 to 4.6% in 2009) than in rural areas (from 1.2% in 2008 to 1.7% in 2009).

Poverty incidence varies essentially across marzes. Armenia is administratively divided into 10 regions (marzes) and Yerevan). The 2008-2009 surveys provide for minimum representativeness by regions and in Yerevan, thus the poverty indicators should be considered by taking into account standard irregularities. Until 2008, economic growth as the main factor contributing to poverty reduction everywhere in the country was accompanied by the reduction of poor and extremely poor, but with different speeds. The data proves that the poverty incidence is higher in bordering regions, in regions with unfavorable conditions for agriculture (especially with small share of irrigated agriculture land), and in marzes with predominantly urban populations. However, overall between 2004 and 2008, poverty and extreme poverty showed the trend of declining in all marzes and in Yerevan city. Over 2008-2009 poverty increased in all marzes and in Yerevan, but some of the marzes saw higher rates of increase (see: Subchapter 3.7, “Tables”, Table 3.2).

Household size and composition affects the poverty level essentially. Larger households have more children and a lower ratio of income earners compared to smaller households. It is assumed that a household size economy of around 0.87 may be appropriate for Armenian households. The poverty level in 2009 in households with 1 member comprised 19.7%, while in households with 7 or more members comprised 51.6%. When compared to 2008 the poverty level increase in 2009 in larger families was faster: in families with one member it increased by about 15% while in families with 7 and more members – by 35%. The extreme poverty level in families with 7 or more members was 5 times higher than in families with one member (see: Subchapter 3.7, “Tables”, Table 3.6). The presence of children and elderly increases the incidence of poverty: in 2009 the poverty rate comprised 31.3% in families with no children and 51.8% in families with 3 and more children (compare to 25.4% and 34.8% in 2008 respectively); the presence of one elderly person in the household with two adults and two children increased the poverty risk by 12.4 percentage points in 2008. However, in 2009 the presence of one elderly person eased the situation in family: the poverty risk decreased by 1.3 percentage points. The presence of two elderly persons increased the poverty risk by 17.4 percentage points in 2009 (less than in 2008, when that risk increased by 21.8 percentage points). The households consisting of only elderly people experienced a substantially lower poverty incidence than the national average: 27.1% vs. 34.1% (see: Subchapter 3.7, “Tables”, Table 3.7). The poverty level by household composition for 2004 and 2008 is presented below (see Figure 3.2.1).

Figure 3.2.1 Poverty Level by Household Composition, 2008 and 2009 (%)

equipment; they have poorer quality land in more fragmented holdings, and fewer clear titles to their land, than the non-poor. Those who benefited least from land privatization were those who (i) lived in areas where the quality of the land was poor; (ii) had smaller households and so received smaller units of land; (iii) did not participate actively in the land privatization process; or (iv) received their land in the second stage of privatization (Holt, Sharon, 1995 “Using Land as a System of Social Protection: An Analysis of Rural Poverty in Armenia in the Aftermath of Land Privatization”).



Source: NSS of RA www.armstat.am "Social Snapshot and Poverty", 2010, page 45.

The poverty dynamics in terms of age groups and gender in Armenia registered no significant gender differences in poverty. However, the levels of both extreme and overall poverty for women were slightly higher than for men, which could be partially explained by the application of a constant poverty line¹⁴³. Meantime, gender effects poverty depending on household composition: female-headed households are more likely to be poor than male-headed households (36.9% vs. 33.1% in 2009); female-headed households with children are at higher risk of poverty than female-headed households with no children (48.5% vs. 35.7%).

Child poverty in Armenia: total child poverty rates in Armenia are higher than those for the total population: 4.5% of children (0-18) live below the extreme poverty line (3.6% for total population) and 38.1% live below the poverty line (34.1% for total population). Child poverty rates vary significantly depending on the number of children in the household, the age group of the youngest child, the presence of disabled children, as well as the characteristics of the household head, such as gender, the highest level of education and employment status. There is also significant variation by region.

Although there has been some registered progress in reducing child poverty since 2004 - it has declined from around 38% in 2004 down to 27% in 2007 and the positive dynamics between 2007

¹⁴³ In Armenia a unified consistent poverty line is being applied, which does not change with economic development and does not take into consideration the differences between marzes, gender, and age groups. That is why in the future the differences of marz, gender and age group poverty levels will be eliminated. See: "Sustainable Development Program" (2008), page 41-42.

and 2008 has been preserved - the percentage of children lifted out from poverty was not significant, moreover the 2009 was not favorable from this perspective.

The main determinant of poverty for working age population is the employment status.

Although over 2008-2009 poverty incidence has increased for both employed and unemployed, still employed face less risk of poverty than unemployed or labor market non participants. The poverty rate in 2009 was lower for wage/salaried workers (25.5%), than for self-employed (29.7%), other employed (34.1%) or unemployed (38.8%). Yet again the poverty risk is distributed unevenly by regions: the poverty rate for unemployed or non-participants in labor force (students, pensioners and others) is higher in other cities compared to Yerevan: the poverty rate for the unemployed is 34.0% in Yerevan and 49.3% in other cities, while in rural areas it is as low as 32.4%. The indicator for non-participants is 28.4%, 43.5% and 40.8%, respectively.

Informal employment (see chapter 1, subchapter 1.3) is quite high in Armenia, meaning the employed in the sector are less protected and face a higher risk of poverty: the poverty rate among employed in formal sector in 2009 comprised 21.7% (compare to 17.4% in 2008), while the indicator for informally employed comprised 34.2% (vs. 27.1% in 2008)¹⁴⁴.

As for the unemployment benefit as a tool used to cope with poverty, it should be noticed that: (i) the real unemployment is much more higher than officially registered one (18.7% versus 7.0% in 2009) and (ii) only 30% of all officially registered unemployed in 2009 received unemployment benefit, which was on average 32.9 EUR. For the age groups close to retirement as additional factor could be considered transfers and other assistance received from their children.

The retired population appeared to be at higher risk of poverty. Although poverty among pensioners showed a decreasing trend over 2004-2008, it has increased, as in all population groups and comprised 39.9% in 2009 compared to 34.5% in 2008 (by gender the indicator is not available). The pensioners in 2009 faced lower poverty risk in Yerevan (31.7%) than in other urban (44.3%) or rural areas (48.7%): the picture has changed somewhat compared to 2008, when pensioners in other urban areas faced the highest (40.7%) poverty risk. The share of elderly among the total population in 2009 comprised 12.2%, and 12.1 % of poor also were people aged 65 and over (see: Subchapter 3.7, "Tables, and Table 3.3).

The working-age-group of inactive but not retired population is the last group to be referred. Students among them appeared to be the less impoverished one – 22.0%, compared to 28.4% for other inactive participants. However, despite the fact that the poverty level for this group has had a declining trend, mainly due to increase of family benefits and other social transfers and remittances, in 2009 it faced an increase compare to 14.6% in 2008..

Human capital status is another factor influencing poverty. Highly educated people in Armenia had the lowest poverty incidence - around 49% lower than the national average for population over 16 in 2009, and around 64% lower than those with only primary or lower education. Dynamics of poverty reduction shows that poverty reduction among people 16 years and older with higher and middle vocational education was faster – between 1999 and 2008 that reduction comprised 4 times and 3 times respectively and although the poverty rate rose in all groups in 2009, still people with low educational attainment were at higher poverty risk. The poverty risk for people with elementary and incomplete secondary education was much higher than the national average – 46.4% and 45.4% respectively.

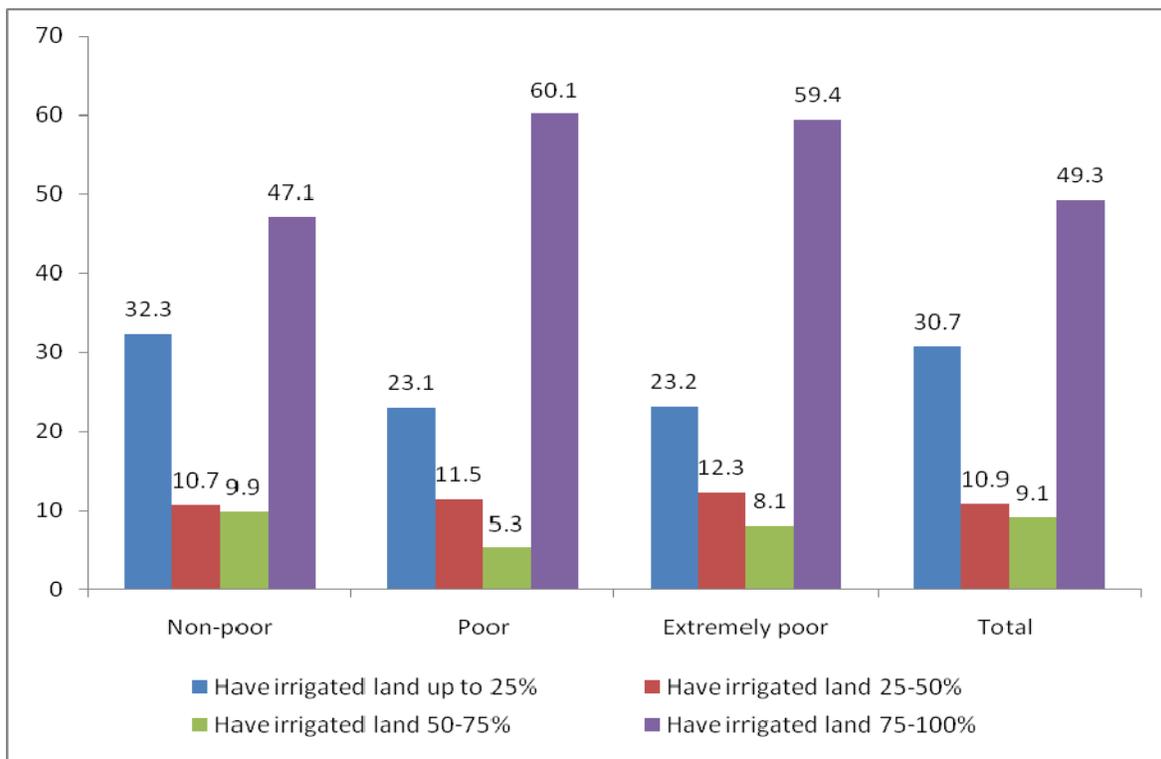
Landlessness and poor quality (including non-irrigated) land is a crucial determinant of poverty in the country, since, as already was mentioned, the subsistence agriculture plays an important role in assuring labor income for rural and for many urban households. The poverty level among landless in 2008 comprised 30.5% compared to only 22.9% for all rural population and only 19.9% among

¹⁴⁴ NSS of RA www.armstat.am ; "Social Snapshot and Poverty in Armenia", 2011, page 50.

those owning one or more hectares of land. The extreme poverty level among the landless was 1.6 times higher than the rural average.

The quality of land also has an essential impact but the statistics doesn't provide relevant information, therefore the possibility of watering is regarded as an indicator of quality of land. Irrigation is one of the watering methods. According to the 2008 ILCS results, the land of 58% of households was irrigated. Meanwhile, the share of irrigated land accounts for only 25% of all cultivated lands. About 60% of both poor and extremely poor families own mainly irrigated land, while among non-poor families only 47.1% owns mainly irrigated land (see the Figure 3.2.2 below).

Figure 3.2.2 Share of Irrigated Land by Poverty Level, 2008*



Source: NSS of RA www.armstat.am Publications: "Social Snapshot and Poverty of Armenia" 2009, p. 52.

* The 2009 data do not provide such information; as the farming stays one of the main strategies to cope with poverty, the statement above has preserved for 2009 as well.

3.3 Non-monetary Poverty

Human poverty is not limited to low levels of income and consumption, although levels of income and human poverty are often strongly correlated¹⁴⁵. There are many dimensions of well-being, such as education, health, life conditions, and many other factors that contribute to the state of poverty. *If consider the deprivation as poverty by living conditions, than Armenia currently has no calculated poverty line by conditions of life. However, there are measures indicating how different aspects of life condition deteriorated or improved.*

Armenia, like other transition countries, inherited relatively well-educated and healthy societies. The level of human capital in Armenia was quite high by international standards: there was nearly

¹⁴⁵ A comprehensive analysis of human poverty issues in Armenia is done in UNDP/Armenia report "Human Poverty and Pro-Poor Policies in Armenia": <http://www.undp.am/docs/publications/2005publications/propooreng.pdf>

universal literacy, infant mortality was low, and life expectancy was high. None of these indicators of well-being has shown any tendency to decline during the first ten years of transition. There are, however, some worrying signs of deterioration and risk of lower and less evenly distributed levels of human capital in the future.

Historically, *access to education* has been quite equitable in Armenia. Strategically, the country counts on its human capital as key to its social and economic development. Changes associated with transition have presented the educational system with a number of challenges. The public resources allocated to education have declined from 7%-9% of GDP in the late 1980-s and early 1990-s to 2% in the late 1990-s and comprise 3.5% of GDP for 2009's GDP. Although private household expenditure on education is as much as public expenditure (2.7% in 2007 – last published data available), this spending is highly uneven across the income distribution. Households in the richest quintile in 2009 consumed 31.1 times more education services than households in the poorest quintiles. Moreover, the situation has worsened compared to 2008, when the indicator comprised about 28 times. According to the ILCS data the situation has deteriorated compared to 2004, when the indicator comprised 7.1 times.¹⁴⁶ The share of education expenses in the total consumption of the population by quintile groups in 2009 suggests: average expenditures on education for the poorest quintile comprised 0.6% compare to 5.5% for the richest quintile. The expenditures on education services of the top quintile were 3.6 times higher than the average consumption.

The decline in public resources for education, along with uneven distribution of private spending across households, jeopardizes the tradition of universal educational access. Already, enrolment rates have begun to fall. For instance, primary school enrolment was nearly universal during the Soviet period, but fell to 95.5% in the 2008/2009 academic year. Even for public education, households face expenses such as transportation and food, which may place the cost of education beyond the means of poor households.

In addition to inequality of access, the quality of education is becoming unequal as well. The ability of relatively wealthy households to pay for extra educational costs, and more importantly for extra tutoring, also places their children at an advantage in entering more prestigious schools. Differences in access to *good quality education* between richer and poorer households and between urban and rural areas are significant. Richer households have more access to better education, training, and complementary school programs than do poor households. Students from better off households are more motivated to learn and have better access to learning tools at home (such as computers). All these factors are ultimately reflected in better school performance of richer students. Lack of proper infrastructure and resources at the school level constitute a more relevant constraint within the compulsory education system than lack of human resources.

Health status is an important prerequisite for the prosperity of households and influences the perception of households of their own socio-economic status. Households having a sick member are more likely to perceive themselves as poor than similar households with no sick members. These perceptions objectively reflect the accessibility and quality of the services actually received. Health services in Armenia are expensive and costs are mostly borne by households themselves.

There has been a dramatic decline in the share of public spending allocated to the health care system. Over the 1990-s, public spending on health fell from 7.2% of the national budget in 1991 to just 1.3% in 1999. In the 2000-s, the share of spending on the health care system in total public spending increased essentially and comprised 6.2% in 2008 and 6.0% in 2009¹⁴⁷. However, general government expenditure on health as percentage of total expenditure on health was in 2008 – 38.9% compared to 17.7% in 2000 (see Chapter 5 on Health and LTC).

¹⁴⁶ NSS of RA www.armstat.am "Social Snapshot and Poverty in Armenia", 2010, page 187; report for 2004, page 151.

¹⁴⁷ "Consolidated State Budget Indicators" www.minfin.am

Despite little public funding, Armenia has managed to ensure good healthcare indicators: in 2009, life expectancy at birth has improved since the early 1990-s, comprising 70.6 years for men and 77 years for women vs. 67.9 and 73.4 years respectively in 1990.

According to the official statistics, in 2009 there was a decline in infant and maternal mortality. Infant mortality rate was 10.4 per 1000 live births in 2009, compared to 18.5 per 1000 live births in 1990. Mortality rate among children under five in 2009 per 1000 live births was 13 for boys and 11 for girls, compared to 26 and 21 respectively in 1990. The ratio of maternal mortality per 100000 live births was 27, compared to 40 in 1990¹⁴⁸ (see Chapter 5 on Health and Long-Term Care).

Along with the decrease in public spending, the accessibility of health care and utilization of the health system has clearly suffered, particularly in rural areas and among the poor¹⁴⁹. The data from 2009 ILCS prove that only 30.5% who reported being sick consulted a doctor for advice or treatment. Among those people who consulted a doctor the share of living in Yerevan was 36.2%, those living in other cities and towns was 33.5%, and in rural areas was 22.2%. The share of people consulting a doctor also varied by level of poverty: 35.3% of non-poor consulted a doctor for advice or treatment, 21.4% of poor and 1.2% of extremely poor did so.¹⁵⁰

According to the ILCS data, in 2009 health expenditures account for, on average, 6.4% of the total nonfood consumer expenditures among households that received medical assistance and have declined compare to 7.1% in 2008. In 2004 health expenditures on average accounted for slightly less than half of total nonfood consumption among households using health services. Even though the situation in terms of private household spending on health improved during 2004-2009, average spending on health still constitutes a heavy burden, especially on the poorer users. Consequently, it becomes a key cause of low utilization rates among the poor.

The type and quality of health care received also varies depending on income. A pattern has emerged in which the poor rely much more heavily on polyclinics and the wealthy rely relatively more on private physicians. 2009 ILCS data suggest: the poor and extremely poor were more likely to visit polyclinics (61% of poor and 75% of extreme poor) than non-poor (57%), in 2005 the indicator comprised consequently 69.8%, 95.0% and 70.2%.

The inequality in access to health care is not exclusively a function of private expenditures. Due to significant out-of-pocket expenses even at public institutions, the poor tend to seek out health care much less frequently.

Housing: the earthquake in 1988 and armed conflict with Azerbaijan in the early 1990-s destroyed most of the housing stock in the affected areas. Local residents and internally displaced persons, as well as refugees from Azerbaijan, were placed in temporary shelters, or crowded the dwellings of the people who hosted them. This, in parallel with years of neglect and lacking maintenance deteriorated the housing stock enormously. Once the economic situation started improving and more resources became available to government and people, housing underwent gradual rehabilitation.

Although most of the households in Armenia (92% in 2008, 90.7% in 2009) live in their own homes (in 2004 the indicator comprised 91%), the overcrowded housing condition is a problem for Armenia, particularly in urban areas, and is much more common among the poor. In 2009, on average indicator 2.6 occupants per room, the extent of density considerably differed by level of poverty: 3.12 occupants per room for the poorest quintile and 2.02 in the top quintile. Although rural

¹⁴⁸ NSS of RA www.armstat.am Publications: "The Demographic Handbook of Armenia" 2010, Part 5 Mortality.

¹⁴⁹ In Armenia, a package of basic health services (basic benefit package - BBP) is available to certain social groups defined by Law for a small co-payment. For those households that are benefiting from the family poverty cash assistance program with vulnerability score exceeding 38 the BBP is free of charge. The list of services is limited and reflects a small amount of public resources allocated to the health sector. Services outside the package are provided on a fee for service basis.

¹⁵⁰ NSS of RA www.armstat.am "Social Snapshot and Poverty in Armenia" 2010, page 121.

households are in better situations than urban ones in terms of living space, the housing conditions, such as having a kitchen, a bathroom, in-house water supply, an operational sewage system, in urban areas are better. The 2009 ILCS data suggest that 72.1% of households in urban areas reported having all the conditions mentioned, while in rural areas only 13.3% of households had these amenities available; in 2004 the indicators were respectively 70% and 8%¹⁵¹.

According to the results of self-assessment only 62.2% of households in 2009 rated their dwelling conditions satisfactory (55.9% in 2004). The poor and extreme poor households in the lowest consumption quintile were much less satisfied with their dwelling than the non-poor. Among the lowest consumption quintile 38.1% assessed their dwelling as bad or very bad compared to 12.9% among the top quintile (60% and 20% respectively in 2004). Poor and extremely poor households are more likely to reside in a substandard dwelling. While on average 25.8% of the Armenian households were not satisfied with the size of their dwelling, this percentage was 29.2% among the poor and 34.0% among the extremely poor. Most of the non-poor families complained about poor waste management, lack of heating, and poor water supply, while the poor and extremely poor households most frequently complained about lack of heating, humidity, and poor waste removal.

Access to safe drinking water, to sewerage system, heating and availability of durable goods are indicators describing the conditions of life as well. Although there are improvements in the areas mentioned, the improved measures do not always reflect the improvement of real conditions. For instance, there has been improvement in access to centralized water supply (97.5% in 2009 compare to 88.9% in 2004), but this is not always guarantee a proper water supply: in 2009 only 48.3% of households with centralized water supply reported to have water 24 hours a day (the situation has improved compare to 33.6% in 2008). The situation in terms of access in urban-rural areas is about the same.

The access to centralized sewerage system has also increased (61.6% in 2004, 66.8% in 2008 and 69.1% in 2009). However, the differences in urban-rural areas in this term has been and still remains large: in Yerevan 96.8% of households in 2009 had access to centralized sewerage system, in other urban areas – 89.9%, in rural areas – 21.4%. The issue is of great importance from the perspective of public health, as the absence of adequate sewerage system affects the sanitation and disease situation in the area.

3.4 Inequality and its Social Impact

Before independence and the transition to a market economy, Armenia was a remarkably equitable society: the Gini coefficient for the distribution of income was just 0.25¹⁵². During the transition, inequality increased and the estimates from *1996 household survey suggested the Gini coefficient for income became as high as 0.59*. According to the results of a household survey conducted in 2001, a high level of polarization was still maintained, although it has been considerably reduced when compared with 1999: Gini coefficient by current income dropped to 0.535, also the top deciles of population (or the richest 10% of population) received 41.8% of all income and the bottom deciles received just 0.8% of total income¹⁵³.

All these measures point to the same conclusion: in the 1990-s and early 2000-s, income inequality in Armenia was extremely high. Measured by the Gini coefficient, Armenia's income inequality was among the highest for transition countries of similar per capita income levels. In 1998, Gini coefficient for income in Armenia was registered at the level of 0.57 while in Georgia and Moldova it was 0.41, in Kyrgyzstan it was 0.44, and in Tajikistan it was 0.47¹⁵⁴.

¹⁵¹ NSS of RA www.armstat.am "Social Snapshot and Poverty in Armenia" Statistical Analytical Report (years: 2005, 2006, 2009, 2010).

¹⁵² WIDER, World Income Inequality Database.

¹⁵³ NSS of RA, www.armstat.am "Social Snapshot and Poverty of Armenia" 2002, page 192.

¹⁵⁴ Armenia Poverty Update, World Bank, 2002, page 116.

Although income inequality in the late 1990-s was higher, the consumption inequality was relatively low, indicating that the population polarization in Armenia was deeper in income distribution as compared to consumption: Gini coefficient by current expenditures comprised 0.344 in 2001 (vs. 0.0372 in 1999). The series of 2004-2009 households' surveys prove that this trend is still preserved: *in 2009 the income inequality was at 0.355 while the consumption inequality is much lower – 0.257*¹⁵⁵.

Due to the continuous economic growth recorded in 1998-2008, the level of poverty was reduced by more than 2.3 times while the level of inequality declined by less than 1.5 times. However, in 2009 there was a registered increase in inequality when compared to 2008: the income inequality increased by 4.7% and the consumption inequality by 6.2%. Inequality, along with a number of its manifestations, introduced certain negative changes in Armenian society. Studies on poverty and inequality in Armenia revealed that rapidly spreading mass poverty and the high level of inequality recorded throughout the 1990-s resulted in significant social losses such as deepening stratification and polarization of society, destruction of traditional social capital, and formerly built social networking, which is considered by experts¹⁵⁶ as main preconditions of the existing:

- a. lack of trust in public administration by the people, especially its poorer groups;
- b. alienation of the majority of the public, including the poor, from political decisions, not least due to lack of awareness and social exclusion.

This is reflected, first of all, in the high level of shadow economy accompanied by corruption and emigration of working-age population.

On the other hand, the low consumption inequality compared to income inequality creates people's lower subjective perceptions on level of poverty. In Armenia, poverty estimates based on personal judgment of individuals regarding their own welfare tended to be lower than poverty estimates obtained using consumption per adult equivalent as an objective welfare measure. If in 2008, only 2.3% of those surveyed assessed themselves as extremely poor, compared to 3.1% when measured using consumption per adult equivalent, in 2009 self-perception of being poor has increased – 2.9% and 3.6% respectively. Similarly, 15% (14.7% in 2008) in 2009 thought they were poor (not including the extremely poor), compared to 30.5% (20.4% in 2008) based on consumption per adult equivalent. Normally people's perceptions of their own welfare are based on comparison of their income and welfare state either with other households or with what they had prior to the current state.

3.5 Government Policy

In 2000, in order to combat poverty and identify challenges and priorities hindering Armenia's development processes, the Government of Armenia initiated a participatory process for the development of a poverty reduction strategy (see Annex 3.4). The Interim PRSP was adopted in 2001, and the full-fledged PRSP-1 in 2003. The target for the PRSP-1 was to channel the public resources growth to social sectors reforms by aiming at the reduction of poverty and income inequality. The increased public spending on social services and benefits combined with a growing stream of private transfers from abroad resulted in a significant reduction of poverty in Armenia, which was reduced from 34.6% in 2004 to 23.5% in 2008 and 28.7 in 2009 while the incidence of extreme poverty decreased from 6.4% in 2004 to 3.1% in 2008 and 5.2% in 2009¹⁵⁷. The indicators for 1998/1999 and 2003 comprised respectively: poverty - 56.1% and 35.5%, extreme poverty - 21.0% and 7.4%. Conversely, in order to compare poverty indicators between 1998/1999 or 2003

¹⁵⁵ NSS of RA, www.armstat.am "Social Snapshot and Poverty of Armenia" 2009, page 44. Report for 2010 – page 52.

¹⁵⁶ UNDP and the Government of RA Paper "Human Poverty and Pro-poor policies in Armenia"; Yerevan, 2005.

¹⁵⁷ Here the indicators for 2009 are recalculated according to 2004 methodology.

and 2008, one should take into account that the poverty measurement methodology essential change in 2004 (see Annex 3.1 and 3.2).

Despite essential achievements, poverty remains an issue for Armenia. The fundamental priority for poverty reduction in the country was and still is to promote a rapid sustainable growth path for the economy and assurance of accessibility of all members of society to that growth through effective and inclusive social policies. The avoidance of long-term poverty and exclusion of the most vulnerable members of society requires strengthening the reform of social assistance and, in particular, improving targeting and outreach.

Setting up the aforementioned fundamental priority for poverty reduction, the Government of Armenia, in its “Sustainable Development Program” (SDP, 2008)¹⁵⁸, shifted the direction of its pro-poor policies towards preservation and development of human capital. While a reformed social assistance system¹⁵⁹ in Armenia provides a regular monthly proxy means tested family benefit to families living in extreme poverty and serves as a tool to reduce the poverty, in the long run the socio-economic policies should be directed towards the prevention of poverty as a multidimensional phenomenon. This approach is fully in line with the principal of social cohesion, since the redistribution function of the state aims to ensure the equal access to education and healthy labor in the market. In other words, the aim is poverty eradication rather than reducing the number of poor.

Social transfers: The largest and most important components of social policy in Armenia are social transfers. Despite the fact that expenses for social transfers from the state budget are very limited, they contribute considerably to poverty reduction and their importance does not decrease parallel to decrease of poverty in country. Due to redistributive and social assistance mechanisms, such as social transfers, including pensions and FB-s, poverty has essentially declined in the country. If social transfers were to be terminated, poverty in 2009 would increase from 34.1% to 51.7%; impoverished people would become poorer since the poverty gap would increase essentially – from 7.8% to 21.1%¹⁶⁰.

The social transfers are much more crucial in terms of extreme poverty reduction since, without social transfers, extreme poverty would have increased from 3.6% to 20.4% in 2009. In other words, the decrease of extreme poverty basically depends on the increase of the social transfer and efficiency of targeting. From the perspective of reducing poverty the FB system plays the most essential role: its importance is more significant for many vulnerable families. If family benefit was not paid in 2009, extreme poverty would have increased 3.8 times while in the case of non-payment of family benefit in 2007 extreme poverty would have increased by 43.3%, in 2006 – by 41.4%, in 2005 – by 35.2% and in 2004 – by 22.0%¹⁶¹.

The dynamics of poverty reduction impact of social transfers on households that reported receiving pensions and/or social assistance is described in the table below.

Table 3.5.1 Extreme Poverty and Poverty Levels Before and After Receiving Social Transfers, 2004-2008

¹⁵⁸ The drafting of program started in 2006 as a PRSP-2 preparation process, which was supported by key donors – the WB, UN Agencies, GTZ and others. The Coalition of NGOs was established to discuss the poverty-related issues and to make inputs to the policy formulation process. As a result of 2-year professional discussions and public debates the title of program was changed into “Sustainable Development Program”, which the Government adopted by its Decree N1207-N dated on 30 October 2008.

¹⁵⁹ Prior to 1999, the Armenian social assistance system comprised 26 small, uncoordinated categorical benefits in cash. In January 1999 in Armenia the old system was replaced by a targeted cash poverty family benefit. The benefit is awarded to eligible households (not individuals). The new system introduced a proxy means tested targeting mechanism, where household are ranked based a single index formula that includes individual and household indicators (for details see the chapter 2).

¹⁶⁰ NSS of RA www.armstat.am Publications: “Social Snapshot and Poverty in Armenia”, 2010 pages 139 and 141.

¹⁶¹ NSS of RA www.armstat.am Publications: “Social Snapshot and Poverty in Armenia “ 2010, page 142.

	Extremely poor (%)						Poor (%)					
	2004	2005	2006	2007	2008	2009	2004	2005	2006	2007	2008	2009
	Household receiving pensions											
Post-pensions	7.1	5.2	4.9	4.2	3.7	4.5	36.6	33.3	29.3	27.1	25.8	37.7
Pre-pensions	19.1	17.6	13.7	20.5	29.0	31.2	53.2	50.4	38.8	40.1	51.9	67.5
	Households receiving social assistance											
Post-social assistance	10.0	7.6	8.6	6.9	5.6	6.0	45.4	41.6	44.4	35.3	36.7	45.2
Pre-social assistance	21.9	24.1	25.3	23.7	27.2	23.3	58.8	53.6	52.6	42.7	53.5	61.6
	Households receiving family benefits											
Post-FB	9.9	7.9	8.5	7.9	6.3	7.9	47.1	46.0	47.5	34.8	42.1	53.7
Pre-FB	22.0	26.9	27.5	27.2	31.3	30.2	61.4	59.5	55.7	48.3	60.5	73.0

Source: NSS of RA www.armstat.am Publications: "Social Snapshot and Poverty in Armenia (Statistical Analytical Report), 2009, page 167; Report for 2010, page 143.

The importance of social transfers, especially FB, is underlined while looking at the marz picture: the influence of FB was, and still is, significant for Tavush, Gegharkunik, Vayots Dzor, and Shirak Marzes. FB is vital for both the poor and extremely poor. Non-payment of FB will lead to an increase of general poverty in Gegharkunik marz for about 33%, 10% in Tavush, Vayots Dzor and Lori marzes, by 8% in Shirak (see: Subchapter 3.7, "Tables, Table 3.8).

Transfers clearly have a place in any poverty reduction strategy and some of the most vulnerable groups with the highest rates of poverty (like young children and the elderly or female-headed households with school age children etc.) have few economic opportunities of their own and certainly need assistance. However, transfers alone will not solve Armenia's poverty issue: even with perfect targeting, just to bring the consumption of every poor person up to the poverty line would require additional large scale transfers, which is unlikely to be politically feasible. Moreover, they would not address the fundamental causes of Armenia's poverty: the lack of employment opportunities and low productivity. *That is why stable and high rate economic growth with its constantly improved quality is considered by the Government as the key mid-term objective.* However, the challenge is not only to link growth to productive employment, or "decent work", but also to ensure that the growth in employment is concentrated among poorer workers.

Social services: The main priority of the human development strategy, according to SDP, is the advanced development of fundamental social services, in particular education and healthcare through increase of their efficiency, quality and accessibility. Within the mentioned sectors *general education and primary health care* are regarded as priority directions for continuous complex reforms through essential increasing of public financing. In particular, in comparison with 2006, the public expenditures in education, as share to GDP, are envisaged to increase by 1.8 percentage point - by 2021 getting to 4.5% of GDP. It is planned that in 2021 the public expenditures in health sector will make 3.5 % of GDP as opposed to 1.5% in 2006. However, little improvement has been made towards meeting the goals. In 2009, the public expenditure, as a percentage of GDP, comprised 3.5 % in education, 1.8 % in health, and 7.9 % in social protection, practically staying at the 2007 level. It should be considered that the year 2009 was hard for Armenia -the country was deeply hit by crisis – 14.5% decline in GDP was registered, and to meet the goals was not practically possible. In all three areas the public spending comprised around 85-90% of what was planned. As the economy showed signs of recovering in the first half of 2010, and if it persisted, the country could have directly increased financial resources directed to the development of human capital, *SDP envisaged targets: to get the material poverty level to 8% in 2012 thus mostly overcoming it and to bring the level of extreme poverty to 1.2% thus practically eliminating it.* Moreover, it is intended, by 2018, to establish a new poverty threshold for poverty measurement at the national level, which will be equal to the minimal consumption basket (see Annex 3.3).

Territorial development: Targeted territorial development policy¹⁶² to mitigate the territorial discrepancies in poverty levels and disproportions of poverty profiles in the capital-city, small and medium-sized towns and rural areas, is the other key priority of SDP for the forecasted period. In 2021, the expectation is to reduce poverty levels (including extreme poverty) in Yerevan to 3.2% (0.4%), in other towns of the country to 8.1% (1.5%), and in rural areas to 9.1% (1.6%), respectively. The targets could be met if new job creation, as a tool of reducing income inequality and poverty, could be boosted through the simulation of private sector investment and SME development support especially in regions.

3.6 Key challenges

Although Armenia achieved impressive poverty reduction between the early 2000-s and 2008, large proportion of Armenians still live below the poverty line and the magnitude of disparities in the living conditions of the population across various geographic areas and social categories remain large. Moreover, the global economic crisis seriously threatens the economic growth and poverty reduction achievements of Armenia in recent years.

Due to the global financial crisis the Government has been forced to adjust its budgetary policy and to revise the schedule of achievement of some social targets that were constituted in Sustainable Development Program. Accordingly, the deadlines of social protection programs approved in the Medium Term Expenditure Framework (MTEF) for 2009-2011 also were moved at least 3-4 years later. Among those postponed programs are: the every-year targeted increase of social and basic pensions, the business-support programs for unemployed disabled and women, the youth professional orientation, career-counseling and vocational training programs, the creation of healthcare-boarding-houses for old and others. Even the family benefits state program was essentially reviewed towards restricting the eligibility conditions.

The largest challenge for the appropriate implementation of further restricted social policies remains the wide-spread corruption and poor quality of state social services. Many studies conducted in the country¹⁶³ proved that the poor and vulnerable people do not apply for state social services because of lack of confidence in their effectiveness and unbiased attitude to the people in need. On the other hand, many unemployed job seekers, realizing the severe tension in the labor market started to apply for granting of a disability status and for receiving a disability pension. Thus, from 2008 to 2010, the total number of disability pensioners increased by one-third – from 120 to 180 thousand. Instead of financing social inclusion programs for people with disabilities the government was obliged to increase its social security expenditures on disability pensions.

Unequal economic opportunities and differences in regional development should be considered as the next important challenge in overcoming poverty through implementation of inclusive social policies for the people living in small towns and villages. Unemployed youth, women, and especially people with disabilities are much more vulnerable if they live out of capital-city. Absence or insufficiency of economic and social infrastructures, scarcity of professionals dealing with their problems, poor social network, etc., creates severe problems for the mentioned socially disadvantaged groups in the labor market.

In addition, the heavy dependence on external financing and remittances from overseas will likely mean that the global financial crisis will have a significant impact on Armenia's ability to sustain the very high growth rates necessary for further reductions in poverty rates.

¹⁶² According to estimates the share of capital-city Yerevan in Armenian GDP has grown from 42.1% in 1999 up to 57.2% in 2006, or on average 4.3% annually. The SDP forecasts that the Yerevan's share in GDP will continue to grow, but at lower speed - around 0.5% percentage point per annum - reaching 63.2% in 2015, after which it will be stabilized and in the long-term it will go down.

¹⁶³ See: "The poor do not apply for the family benefits" report (in Armenian) prepared by the Social-Economic Analysis Center (SEAC) in 2010.

Thus, the challenge for Armenia is to not only prioritize but also go further in implementing social inclusion policies that will contribute to the reduction of poverty and inequality among vulnerable social groups. Ensuring equally accessible quality health, education, and social services to social groups of the population is critical for the country.

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Annexes

Annex 3.1 Historical review

In the early 1990-s the government, in cooperation with scientists of academic institutions and interested donor organizations, initiated think-tanks on how to define and measure poverty, taking into consideration existing gaps in socio-economic indicators, absence of reliable demographic data, as well as poor local capacities in developing and conducting nationwide household surveys.

The first attempts at measuring poverty were based on household surveys data, were done in 1992-1993 by Yerevan State University (Faculty of Sociology project funded by the WB) and in 1994-1995 by a group of independent experts (SEPRA project funded by USAID). These revealed an immense scope of methodological problems that questioned the results of survey. It became clear that the government of Armenia could not use this data either as an official source of information or as a basis for estimating the poverty level in the country.

In the mid 1990-s the government requested the World Bank’s support of the National Statistical Service (at that time – the Ministry of Statistics, Analysis and State Register) in developing a comprehensive methodology for poverty assessment in the country. The WB methodology of Living Standards Measurement Survey (LSMS) was introduced in 1996 for conducting the nation-wide 5,000 households’ survey, the data of which served as a basis for poverty assessment. The first

official launching of levels of poverty and inequality in Armenia was done in November 1997 (preliminary data) and in May 1998 (final report).

Nowadays, the main official source of obtaining information on poverty in Armenia is Integrated Living Conditions Survey (ILCS) that was first carried out in 1998/99 and annually since 2001. These surveys were conducted during the year with monthly rotation of households and settlements. The survey results serve primarily to assess the level of consumption-based poverty in the country.

Beginning in 2004, an improved ILCS was launched: (i) the sample frame for the Integrated Living Conditions Survey was updated using the 2001 Population Census data; (ii) the sample size was expanded, so as to make the ILSC representative at the regional (marz) level; (iii) the ILSC questionnaire was revised to account for economic and social changes since 1998/99, and an extensive labor module was added to the survey. Due to these changes direct comparison of data between 2008 and 1990-s is not always possible.

In 2009 the new updated poverty assessment methodology was implemented in Armenia. In comparison to above mentioned 2004-2008 methodology, the 2009 adjusted methodology has the following features: (i) the new minimum food basket has been introduced, which reflects changes in the consumption structure during the period 2004-2008; (ii) proportion between food and non-food products and services were also adjusted. The newly defined food basket has been used for estimating the extreme (food) and total (lower and upper) poverty lines: a transition from two to three –tire assessment of poverty.

Annex 3.2 Equivalence scales and household size economies¹⁶⁴

As the survey data are collected throughout the year, there is a need to adjust consumption from different quarters for inflation. Furthermore, regional price differences can distort the measure of well-being, as consumption is a good measure of well-being only if higher expenditures mean higher consumption or consumption of better quality goods. This is not the case when higher levels of consumption are caused by higher prices. Therefore, those regional price differences are adjusted as well.

Equivalence scale takes into account differences in consumption between adults and children. It is supposed that consumption needs of young children are less than those of working-age adults. Furthermore, households' size economies take into account that some of household expenditures are shared between household members (i.e., expenditures on housing, utilities, car, newspapers, etc.). Therefore, since 2004 the NSS RA is using equivalence scale coefficient of 0.87 and coefficient of households' size economies of 0.65 estimated at that year.

Equivalence scales

The Engel method is used to estimate equivalence scales of children as compared to adults. This method estimates the cost of children as the compensation necessary to bring the household well being—measured by the *share of food consumption* - back to its original level (without children).

For a household composed of an adult couple, the equivalence scale parameter represents the ratio between the budget with an additional child and the original budget in order to keep the food share constant. These estimates are presented in the table below:

Table A3.1 Equivalence scale for children aged 0-14, 2004

¹⁶⁴ NSS of RA www.armstat.am "Social Snapshot and Poverty in Armenia" Statistical Analytical Report, 2009, pages 145-147.

Consumption aggregate	National Equivalence scale E
1	1.737
2	1.704
3	1.631
4	1.643
5	1.645
6	1.549

Note: The equivalence scale E denotes the ratio of the household expenditures after the inclusion of an additional child, x_1 , to the household expenditures before the change, x_0 . That is, $E = x_1/x_0$. This is interpreted as required percentage increase in expenditures to keep the household welfare unchanged.

Household size economies

Following Lanjouw and Ravallion (1995) the size economies were estimated using a food share equation where, controlling for differences in household composition and other variables, an estimate of size economies can be made. The parameter θ represents the degree of scale economies in household consumption. If $\theta = 1$, no economies of scale are present and the use of *per capita* consumption is appropriate.

By using OLS regression estimates for θ for different definitions of the consumption aggregate were calculated:

Table A3.2 Household size economies

Consumption aggregate	OLS
	Mean (1)
1	0.710
2	0.756
3	0.790
4	0.743
5	0.710
6	0.874

The finding that relatively large-size economies are in food and clothing consumption must be taken with the following caveat. The parameter estimates for θ using the consumption aggregates 1 through 3 may be biased since a fraction of households have food shares equal to 1. Size economies in food consumption, however, are not new to the literature (Deaton and Paxson, 1998).

The full consumption aggregate shows that size economies are observed and are close to 0.87. It is assumed that a household size economy around 0.87 may be appropriate for Armenian households.

Estimating consumption per adult-equivalent

Consumption per adult-equivalent is obtained dividing household total consumption by the number of *adult equivalent members (EAI)*. Adult equivalent members are calculated using the above estimates of equivalence scales and size economies according to the following formula for household i :

$$EAI = (A_i + a C_i)^\theta$$

where:

A_i is the number of adults in the household,

C_i is the number of children,

θ is the scale parameter ($\theta=0.87$),

a is the cost of a child relative to an adult ($a=0.65$).

Children are individuals of age 14 and below.

Since 2004 these estimated parameters are used to express household consumption in per adult equivalent measure, hence avoiding changes in poverty indicators due to changes in those parameters.

Annex 3.3 Minimum Consumption Basket

In Armenia, as in many other countries in the world, poverty assessment is done based on household surveys - ILCS. Poverty is assessed through consumption (expenditure) method: the collected data is summarized as the aggregate of current consumption of households. The latter is then compared to the total poverty line – reference minimum levels of food and non-food consumption. Those households (or individuals), whose consumption levels are below the Poverty line, are considered poor (absolute poverty incidence), whereas, if the consumption is below the Food poverty line, the household is considered extremely poor (absolute extreme poverty incidence). Beginning in 1997, the NSS of RA quarterly calculates so called “life-supporting minimum budget” (LSMB) based on minimum daily norms of food basket with rational composition, meaning healthy proportions of fat, carbohydrate and protein, which was developed and recommended by the Ministry of Health of the Republic of Armenia. The total energetic balance of recommended food basket is equal to 2412 kcal per day per capita for adults. The monetary value (i.e. budget) of the aforementioned basket is calculated by using the average quarterly CPIs.

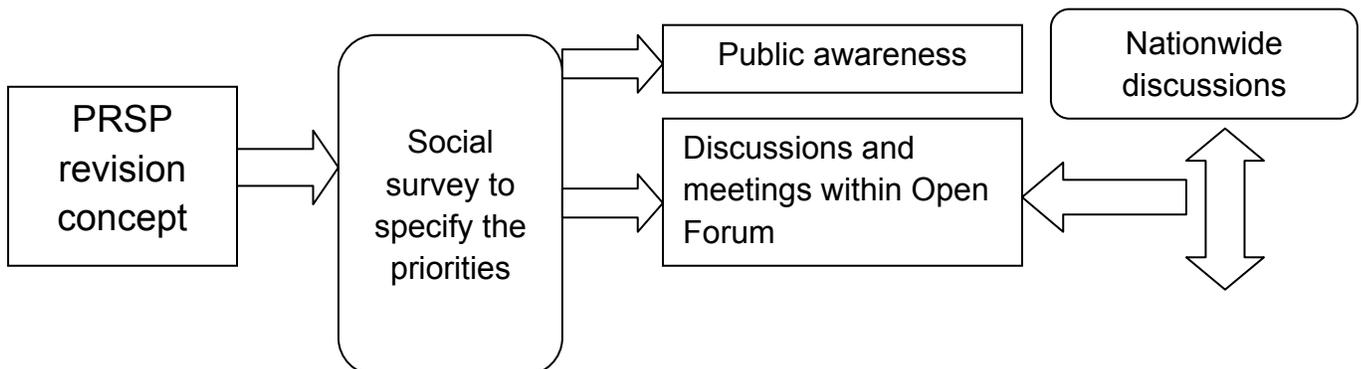
Annex 3.4 Participatory Processes in the Poverty Reduction Strategy Program (PRSP)

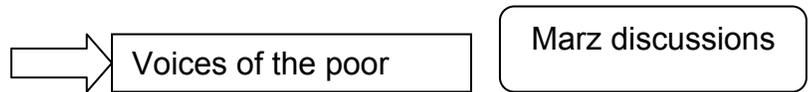
The objectives and mechanisms, to ensure the public participation and partnership in PRSP development, implementation and monitoring process, were established by PRSP implementation partnership agreement signed on October 30, 2004. The agreement stipulated the key objectives of the partnership; the rights and obligations of the parties, as well as institutional entities ensuring the partnership - Steering Committee, Working Group and Open Forum. The parties to the agreement were: RA Government, communities, Armenian Apostolic Church, trade unions, Union of Manufacturers and Businessmen, and five groups of NGOs. The agreement was signed for a period of three years and its validity period expired in 2007.

Within the scope of PRSP implementation process an efficient dialogue between various parties representing the public was launched and has deepened the confidence between the Government and the public. At the same time there are still great opportunities for further development of the partnership and its improvement.

During the meeting held on July 12-13, 2007 the opportunities to develop mechanisms of public participation in different phases of the participation (project development, implementation and monitoring) were discussed and, based on the results of the discussion, the further steps to develop the social partnership were identified. Later, during the Working group session that took place on September 14, 2007, a responsible expert group was formed and the possible revision of the partnership agreement provisions were considered.

The mechanisms to ensure the PRSP revision participatory process is the following:





The PRSP participatory process involved the representatives of all social groups, including central and local self-government bodies, NGOs, trade unions, business community and donor organizations. The process helped to achieve both qualitative and quantitative results.

The main objective of the program was substantial reduction of the material poverty and very high level of income inequality in Armenia. With regards to human poverty reduction the program was aimed at: maintenance of the present human potential and its further development, reduction of the human poverty expressions, improvement of the population health, reproduction potential and welfare level, including increase of the accessibility level of the general education and health service quality, reduction of infant and maternal mortality rate, improvement of the quality and accessibility of drinking water, and other primary services.

From the poverty reduction perspective the provision of stable and poverty reduction oriented economic growth, as well as maintenance of such growth, is a key priority.

The implementation of the targeted social policy was the second main strategic priority of PRSP. The key priority underlying the human development and the human poverty reduction policy remains the implementation of targeted social policy, the progressive development of the major social services, in particular education and health, which may be ensured through the increase of their efficiency and accessibility.

The efficiency of public governance at all levels, including the development and consistent implementation of anti-corruption strategy, the increase of public participation in the decision making process through enhanced public awareness, development of social partnership, social inclusion and social participation, is another concern that is faced by country today.

It should be mentioned that most of the target indicators of PRSP-1 in 2003-2006 can be considered as surpassed, with the rate varying within the interval of 1 -10 years. At the same time, in relation to a number of indicators the targets of PRSP-1 have not been achieved. In particular, together with the progressive growth of public revenues, the proportion between the average pension and average salary (in 2006 it was 17.9% instead of 26.3% projected by PRSP-1), as well as the size of per capita family benefits envisaged by PRSP-1 were not achieved.

Annex 3.5 Measuring the Poverty in Armenia: Methodological Explanations

In Armenia, as in many other countries in the world, the poverty assessment is based on household surveys through which data on income, expenditure, and other parameters are collected.

In order to assess poverty through consumption (expenditure) method, the collected data is summarized as the aggregate of current consumption of households, which then is compared to the total poverty line. Those households (or individuals), whose consumption levels are below the Poverty line, are considered poor (absolute poverty incidence), whereas, if the consumption is below the Food poverty line, the household is considered extremely poor (absolute extreme poverty incidence).

The main source of quantitative measurement of poverty and its various dimensions in Armenia is the “Integrated Living Conditions Survey” (ILCS) carried out by the National Statistical Service of Armenia (NSS): the official estimates of poverty in the country are done based on the data obtained from the mentioned survey.

The methodology of ILCS is declared to be consistent with the international practices and the World Bank periodically assists the NSS in terms of improving and developing the methodology to bring it closer to current international standards as much as it is possible.

A consumption aggregate is used to approximate well-being in Armenia. It is assumed that consumption is better declared and is less sensitive to short-term fluctuations than income, especially in transition countries. The consumption aggregate comprises the following components: (i) the value of food and non-food consumption including consumption from home production, as well as aid received from humanitarian organizations and other sources; and (ii) the rental value of durable goods.

Food consumption includes food consumed at home and outside the home (i.e. in restaurants etc.) and in-kind food consumption such as own food home production, food gifts and in-kind transfers, as well as humanitarian food aid.

Non-food consumption comprises the following categories: alcoholic beverages and tobacco, clothing and footwear, household goods, transportation, utilities, recreation, education, health, and the rental value of durable goods. It also includes in-kind non-food consumption such as non-food goods and services received free of charge (i.e., in-kind non-food humanitarian aid, gifts, non-food goods and services provided by the members of the household).

The value of in kind non-food consumption is estimated by households. Using monthly expenditure data, monetary values for expenditures on non-food items were estimated. Price adjustments for those groups were based on the official CPI for the corresponding quarter.

The rental value of dwelling—benefits for owner-occupied housing—is not estimated as a component of consumption due to the lack of data on housing transactions in Armenia.

Adjustments for regional and seasonal differences in prices: the nominal consumption aggregate was deflated using 2 dimensional price deflators (indices). Factors for price adjustments of food consumption, which takes into account price differences between quarters and between urban and rural areas, were estimated. The total consumption aggregate is then expressed in average annual national price levels.

Differences between 2004 and 2009 methodologies:

- The 2009 consumption aggregate is more accurate: it includes the cost of all food items from the diary and some small items such as salt pepper and so on;
- The estimation of per equivalent adult consumption takes into account the exact number of days of presence of each household member during the survey month;
- The Flow from durable goods is estimated slightly differently and it is simplified by taking into account that the age of durable goods possessed by the households are not available from 2009 Survey. The monthly value is estimated as the value of a new item divided by maximum life or life expectancy (in months) of particular item. The life expectancy of durable goods varies from 5 years for personal computers to 20 for cars;
- While in 2004 the components of consumption aggregate were deflated separately, in 2009 the total nominal consumption of household was deflated by a single aggregate price deflator. In 2009 the total nominal consumption aggregate was first calculated and it was deflated by an aggregate two dimensional price deflators for each quarter and urban/ rural locations. This price deflator was calculated using price data partly from household survey data and partly from the official CPI data. The difference of food basket's cost across the survey quarters and urban /rural locations were calculated based on survey food consumption data;
- The new poverty line was estimated based on latest available data of ILCS 2009.

Tables

Table 3.1 Dynamics of Poverty Indicators in 2004-2009 (%)

	2004*			2008			2009		
	Extremely poor	Very poor	Poor	Extremely poor	Very poor	Poor	Extremely poor	Very Poor	Poor
Urban areas				1.9	13.0	27.6	4.6	20.4	33.7
Yerevan				1.1	1.8	20.1	2.1	13.7	26.7
Other urban				2.8	18.2	35.8	7.4	27.9	41.5
Rural				1.2	11.9	27.5	1.7	19.4	34.9
Total	4.4	32.6	53.5	1.6	12.6	27.6	3.6	20.1	34.1
Gini coefficient of income correlation				0.339			0.355		
Gini coefficient of consumption correlation				0.242			0.257		

Source: NSS of RA www.armstat.am; "Social Snapshot and Poverty in Armenia", 2010, page 32.

* For consistency, the respective indicators were recalculated as per the methodology used in 2009. Not all indicators are recalculated.

Table 3.2 Poverty Measures by Marzes and Yerevan city, in 2008 and 2009 (%)

	2008			2009				
	Extremely poor	Very poor	Poor	Extremely poor	Very poor	Poor	Poverty gap	Poverty severity
Yerevan	1.1	8.1	20.1	2.1	13.7	26.7	5.4	1.6
Aragatsotn	0.5	7.0	20.3	1.6	10.4	25.4	4.6	1.2
Ararat	1.6	15.0	31.3	3.4	26.5	39.8	9.0	2.7
Armavir	0.7	11.0	24.5	3.7	17.9	31.3	7.3	2.3
Gegharkounik	0.4	11.1	32.0	2.2	19.5	40.4	8.2	2.2
Lori	2.8	17.9	34.2	7.7	29.2	41.7	11.5	4.1
Kotayk	2.1	20.2	39.5	6.6	30.9	43.0	11.3	3.8
Shirak	4.6	21.2	42.4	5.5	28.5	47.2	11.2	3.5
Syunik	1.3	11.5	20.3	2.2	11.6	23.4	4.7	1.3
Vayots Dzor	1.9	8.6	21.1	1.6	15.9	30.3	6.2	1.7
Tavoush	1.7	9.7	23.2	1.8	17.2	31.3	6.7	2.0
Total	1.6	12.6	27.6	3.6	20.1	34.1	7.8	2.4

* *The poverty gap* index indicates how poor the poor people are, i.e. how far a particular group is from the poverty line, on average. It is calculated as (the poverty line minus the total consumption per adult equivalent) divided by the poverty line, for those below the poverty line only.

** *The severity of poverty* indicator is used to measure the inequality of consumption among the poor (some poor people may have consumption close to the poverty line, while some may be far from it).

Source: NSS of RA www.armstat.am "Social Snapshot and Poverty", 2010, page 37.

Table 3.3 Dynamics of Poverty by Gender and Age Groups, 2008-2009 (%)

	2008		2009			
	Extremely poor	Poor	Extremely poor	Poor	Share of the poor	Share of the population
Gender						
Female	1.7	27.3	3.7	34.2	54.5	54.4
Male	1.6	27.8	3.6	34.0	45.5	45.6
Age groups						
Children 0-5	1.9	32.0	4.9	39.6	8.8	7.5
Children 6-9	1.8	30.3	4.6	40.5	4.0	3.3

Children 10-14	1.5	29.7	3.9	36.2	7.5	7.1
Aged 15-17	2.3	32.4	4.8	37.5	6.2	5.6
Aged 18-19	0.7	26.1	3.8	32.5	2.8	3.0
Aged 20-24	1.3	26.0	3.7	33.1	8.8	9.1
Aged 25-29	2.1	27.0	3.4	34.0	8.1	8.1
Aged 30-34	1.1	25.7	4.4	35.6	6.7	6.4
Aged 35-39	1.9	27.6	3.2	34.4	6.0	6.0
Aged 40-44	1.9	29.3	2.8	31.2	5.8	6.4
Aged 45-49	1.9	25.7	3.3	32.4	7.9	8.3
Aged 50-54	1.2	22.2	2.8	31.6	7.3	7.8
Aged 55-59	0.7	21.7	4.3	30.8	4.9	5.4
Aged 60-64	1.3	24.8	2.8	27.6	3.1	3.8
Aged 65 +	2.0	29.5	2.9	33.9	12.1	12.2
Total	1.6	27.5	3.6	34.1	100	100

Source: NSS of RA www.armstat.am "Social Snapshot and Poverty in Armenia", 2010, page 43.

Table 3.4 Poverty by Gender of Household Head, in 2004, 2008-2009 (%)

	2004		2008*		2009*			
	Extremely poor	Poor	Extremely poor	Poor	Extremely poor	Poor	Share of the poor	Share of the population
Male headed	6.0	34.2	1.5	26.6	3.3	33.1	72.6	74.7
Female headed	7.5	35.8	2.0	30.4	4.6	36.9	27.4	25.3
<i>Female headed, no children</i>	5.6	23.5	2.1	30.4	4.4	35.7	24.0	22.9
<i>Female headed with children</i>	8.3	41.3	1.4	30.9	6.5	48.5	3.4	2.4
Total	6.4	34.6	1.6	27.6	3.6	34.1	100	100

Source: NSS of RA www.armstat.am Publications: "Social Snapshot and Poverty", 2009 Statistical Analytical Report, page 40. Report for 2010, page 45

* 2009 methodology is applied.

Table 3.5 Poverty Rates, Gaps and Composition by Type of Household in 2009 (%)

	Child extreme poverty rate	Child poverty rate	Average (total) poverty gap	Poverty composition	Composition of all children
A	1	2	3	4	5
Number of children under (aged 0-18)					
1	2.7	30.5	6.7	17.2	21.5
2	3.3	34.2	7.7	43.2	48.2
3 or more	7.5	49.8	12.3	39.6	30.3
Age of the youngest child					
0-5	5.2	40.1	9.8	39.1	37.2
6-14	4.1	38.4	8.6	47.6	47.3
15-18	3.9	32.5	7.4	13.3	15.6
Number of adults (aged 19-60)					
None/1	1.8	29.3	6.1	7.0	9.1
2	3.1	34.9	7.8	43.2	47.2
3	4.7	41.1	9.8	22.9	21.3
4 or more	8.3	45.9	11.5	26.9	22.4
Number of disabled children					
None	4.4	37.7	8.7	97.9	98.9
One	13.3	69.8	19.0	2.1	1.1
Gender of household head					
Male	4.1	37.2	8.5	71.0	73.9
Female	6.1	43.0	10.8	29.0	26.1
Marital status of household head					

Married/cohabiting	4.4	36.7	8.5	66.8	70.3
Never married/widowed/divorced	5.2	43.3	10.4	33.2	29.7
Highest level of education of household head					
Elementary and primary	4.2	53.7	12.3	10.0	7.2
Incomplete secondary	9.6	53.0	13.8	13.6	9.9
Complete secondary	4.8	42.7	9.9	46.1	41.8
Specialized secondary	3.5	37.1	8.4	24.1	25.1
Higher	2.9	15.1	3.6	6.2	16.0
Employment status of household head					
Not working in the past 7 days	5.9	43.8	10.6	53.5	46.6
Working in the past 7 days	3.2	33.1	7.3	46.5	53.4
Proportion of adults (19-60)					
No adults work	9.9	46.1	12.6	17.8	14.8
Not all adults work	4.5	39.3	9.1	52.8	51.3
All adults work	2.5	34.7	7.2	25.2	27.7
Only adults work	0.7	25.3	5.4	4.1	6.3
Total	4.5	38.1	8.9	100	100

Source: NSS of RA www.armstat.am;

Table 3.6 Poverty Measures by Household Size, 1998/1999, 2004-2009 (%)

Number of household members	1998/1999	2004	2005	2006	2007	2008*	2009*
1	43.7	13.2	15.7	14.1	18.5	17.2	19.7
2	49.8	20.3	18.7	18.5	17.0	19.0	23.9
3	49.0	25.3	18.9	17.1	17.9	18.8	23.0
4	50.1	28.5	25.0	22.1	18.4	23.6	29.2
5	54.1	36.3	34.8	29.9	27.4	30.3	35.7
6	63.1	39.7	34.0	32.1	33.0	34.7	41.3
7 and more	63.8	52.8	46.8	36.1	33.8	38.2	51.6
Total	56.1	34.6	29.8	26.5	25.0	27.6	34.1

Source: NSS of RA www.armstat.am "Social Snapshot and Poverty in Armenia" 2009 and 2010 publications.

*The new methodology is applied

Table 3.7 Poverty Measures by Household Composition, 2004-2009 (%)

	2004		2005		2006		2007		2008*		2009*	
	Extremely poor	Poor										
1 adult, no children	0.6	11.9	2.4	12.3	2.7	11.0	1.2	14.4	1.5	18.7	0.9	24.4
2 adult, no children	4.6	17.4	1.3	12.7	1.2	12.1	1.6	13.3	0.9	20.5	2.2	25.6
2 adult, 2 children	5.1	28.1	5.1	23.8	3.8	20.3	3.2	18.6	-	25.4	7.1	38.0
2 adult, 2 children, 1 elderly	5.7	36.8	4.1	38.0	0.4	28.1	3.0	26.6	-	37.8	1.2	36.7
2 adult, 2 children, 2 elderly	7.2	33.5	3.0	26.8	6.2	24.6	2.4	37.3	0.4	47.2	1.0	55.4
elderly, no children, no adult	2.5	19	2.0	19.4	4.1	19.1	1.2	16.9	1.4	23.4	1.6	27.1

other	7.0	37.8	5.0	32.6	4.5	28.6	4.3	26.4	1.8	29.3	4.1	36.2
female headed, no children	5.6	23.5	3.8	24.8	3.6	20.2	1.9	22.3	2.1	30.4	4.4	35.7
female headed, with children	8.3	41.3	6.5	40.3	4.0	32.4	5.9	33.2	1.4	30.9	6.5	48.5
Total	6.4	34.6	4.6	29.8	4.1	26.5	3.8	25.0	1.6	27.6	3.6	34.1

Source: NSS of RA www.armstat.am "Social Snapshot and Poverty" year 2009, year 2010.

Table 3.8 Implications of Family Benefit on Poverty Level by Marzes, 2009 (%)

	Post-transfer level (pensions and social assistance was paid)		Before family benefit(FB) payment (pre FB, post-pension and other social assistance)		Implication of non-payment of FB, dynamics, %	
	Extreme poverty level	Poverty level	Extreme poverty level	Poverty level	Extreme poverty level	Poverty level
Yerevan	2.1	26.7	3.0	27.7	30.0	3.6
Aragatsotn	1.6	25.4	2.8	26.1	42.9	2.7
Ararat	3.4	39.8	5.6	42.2	39.3	5.7
Armavir	3.7	31.3	4.3	32.1	14.0	2.5
Gegharkounik	2.2	40.4	8.0	45.4	72.5	11.0
Lori	7.7	41.7	13.6	46.2	43.4	9.7
Kotayk	6.6	43.0	10.1	45.3	34.7	5.1
Shirak	5.5	47.2	10.6	51.4	48.1	8.2
Syunik	2.2	23.4	3.5	26.6	37.1	12.0
Vayots Dzor	1.6	30.3	3.3	33.6	51.5	9.8
Tavoush	1.8	31.3	8.4	34.8	78.6	10.1
Total	3.6	34.1	6.4	36.5	43.8	6.6

Source: NSS of RA www.armstat.am Publications: "Social Snapshot and Poverty in Armenia" 2010, page 143.

Chapter 4 Pension System in Armenia

The analysis of the country's socio-economic situation reveals serious problems in the pension system resulting from both the pension policy and shortcomings in the pension system. Experts' demographic forecasts depict an unpromising picture with regard to the possibilities for resolving the problems of the pension system in the coming years as a result of the expected deterioration in the composition of the population and destruction of the system's financial sustainability.

4.1 Current System

Armenia currently has a distributive (solidarity) pension system - PAYG, which is based on financing from mandatory social security contributions of employees (3% of personal salaries) and employers (on average, 23% of payroll¹⁶⁵). Until 2008, the social insurance contributions were accumulated in an extra budgetary account of the State Social Insurance Fund (SSIF). Since there was no direct link between individual's contributions and the amount of his pension, which means

¹⁶⁵ In Armenia, the current plan/scale for payment of social security contributions is regressive for employer. The latter is obliged to make a contribution in the amount of AMD 7,000 (13 Euros) for each workplace as well as a certain assigned amount from the salary fund (payroll). In general the employer's burden ranges from 20.9 to 28.1% of payroll and is equal to 23% of the average salary in the country.

that the existing system, in effect, could not be considered as full-fledged social insurance, the Government decided to reorganize SSIF into the State Social Security Service (SSSS). Consequently, the extra budgetary amount was closed, and beginning in January 2008 the social contributions flowed directly to the state budget.

The State Pension Act was adopted in November 2002 and entered into force in May 2003. The Act defined new conditions for entitlement to pensions: persons reaching 63 years of age¹⁶⁶ with 25 years of contributory period have the right to retirement, with the exception of retirement with privileged conditions, for which 55 and 59 years of age limits were defined. At the same time, the act defined the right to partial pension for those reaching 50 and 55 years of age, in cases where certain conditions are met and also for long-term services in special fields of activities.

According to actual legislation the following main groups and types of pensions are provided by the state:

1. Insurance pension, which includes: old-age, privileged conditions, long-term service, disability, survivorship, and partial pensions;
2. Social pension, which includes: old-age, disability, and survivorship pensions. Military personnel receive pensions in accordance with Military Personnel and Their Families Social Security Act 1998;
3. Military pension includes: long-term service, disability, and survivorship pensions.

The insurance pension is the most common type of pension paid to Armenian citizens. 90% (in 2009) of all Armenian pensioners receive insurance pension. It consists of: a) basic pension and b) insurance component. The size of the basic pension is defined by the legislation and cannot be smaller (nominally) than its previously defined size. The insurance component is calculated by a formula which consists of three elements: length of contributory period - meaning years of insured working period -, personal coefficient of pensioner (which is under 1, if pensioner worked less than 25 years), and value of one year of contributory period. The latter is also defined by the legislation and also cannot be smaller (nominally) than its previously defined size. No indexation rule is used for either basic pension and insurance component.

The social pension does not have an insurance component, thus, specialists prefer to call it social benefit. A 65 year old individual whose insurance rate is less than five years is entitled to old-age social pension. The amount of old-age social pension is equal to the basic pension, which is defined by the legislation. The largest part (76.4%) of social pensioners is those who receive disability pensions.

The distribution of pensioners by main groups, types and categories of pensions is presented in the table below:

Table 4.1.1 Distribution of the Number of Pensioners by Types of Pensions, 2009

	Total	%
I. Pensioners, in total, by main groups of pensions*:	518025	100
• insured pensioners	467555	90.3
• social pensioners	50470	9.7
II. Insured pensioners by types of pensions:	467555	100
• Old-age	319498	68.3
• Privileged conditions	6276	1.3
• Long-Term Service	5994	1.3
• Partial	11309	2.4

¹⁶⁶ Before 2003, the retirement age for men was 60 years, for women – 55 years.

• Disability	111243	23.9
• Survivorship	13235	2.8
III. Social pensioners by types of pensions:	50470	100
• Old-age	4431	8.8
• Disability	38581	76.4
• Survivorship	7458	14.8
IV. Pensioners, in total, by main types of pensions:	518025	100
• Old-age	323929	62.5
• Disability	149824	29.0
• Survivorship	20693	4.0
• Other (privileged, partial, long-term service)	23579	4.5
V. Disability pensioners, in total, by main categories of pensions	149824	100
• 1 st category	11770	7.9
• 2 nd category	80880	53.9
• 3 rd category	49075	32.8
• Disability from birth	8099	5.4

*Military pensioners are not included.
Source: NSS of RA
www.armstat.am
Publications:

“Socio-Economic Situation of RA, January-March 2010, page 144.

Disability pensions (both for insured and social pensioners) are divided into three categories: a) 1st category, basic component of which is equal to 140% of the basic pension; b) 2nd category - 120% of the basic pension; and c) 3rd category - 100% of the basic pension. The social pensions also include a special category of pensions, which is paid to children up to 18 years old if they are disabled from birth: this pension amounts to 140% of the basic pension.

Long-term services pensions are provided only to the employees of civil aviation industry. For entitlements to the *privileged pensions* two lists - List 1 and List 2 - are adopted by the government, where the titles of professions, specialties, and definitions of “employment under dangerous, particularly dangerous, heavy, and particularly heavy conditions” are described in detail. *Partial pensions* are granted to the employees of the education sector, as well as to the certain categories of workers culture, theatric, and theatric-concert organizations, and others in accordance with the list of positions and types of employment activities established by the government. All of the aforementioned categories of employees have eligibility for early retirement beginning with age of 45 years old (employees of civil aviation) and up to 59 years old (employed under dangerous and heavy conditions).

Pension system in Armenia covers more than 20% of population: in other words, every 5th citizen of the Republic of Armenia receives either insurance or social and military pensions. Excluding military pensioners and their family members, the share of pensioners amounts to 16% of the actual population. In 2009, the pensions constituted 5.6% of total state budget expenses, 12.9% of total social expenses (including those on healthcare, education, culture and others), and 72.9% of overall social protection expenses.

Representativeness of pensioners in the existing pension system varies by age and sex groups. The smallest representation is recorded for the 18-35 age group – approximately 2% in 2009; the largest one for those of 65 and more years old (96-97%). Women constitute more than 60% of all pensioners. Moreover, the representativeness of women-pensioners in their sex group is 1.4 times higher than the representativeness of men-pensioners in their sex group.

The total number of contributors to the pension system is less than the number of pensioners, in 2008. According to data of the State Social Security Service (SSSS), in total 486.4 thousand

employees made mandatory social contributions in 2008¹⁶⁷, which means that the effective support ratio of pension system - calculated as relation of the number of contributors to the number of pensioners – is less than 1,0. It is obvious that the country has more pensioners than those who contribute to the pension system. The figure below (4.1.2) shows that Armenia’s labor market and social insurance “cascade” resulted in the very low coverage rate of the existing pension system: 22.4% of overall labor resources and 40.8% of labor force.

Figure 4.1.2 Armenia Labor Market and Social Contributors “Cascade”, 2009 (1000 persons)

Working age population	2237.5	(100.0%)				
	Labor force =>	1170.8 (52.3%)		(100.0%)		
		of which, employed =>	1089.4 (48.7%)	(93.0%)	(100.0%)	
		unemployed =>	81.4 (3.6%)	(7.0%)		
			of which, non-agricultural employed =>	597.8 (26.7%)	(54.9%)	
				of which, contributors =>	540.6 (24.2%)	22.4% of working age population; 49.6% of all employed; 90.4% of non-agricultural employed.

Source: NSS of RA www.armstat.am; “Labor Market in the Republic of Armenia” 2005-2009; Data on contributors were obtained from State Social Security Service.

Distribution of contributors by sex and wage groups is the following: a) 51.5% of total number of contributors is male; b) 77.6% of men-contributors and 89.1% of women-contributors make social insurance payments from the monthly wages less than the country’s average.

After the collapse of the USSR, the newly independent countries immediately faced the problem of pension rights of former soviet citizens who worked in different republics. This issue was especially severe for the countries like Armenia, which in the period of 1988-1992 hosted more than 350,000 refugees from both Azerbaijan and Georgia. Since the pension rights issues were critical for all CIS countries, in the early 1990s, the “Agreement on guarantees of pension rights of the citizens of the countries-members of CIS” signed by 10 states in March 13, 1992. According to this Agreement, the parties delegated authority to the ministries of social security to sign intergovernmental agreements on detailed procedures and mechanisms of pension right recognition and realization within next six months. The governments of Armenia and the Russian Federation signed the required agreement only on 24th February 1994. The similar agreements with other CIS do not exist up to now.

¹⁶⁷ Data for 2009 is not available yet. There is a huge problem with data compilation and reconciliation in the SSSS. The World Bank and USAID special projects are implemented to fix and further improve the data collection and database maintenance situation in both SSSS and State Revenue Committee (SRC).

Considering the fact that many of CIS have undertaken or are in the process of reforming their pension systems, the Government of RF has initiated new debates and discussions surrounding the 1992 Agreement, which is not reflecting new processes and developments in the pension security area. The Government of Armenia is not very enthusiastic about that initiative, because it is intended to introduce much stricter requirements for citizens in accruing of pension rights.

Levels of pensions in Armenia are not objectively linked to the socio-economic development of the country, particularly to the dynamics of wages. The level of pension is primarily determined by political decisions and changes considerably from one election to another. The unprecedented 60% increase in pensions in 2008 (compared to the previous year) was linked to the presidential elections of that year. Armenia was in a similar situation during the parliamentary elections of 2003, when the pensions were increased by more than 33%.

Despite the essential increase of pensions in 2008, the average pension is still low and in 2009 it amounted to 26,056 drams (about 52 Euro) for the all insured persons and 10,067 drams (20 Euro) for the social pensioners (both figures concerned by the end of 2009). *The replacement rate calculated as a ratio of the national level of gross pension to gross wage, in 2009, amounted to 27.1% for insured pensioners and 10.5% for social pensioners.*

Analysis of gender aspects of the pension-related issues reveals that:

- a. more than 60% of pensioners (both insured and social) in the country are women;
- b. the effective dependency ratio by gender for the employees who made mandatory social contributions in 2008, is much higher for women than men - for every 1.28 men-contributor there is one male pensioner, whereas for every 0.80 women-contributor there is one female pensioner;
- c. the average length of contributory period of pension-receiving women is 31 years, compared to 34 years for men¹⁶⁸;
- d. the average amount of insurance pension for women is smaller and constitutes 88% of the average insurance pension for men.

The relatively smaller average pension for women results not only from lower insurance rates of pension-receiving women, but also from the pension policy enacted in 1998-2007. The latter is clearly aimed to increase the value of one year of contributory period in comparison with the basic pension. In the mentioned period, the value of one year of contributory period increased by five times, while the basic pension increased only 1.9 times. If this trend continues, the gap between pensions of women and men will increase, since, in Armenia women are employed in the agricultural sector more than men, and women are more likely to be unemployed than men¹⁶⁹.

Nowadays, the average insurance pension is 2/3rd of the minimum consumer basket (MCB)¹⁷⁰. The situation with social pensions is much worse: the average social pension does not reach even 1/3 of the MCB. Based on the results of poverty and vulnerability surveys, *the social group of pensioners is classified as one of the most vulnerable and included in the vulnerability list of the*

¹⁶⁸ It must be considered, however, that: a) the length of contributory period of women can also include "nonworking" years - according to the state pensions act for each woman entitled to insurance pension, i.e. with more than five years of contributory period, two years are added for each child, but not more than a total of six years, and b) in case of a deceased husband, his contributory period can be transferred to his wife.

¹⁶⁹ According to the data of households' survey on labor force and informal employment regularly conducted by NSS, in 2008, 53-54% of those employed in agriculture were women. In 2009, 59.8% of all officially registered unemployed were women.

¹⁷⁰ There are three unofficial poverty lines in the country. All of them are calculated by the NSS based on the data of *Integrated Living Conditions Survey*. The lowest line is *extreme poverty*, which is defined as a mean value of per capita food consumption of the poorest deciles of surveyed households. The middle line is *overall poverty*, which consists of two components: value of food line and value of basic services and primary consumption goods of the poorest deciles of surveyed households. The highest line is *minimum consumer basket (MCB)*, which is calculated by the NSS based on rational basket of food (theoretical, medically recommended composition of necessary food) and some coefficient of services and primary consumption goods.

family benefits system. The most vulnerable are the pensioners of 75+ years old: 70% of this age group of pensioners are women.

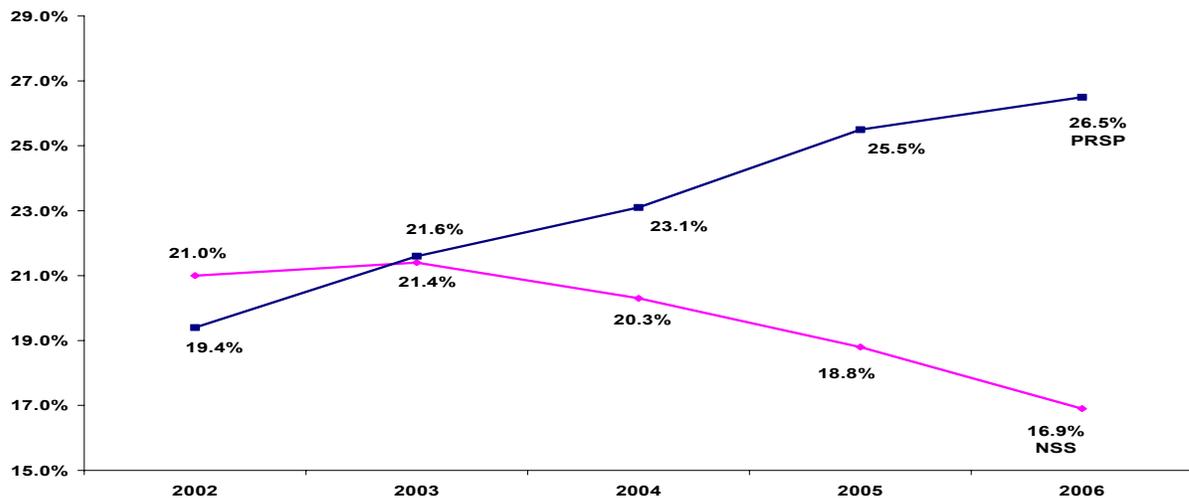
4.2 Pensions Adequacy and Vulnerability of Pensioners

In the early 2000s, the pensions' adequacy issues appeared in the political agenda of the country. The Armenian society started discussing this problem within the framework of Poverty Reduction Strategy Paper (PRSP)¹⁷¹. Government officials, national experts, and representatives of civil society organizations (CSOs) all together pointed out in PRSP (2003) that:

*“Pensions in Armenia are very low: currently, the lowest in the CIS countries. If other sources of income are absent, all pensioners in the country may have been considered poor in 1999-2001, with 94% being very poor. This is because the average pension rate not guaranteed even the minimum food basket” – PRSP, Chapter 7.1.3 “Pension System”, point 281.*¹⁷²

After two years of public debates and technical discussions pensions adequacy issues were recognized as one of the key PRSP strategic priorities that should be addressed and solved by 2015. Particularly, an essential increase of the “average pension/average wage” ratio from 19.4% up to 37.3% was planned for the period of 2003-2015. In 2007, during the PRSP reviewing process, national experts, jointly with civil society representatives, determined that PRSP target on pension adequacy had not been achieved and forecast on average pension/average wage ratio did not materialize (see *Figure 4.2.1*). Poverty-related targets were steadily improved, but the pension monthly rate in 2006 still remained at the level of 75.4% of the extreme poverty line and 50.0% of the overall poverty line (see *Figure 4.2.2*).

Figure 4.2.1 Dynamics of Average Pension/Average Salary Ratio for 2002-2006



Source: NSS of RA www.armstat.am “Statistical Yearbook” for relevant years, section on “Living Conditions”. Actual data and PRSP forecasts for 2003-2006.

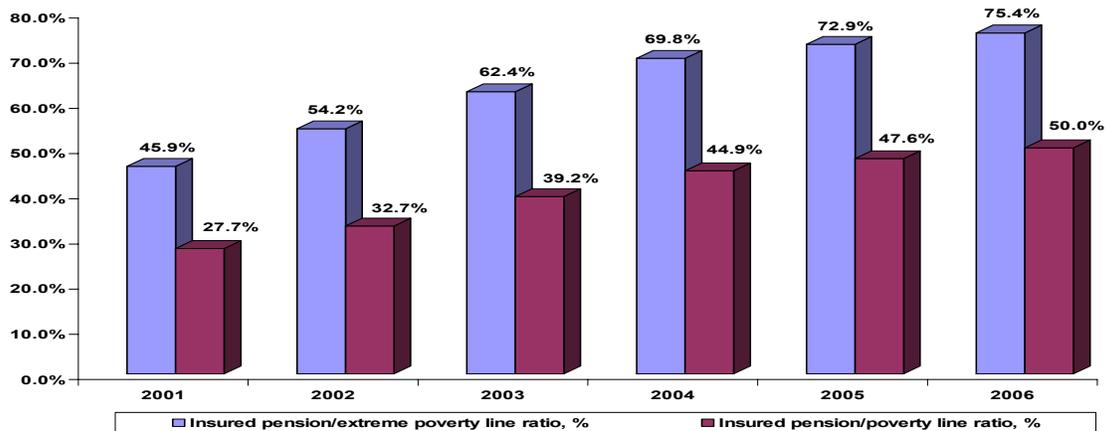
In 2007, considering the high importance of pensions adequacy for the public and taking into account the upcoming presidential elections (February, 2008), the Government of Armenia announced an essential increase of pensions – more than 60% in average – starting from 1st January 2008. The effect of that decision was very tangible for the people: the average level of pension became closer to the calculated minimum consumer basket (see *Figure 4.2.3*). The

¹⁷¹ PRSP development was initiated by the Government of Armenia by technical assistance of the WB, IMF, UNDP and other international organizations like GTZ (Germany), Oxfam (UK), DFID (UK) and others.

¹⁷² See: “Poverty Reduction Strategy Paper”, Republic of Armenia, Yerevan, 2003.

monthly pension of about 2/3 of pensioners equaled to about 70 EUR (on long term care issues: see Chapter 5, Subchapter 5.6).

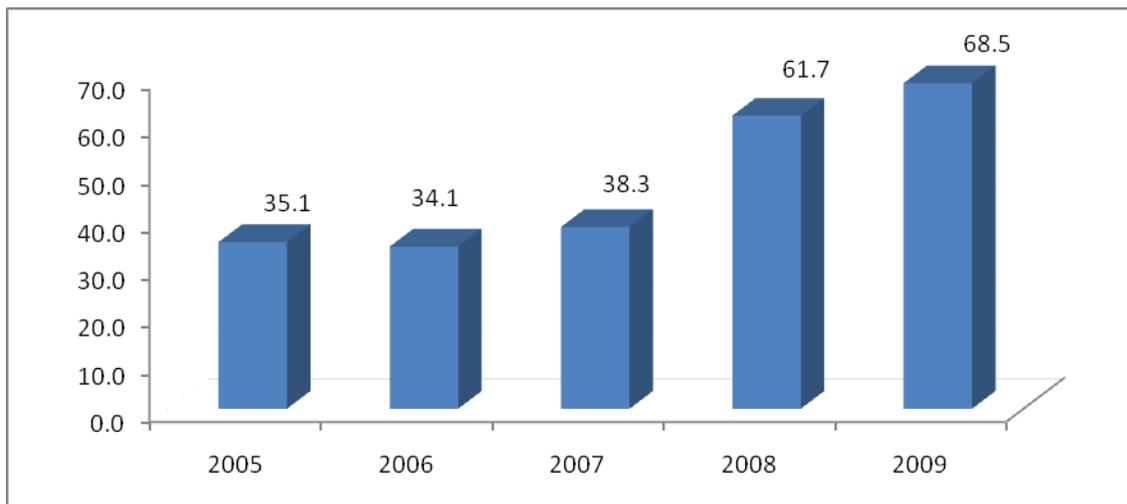
Figure 4.2.2 Dynamics of Average Pension/Poverty Lines Ratio for 2001-2006



Source: Calculated based on data on average pensions (NSS of RA Publications for relevant years “Social Situation of RA section on “Number of Pensions and Average Size of Pensions”) and dynamics of poverty lines (NSS of RA Publications for relevant years “Social Snapshot and Poverty of Armenia, Section on “Poverty Indicators and their Trends) www.armstat.am

Meantime, the President of Armenia promised in his electoral program to increase the level of pensions by 15-20% per year during the period of his presidency (by 2013). But, the financial crisis of 2008 deepened the problem of financial sustainability of the pension system: the regular increases of pensions were, at least for 2009 and 2010, frozen. Taking into account the rising gas price from 1st April 2010, the Government decided to increase the basic pension by 2,500 drams (5 EUR) beginning in November 2010, which, in fact, looks like rather “price compensation” than a real increase of pensions.

Figure 4.2.3 Dynamics of Average Pension/MCB Ratio for 2005-2009



Source: Calculated based on data on average pensions (NSS of RA Publications for relevant years “Social Situation of RA section on “Number of Pensions and Average Size of Pensions”) and dynamics of minimum consumer baskets (NSS of RA Publications for relevant years “Social Snapshot and Poverty of Armenia, Section on “Poverty Indicators and their Trends) www.armstat.am

4.3 Financial Sustainability and Grounds for Reforming the System

Financial sustainability of the pension system is a crucial issue in the country. It became even more important in the 1990s, when demographers recorded serious changes in demographic trends and warned about the steady trend of population aging (see Chapter 1, subsection 1.7). In 2005-2006 the government became concerned about the financial sustainability of its pension system. The high-level government commission was established in May 2006 under the auspice of the Prime-Minister to analyze the current situation, to forecast the financial sustainability of pension system, and to develop the recommendations for its reform. In 2008, the Government adopted the “Pension Reform Program of the Republic of Armenia” with the plan-schedule of actions to be implemented to ensure introduction of new multi-pillar pension system beginning on the 1st of January 2011¹⁷³.

Analyzing and forecasting the main indicators of PAYG pension system of Armenia, the experts on pension reform preparation working group found that *main factors negatively influencing to the financial sustainability of the current pension system are:*

- Constantly increasing number of pensioners, including disabled persons; comparatively small number of actual contributors to the system;
- Low level of wages, from which social contributions are made;
- Generous conditions for pension rights such as: low retirement age, low thresholds for right to insured pension (5 years of services) and to fully-fledged insured pension (25 years of services), the eased granting process for disability pensions, especially for 3rd group of disability, etc.

The issue of low retirement age, especially for women (55 years) was put on the political agenda in the early 2000s. Professional discussions were completed in November 2002: the National Assembly adopted the State Pension Act according to which the retirement age was increased up to 63 years for both men (whose retirement age at that time was 60 years) and women¹⁷⁴. Currently, the Ministry of Labor and Social Issues (MLSI) is working on development of a new model of disability definition, which is based on the concept of “degree of lost working capacity”. The existing schemes of long-service pensions and privileged pensions also are in the process of reform from the financial sustainability point of view¹⁷⁵.

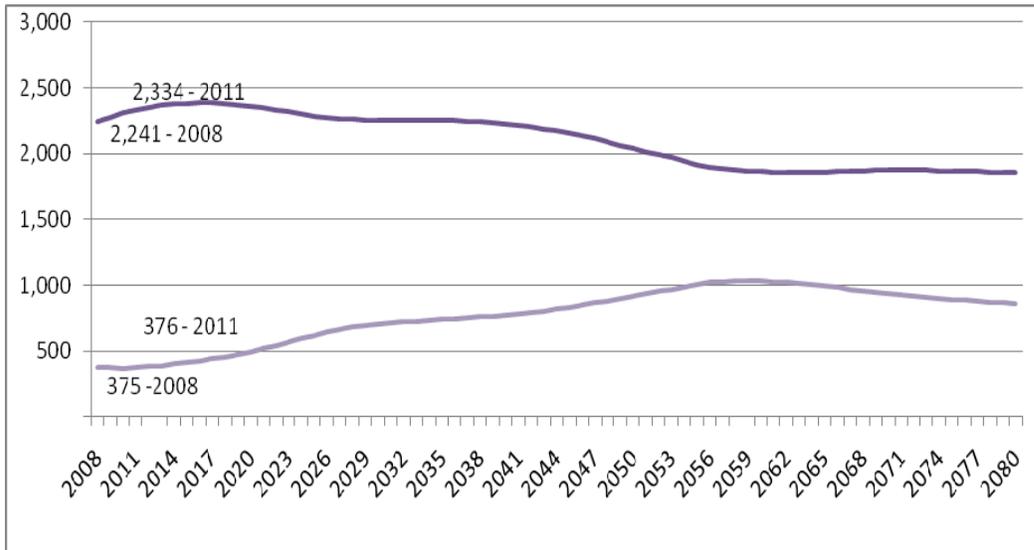
Forecasts based on demographic trends in the country reveal that the gap between the numbers of retirement age (63+) and working age (15-63) populations will become more narrow due to low birth rate, working-age population outflow and increased life expectancy.

Figure 4.3.1 Forecast of Working (15-63, dark-violet line) and Retirement (63+, light-violet line) Age Population, 2008-2080 (1000 persons)

¹⁷³ As of today it is decided to implement the Pension Reform step by step: it is foreseen to implement the Voluntary Funded Pension scheme starting January 1st 2011, the Unified Tax will be implemented in January 1st 2013 and Mandatory Funded Scheme - January 1st 2014.

¹⁷⁴ The issue of further increasing of retirement age was discussed during pension reform program drafting process (2007-2008). The main reasons against doing that for now were the followings: a) life expectancy level in Armenia is lower than in OECD countries by at least 7 years while the retirement age differs by maximum 2 years; b) the actual rate of working old age pensioners is very low – 15-16% of total number of pensioners, because of tensity in the labor market; c) 75% of working old age pensioners is employed in agricultural farming, which is by its essence “informal” from the pension reform standpoint; d) in 2008, only 3.1% of officially registered jobseekers are pensioners; e) according to LFS data the real unemployment rate is steadily increasing starting from 45-49 age group (21.9%) and is the highest for pre-retirement age (60-64) population (24.9%).

¹⁷⁵ The main direction of reforming disability and privileged pensions systems from the financial sustainability standpoint is to introduce individual and corporate mandatory insurance schemes in the enterprises with dangerous and/or heavy employment conditions. These schemes should be financed by employers.



Source: Pension Reform White Paper, based on PROST model¹⁷⁶.

In fact, the number of pensioners prevails the number of retirement age population by more than 130 thousand people, because the effective number of pensioners includes also: until 2002, 55+ retired women and 60+ retired men, persons who retired with privileged conditions, those who received pensions due to disability or loss of breadwinner. The distribution of the actual number of pensioners by age groups is presented in the Table 4.3.2.

Table 4.3.2 Distribution of Social and Insured Pensioners by Age Groups (as of July 1, 2009)

Age groups	< 51	51-55	56-62	63-70	71-75	76-79	80+
Pensioners, persons	76 031	23 985	59 447	126 288	103 392	72 625	54 940

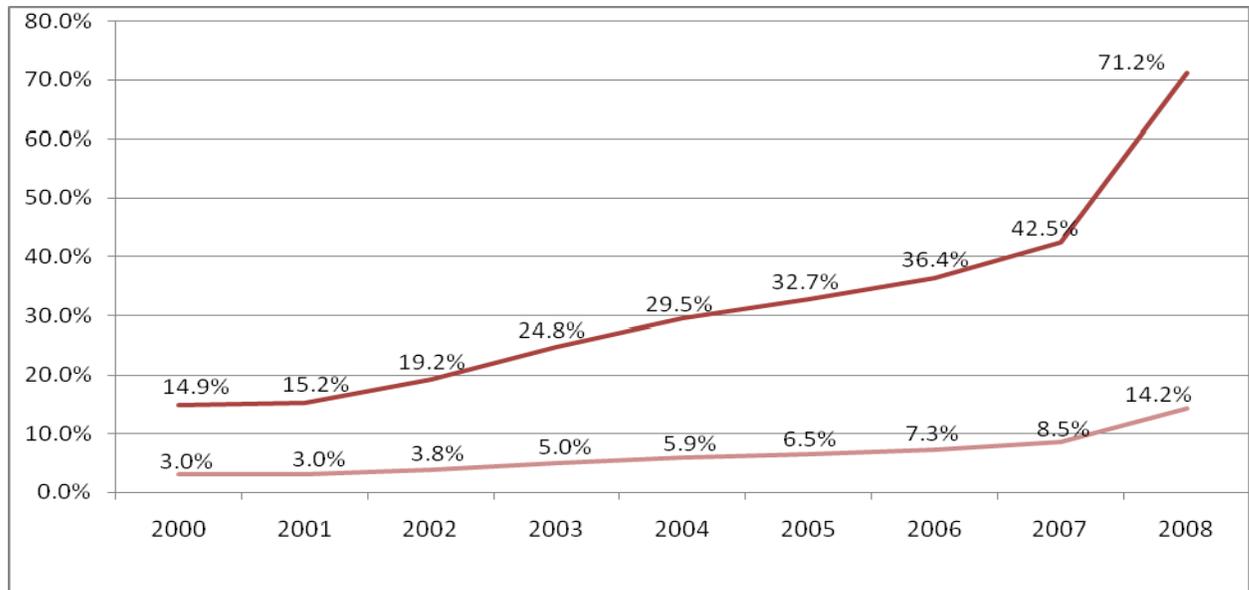
Source: NSS of RA, www.armstat.am Publications: "Socio-Economic Situation of RA, January-March 2010", page 147.

In the total number of the working-age population, only 23-25% is contributing to the pension system because of the high level (more than 50%) of informal employment, including those employed in agricultural sector, since they are exempted from mandatory social contributions. As a result, the ratio of the actual numbers of contributors and pensioners has deteriorated irreversibly: in 2008, this ratio was 0.99 and will decrease to 0.7 by 2028.

Analysis reveals that in 2000-2008, up to 77% (by various years) of those who made social contributions were from the group of population receiving wages lower than the average wage. For example, in 2008, 77.6% of employed men and 89.1% of employed women paid their social contributions from the monthly wages that are less or very close to the country average¹⁷⁷. This is an indication that employers hide part of the wages paid to employees. In Armenia, hiding wages is a widespread practice even in the formal sector of the labor market. The regressive scale of the mandatory social contribution rate should have been an incentive for the "formalization" of higher salaries, but the progressive scale of the income tax operating simultaneously "neutralizes" the impact of that incentive. Wages continue to be formalized around the minimum wage, since only this level "attracts" the contributors by its high replacement rate (see Figure 4.3.3).

¹⁷⁶ PROST model used the demographic forecast done by UNFPA Armenia for the period of 2005-2035. The macroeconomic framework of the Sustainable Development Program (PRSP-2) was served as a basis for the 2009-2021 projections. The time series for the whole forecasted period of 2010-2080 were constructed based on assumptions on demographic, macroeconomic and socioeconomic trends that are accepted by both local and international experts.

¹⁷⁷ In 2008, according to the NSS data the country average wage was equal to 87,406 drams or 151 Euro.

Figure 4.3.3 Replacement Rates for Minimum Wage and Higher than Average Wage*

* Minimum wage =30.000AMD (59.1 EUR) (dark-red line), high wage = 150.000AMD (295.7 EUR) (light-red line)

Source: Calculated based on NSS data, www.armstat.am "Statistical Yearbook" for relevant years, section on "Living Conditions"

With an average of 33 years of insurance rate, the amount of insurance pension is only 2.1 times higher than the social pension and this difference is gradually getting smaller. Social statistics record two opposing trends: a) years of insurance rate are declining under the influence of labor market factors (unemployment, informal employment, self-employment, etc.) and b) social pensions are continuously increasing through increased allocations from the state budget to the social security policy primarily aimed at protection of poor, disabled, and socially disadvantaged people. As a result, amounts of pensions of new entrants in the social insurance system are approaching those of the social pensions.

Because of the very small amount of insurance pensions, the trend of narrowing the gap between the amounts of insurance and social pensions as well as the absence of the link between contributions and pensions, the current pension system has become "unattractive" for both employers and employees. At the same time, the principle of "financial equilibrium" of the Fund implies that the payable pensions should be equivalent to the collected social contributions. The commitment of ensuring the fiscal sustainability of the pension system is a constraining factor for increasing pensions significantly solely at the cost of collected mandatory social contributions not increasing their rates. The only way to increase the pensions at that specific pre-election time was to use the other tax-sources of state budget for that purpose. That was key principal reason for consolidation of social insurance fund with state budget in 2008.

Consolidating the pension contributions with state budget, the Government of Armenia increased the pensions by almost twice. From January 1, 2008 the amount of the basic pension from 4250 drams increased to 8000 drams in 2008, and the value of one year of insurance rate amounts to 450 drams instead of 230 drams in 2007. Nevertheless, the experts warn the Government that in the forecasted demographic situation, any "one-time increase" of pensions will not resolve the strategic issues of ensuring financial sustainability and pension adequacy. Countries all around the world faced the problem of how to overcome the ever widening gap between the "financial sustainability of the system" and "pension adequacy". Radical reforms of pension systems are needed, which should be planned seriously and implemented consistently.

4.4 Armenian Model of Unified Multi-pillar Pension System

In 13 November, 2008 the Government issued the Decree No. 1487-N and decided to accept the report¹⁷⁸ of the working group and to approve the schedule of measures ensuring pension reform implementation (so called Action Plan¹⁷⁹) and to task the Minister of Labor and Social Issues, the Minister of Finance, the Minister of Economy, the Chairman of State Revenue Committee and the Chairman of the Central Bank of the Republic of Armenia to take actions towards the implementation of the reform program within planned schedule by submitting suggestions for increasing the efficiency of work done, if needed.

Two essential components within the pension reforms are envisaged to carry out:

- annual increase of pensions ensuring pensions are equivalent to the minimal consumer basket,
- enforcing a link between the individual's pension and income through the introduction of mandatory funded pension system.

The Armenian model of a multi-pillar pension system is anchored on the operating distributive (PAYG) principle, which, in fact, is to be supplemented with two new *mandatory and voluntary* pillars. Such an approach in Armenia had been enforced by two important circumstances:

- First, it was required to preserve the state distributive pension system in the same level as it serves the present pensioners and would serve the population with "already accumulated" certain pension rights in the form of length of services. In this context, the role of the distributive system will gradually lessen taking into consideration the introduction of mandatory funded pillar.
- Second, the state distributive pension system should always be preserved (though in smaller volumes) since it should ensure *basic pension* equivalent to the minimal consumer basket for all the women and men of the country at retirement age (63 years old) no matter members of which pillar they are.

So, the unified Armenian model of the multi-pillar pension system (both distributive and funded) includes:

- *The pillar '0' or the social pension.* This pillar is designed for those people who have not been employed during their life or been employed less than 10 years or been employed but in non-formal economy. The social pension paid in this pillar will be equivalent to the minimal consumer basket (MCB)¹⁸⁰. The social pension will unavoidably grow so as to make up in 2018 equivalent to the 100% of the MCB forecast for that year (50,000 AMD¹⁸¹ or about 90 Euro). The social pension will be funded at the expense of the state budget ensuring the social protection of the elderly stipulated by the Constitution of the Republic of Armenia.
- *The pillar '1' or the labor pensions.* This pillar is designed for payment of pensions of the employees above 40 years old upon their retirement. The labor pensions paid in this pillar

¹⁷⁸ The report on pension reform was drafted in accordance with the list of measures stipulated by a series of Government Orders such as "Conceptual approaches to pensions system reform" (28 April 2005), "Conceptual framework of pensions system reform" (26 May 2006) and "Program of the government of Republic of Armenia" (21 June 2007). Finally in 2008, the report drafted through joint efforts of specialists from the Central Bank of Armenia (CB), Ministry of Finance (MF), Ministry of Economy (ME), Ministry of Labor and Social Issues (MLS) and State Social Security Service (SSSS) was submitted to the Government for the approval.

¹⁷⁹ According to Decree No. 1487--N the reforms are envisaged to commence as of January 1, 2011, but the global financial crisis, will apparently induce certain modifications in terms of timing of reforms.

¹⁸⁰ In 2009, the social pension was equal to the basic pension and made up 8000 drams or 16 Euro, in case when the value of the minimal consumer basket makes up 38-39 thousands drams or about 80 Euro in accordance with the calculations of "Sustainable Development Program".

¹⁸¹ Nowadays, both the Ministry of Economy and the Ministry of Finance are recalculating macroeconomic framework based on actual numbers of CPI, GDP growth, wages, etc. Forecasted value of MCB also will be changed, which means that the planned targets for social/basic pension need to be reconsidered.

will consist of two parts: a basic pension part and a part paid for the years of service. The basic pension size will be equal to the value of the social pension, and as of 2018 it will increase up to 120% of the social pension. On average, the labor pensions of those having service period of 25 years will twice exceed the MCB forecast in 2018. Consequently, employees with 35-45 years of service will end up with 2.5-3.5 times higher labor pensions compared to the MCB value. The labor pensions will be funded from the state budget at the expense of the **unified income tax**, to be introduced through the merging of social contributions (that currently levied from payroll) and income tax (that currently levied from individual incomes). This pension is designed for the citizens with 10 or more than 10 years of service period - that is to say they have paid income tax for 10 and more years.

- *The pillar '2' or the mandatory funded pensions.* This pillar is designed for payment of pensions of young people up to 40 years old (40 inclusive) upon their retirement. The funded pensions paid in this pillar will be accumulated at the expense of contributions (savings) made by a person during his/her career span. In fact, the funding source of the funded pension is the individual income (the salary), of which 5% will be transferred on the personal pension (funded) account. Meantime, the state will double that amount (will top up another 5%) by making an appropriate transfer from the state budget. In practice, 10% of a member's income will be accumulated on his/her personal pension account on a monthly basis. The accumulated funds will be invested in profitable assets to ensure a supplementary income. These assets cannot be used to pay the others people pensions, instead can be inherited to his/her family members/relatives. The 2nd pillar members also receive the right to receive basic pensions for the income (unified) tax paid by them, as well as appropriate compensation for the contributory period before the transition to the funded pillar. The basic pension and the value of the accumulated length of contributory period before the transition to the new system will be funded from the state budget.

People above 40 also have a right to receive mandatory funded pensions by participating in the mentioned scheme and making the similar 5% contribution. However, for them the state co-funding is not available as this age group will fully receive both the basic and labor pensions from the state budget.

- *The pillar '3' or the voluntary funded pensions.* This pillar is designed for all those who want to receive supplementary pensions by participating in various funded pension schemes offered by private financial institutions (insurance companies, pension funds, etc.). All employees can participate in the pillar '3' irrespective of their age. In this case, the rates of pension contributions and the terms of pension payments are negotiated on contractual basis.

Thus, pensions of the new unified multi-pillar pension system will have two parts: *redistributive and insured (funded)*. The redistributive (solidarity) part will be based on the *basic pension* legislatively defined by the state. The basic pension is the cornerstone of the Armenian model of pension system: it will protect the pensioners of both PAYG and funded pillars from the poverty risk. The *insured part* will be linked to years of length of service of the individual (in case of *labor pension*), or the amount of his contributions (in the case of *funded pension*). The insured part of the social pension is equal to "0", hence the title "0" pillar¹⁸².

To coordinate the actions aimed at creation of necessary legal, institutional, and organizational frameworks for the implementation of the multi-pillar pension system, the new inter-governmental working group was established in August 2008, where the representatives from key ministries were included. The schedule of measures to be realized by the working group was adopted by the Government. The Prime-Minister strongly supervises the activities of the group. Finally, 5 laws and

¹⁸² "The main tool in the fight against poverty among pensioners is the social pension, which is the minimum life supporting guarantee and is aimed at excluding poverty among these persons" – *SDP (PRSP-2), Chapter 11.2, point 575.*

3 programs were drafted and submitted to the Government: “Law on State Pensions”, “Law on Funded Pensions”, “Law on Individual Income Tax”, “Law on Personified Records of Individual Income Tax and Pension Contribution”, “Law on Investment Funds”, as well as programs on “Needs Assessment”, “Public Awareness and Communication Campaign for 2009-2011” and “Information System for Personal Records Keeping”. In October 2009, the drafted laws were submitted to the National Assembly (NA) for public hearings, professional discussions and for the final approval. On 24th June 2010 the legislation package passed first reading in the NA. The second and third readings passed in November-December 2010, and the majority of Parliamentarians gave their votes for the pension reform legislation package. The pension legislation was enacted in the end of 2010.

According to the recently adopted legislation, the Government should launch a multi-pillar pension system in the following timeframe:

1st stage: from 1st January 2011 – introduction of pillar ‘3’ of the multi-pillar pension system. Improving and fixing the existing pillars ‘0’ and ‘1’ also will start from January 2011.

2nd stage: from 1st January 2013 – introduction of unified income tax based on personified record keeping IT system to be operational in mid 2012;

3rd stage: from 1st January 2014 – introduction of mandatory funded pillar ‘2’.

4.5 Risks and Public Debates

In every country the implementation of pension reforms is a lasting and complicated process. The implementation of the Armenian model of reforms will require greater efforts because the latter will necessitate fundamental changes in a number of spheres, ranging from improvement of the human factor to consistency of political decisions. Understandably, the long road to reforms contains risks, most of which are already visible and are classified by the following groups:

- *Risks related to the human (subjective) factor.* These risks arise from the unpreparedness of both stakeholders and participants in the reforms. Namely, the lack of awareness and information, lack of corresponding (especially financial) knowledge, professional skills, experience in using technical and technological tools (web, ATM, e-mail, credit cards, etc.) may hamper the process of the reforms. To manage these risks, the needs of all the involved government agencies should be assessed, the programs towards their technical equipment and vocational training must be worked out, and well-targeted measures for raising public awareness and public education should be developed and implemented.
- *Economic risks.* This group of risks is mainly referred to the economic potential of the country reflecting the financial capacity of the state budget (the government), business community (employers), and households (employees). Any reform has its “price” which is to be paid by all the members of the society. Hence, the lack of funding, and especially its stoppage, may threaten the implementation of reforms. In this regard, the actuarial calculations should be regularly made to forecast social security contributions, salaries, the number of employees, and as benchmark figures, the level of budget deficit and size of pensions.
- *Institutional risks.* The main institutional risk figured by local and international experts relates to the introduction of unified income tax and a personified record keeping IT system. The merging of income tax and social contributions into one individual income tax to be reported by employers at the monthly basis on the personified record keeping basis is really a quite difficult process which requires appropriate technical specifications, accurate mapping of business processes, well-developed software and hardware, relevant IT specialists and trained staff.

- *Market risks.* The economic crisis (global and local), the underdeveloped financial market in the country (especially capital and insurance markets), the considerable shadow economy, and the interest and exchange rate fluctuations, together represent the market risks of pension reform. Of course, the accreditation (licensing) of pension funds and more rigid mechanisms for their control, pension account encoding and confidentiality, diversification of investment portfolios and contributions in foreign currencies, limitation of investments in terms of types of securities and number of foreign countries, interest rate hedging, introduction of risk management systems in financial institutions and so on that are largely presented in the draft legislation package will somehow limit or help to manage some of them. However, people are still very concerned about market risks, especially in light of recent global financial crisis.
- *Political risks.* Any reform designed and implemented in any country is the result of fulfillment of political will. Reasonably, any significant changes on the political arena, and especially change of governments, may suspend the program of pension reforms.

Public hearings organized by the National Assembly around the draft legislation package of pension reform are very contentious. The debates continue and require further justifications, calculations, solid background papers, which can create much more trust of both the society, in general, and oppositional political parties, in particular, to the pension reform initiated by the Government. The most frequently raised concerns or/and mistrusts relate to the:

- *guarantees of both principals and yields of pension assets* - people do not trust neither the government (in the late 1980s they lost all their savings in Soviet banks) nor private financial institutions (in the mid-1990s they lost their deposits in private banks);
- *increase of tax burden* - people do not differ 5% of mandatory pension contributions from income tax (in fact, it means the decrease of net income of their households);
- *reasonability of 5% of state participation* - populist politicians prefer to spend this amount for increasing the current pensions and receive the votes of their real electorate (most of them does not realize the impact of such an increase from the perspectives of pension system financial sustainability).

One thing is obvious: some principles of pension reform will be reviewed under the pressure of the public. Since those changes will take time, the timing of reforms implementation also will be reconsidered.

4.6 References, Annexes and Tables

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Annexes

Annex 4.1 Armenian Public Discusses Pension Reform

"...So we have a lot of problems exacerbating the situation in the Armenian pension system and challenging the relevant reforms. On top of all, the burden of compulsory payments may force economic entities to remain in the shadow rather than become transparent. A decent wage is better than a pie in the sky, isn't it? As regards the long money in the accumulation funds, with a securities market actually lacking in Armenia, the investments of the money is open to question as well. The only opportunity is investing in government bonds. Well, the coming reforms have many a rock ahead!"

"Building on the sand" by *Albert Khachatryan*, www.news.am, 21 January 2010

"...We could conclude that government's suggestion of privatization of the pension system in Armenia and generating a system based on mandatory funded private pension accounts is against the interests of the retirees, because these private pension accounts suffer labor market, financial market and inflation risks, which could reduce the size of the accumulated private pension funds and reduce the monthly pension benefits of the retirees, and because in Armenia the necessary legal and financial institutions aren't developed yet and there is a significant amount of corruption and shadow economy. Instead, Armenia should adopt a non-funded pension system, where the pension contributions and benefits are linked. At the same time Armenia should reduce the level of corruption and shadow economy in general and specifically in the areas of business tax collection, court system, etc., also it is essential to develop financial markets, such as government bond markets and their corresponding government regulations."

"Pension reform in Armenia will further widen the gap between the rich and the poor",
Interview with *Dr. Ara Khanjian*, *Professor of Ventura College, California, USA*
www.arfd.info, 17 February 2010.

Tables

Table 4.1 Pensioners and Pensions in Armenia, 2005-2009

	2005	2006	2007	2008	2009
Number of pensioners, <i>persons</i>	540224	533734	528256	528804	527201
Pensioners as a percentage of population, %	16.8	16.6	16.4	16.4	16.3
Pension system dependency rate, %					
• total pensioners / contributors	122.5	119.9	112.4	103.4	n/a
• insured pensioners / contributors	108.8	106.4	99.8	91.9	n/a
Average monthly pension, <i>drams</i>	9724	10857	12656	21252	24498

Source: NSS of RA, www.armstat.am Publications: "Social Situation of RA, 2010" and relevant years: section "Number of Pensions and Average Size of Pensions".

Table 4.2 Average Pension Ratio to Average Wage, Poverty Lines and MCB*, 2000-2009

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Extreme (food) poverty line, AMD	7194	n/a	7368	7516	7745	12467	13266	14300	15753	17232	17483
Complete poverty line, AMD	11735	n/a	12019	12261	12629	19373	20289	21555	23168	25188	25217
Minimum consumer basket							27962	31961	33308	34640	36722
Av. pension /av. wage ratio, %	21.9	19.7	18.7	21.0	21.4	20.4	18.8	17.5	17.2	24.4	22.7
Pension/extreme poverty line ratio, %	61.5	n/a	62.1	76.5	96.2	70.9	73.9	76.3	80.9	124.0	140.1
Pension/general poverty line ratio, %	37.7	n/a	38.1	46.9	59.0	45.6	48.3	50.6	55.0	84.8	97.1
Pension/MCB ratio, %							35.1	34.1	38.3	61.7	66.7

*Minimum Consumer Basket

Source: NSS of RA, www.armstat.am Publications: "Social Snapshot and Poverty in Armenia, 2010" and relevant years.

Table 4.3 Social Protection and Pension Provision Expenditures, 2000-2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Social Protection (SP) expenditure, bln AMD	53.5	60.2	61.4	73.6	84.7	103.8	123.9	149.3	212.6	243.6
As % of GDP	5.2	5.1	4.5	4.5	4.4	4.6	4.7	4.7	6.0	7.9
As % of State Budget	21.0	21.7	20.5	20.2	21.5	21.2	21.8	20.0	26.2	26.2
Pension Provision (PP) expenditure, bln AMD	34.7	38.4	42.6	51.9	59.4	75.3	85.1	98.5	154.9	177.6
As % of SP expenditure	54.1	64.9	63.8	69.4	70.5	70.2	72.5	68.7	66.0	72.9
As % of GDP	3.4	3.3	3.1	3.2	3.1	3.1	3.3	3.1	4.4	5.8

Source: NSS of RA, www.armstat.am "Statistical Yearbook of Armenia 2009" and relevant years: section "Finances and Credit".

Chapter 5 Health and Long-Term Care

After the collapse of the Soviet Union the former Soviet republics, and with them the Republic of Armenia, inherited the "Semashko model" and a centralized health system. Like most of the communist country the health system was financed and dominated by the state. However, all the Newly Independent States (NIS) had to decide how to deal with their heritage. Armenia decided in favor of dramatic and urgent changes. During the challenging transition process and an overall critical political and economic development, in 1996 a law on reform of the health system was adopted minimizing the financial support of the state. This decision was followed by a government decree in 1997, which introduced out-of-pocket payments.

5.1 Health Outcomes and Gender Issues

Like the other Caucasian Republics, Armenia historically could report a health status superior to the average of the Soviet Republics due to higher living standards. The difficulties of the transition process, the military conflict, and the embargo went hand in hand with it deteriorated the living conditions.

Life expectancy may serve as one of the indicators pointing out the level of gender relations' development and health outcomes. For the group of EUR B-C countries,¹⁸³ it is typical to have a difference of 9.2 years, i.e. females live 9.2 years longer than males. In Armenia the difference of gender life expectancy is 5.9 years.

Table 5.1.1 Life Expectancy for Male and Female in 2007
Armenia, Georgia, Azerbaijan, EUR-A, EUR B+C average

	2007	
	Male	Female
Armenia	68.6	75.4
Azerbaijan LE	64.61	76.25
Georgia LE	68	76
EUR A	77.49	83.09
EUR B+C average	65.24	74.42

Source: WHO, World Health Statistics 2009, Mortality and burden of disease, 36, 38, WHO, European Health for All database, <http://data.euro.who.int/hfad/>

The WHO is using a comparatively new indicator of assessing the healthy part of life, namely a healthy life expectancy (HALE). It must be stated that there is a difference between the statistical data of the WHO and Armenia. The WHO presumes that in 2002 HALE in Armenia was 61 years: 62.6 for females and 59.4 for males. This is 10.6 years less compared to the average for the countries of Group EUR A and almost on the same level as for the countries of Group EUR B-C (for comparison: The healthiest nation in the region is Sweden with a HALE of 73.3 years: 74.8 years for females and 71.9 years for males).

In Armenia, the average loss of healthy life years was 7.0 for men and 10.4 years for women (Sweden: females - 7.9 years, men 6.2 years). The WHO estimates 68 years for life expectancy of a child born in 2003 in Armenia, while the national statistics estimate 73.1 years. However, in both cases the estimated indicator surpasses the average life expectancy calculated by the WHO for the European countries of the Group EUR B-C.¹⁸⁴

In addition to biological factors influencing the healthy life expectancy, the social circumstances also play a crucial role. The model of two participants working together on a family budget when both spouses work and share the financial burden has been transformed into the model of "one bread-winner," i.e. one family member is earning money while the other one is dealing with house-keeping. Before the socio-economic crisis, the majority of women were employed and they combined work with the primary family duties.¹⁸⁵ The change in family values is not merely an

¹⁸³ EUR-B: European countries with low child and low adult mortality; Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Georgia, Kyrgyzstan, Poland, Romania, Slovakia, Tajikistan, The former Yugoslav Republic of Macedonia, Serbia and Montenegro, Turkey, Turkmenistan, Uzbekistan.
EUR-C: European countries with low child and high adult mortality; Belarus, Estonia, Hungary, Kazakhstan, Latvia, Lithuania, Republic of Moldova, Russian Federation, Ukraine.

¹⁸⁴ WHO Regional Office for Europe, Highlights on health in Armenia

¹⁸⁵ National Strategy, Program and Actions Timeframe on Reproductive Health Improvement, 2007-2015, approved by the RA governmental by Decree No. 29 from 26.07.2007, 8

Armenian novelty, but a characteristic of the development in many countries of the former Socialist camp.¹⁸⁶

The general state of health of the Armenian population gives cause for concern. Indeed, the average life expectancy has increased. However, in comparison to other European countries the level still is low. Tuberculosis has remained a widespread disease and the infant mortality rate remains high. The most common causes of death are cardiovascular diseases, cancer, tumor, accidents, and gastro-intestinal diseases (Annex 5.2). Armenia belongs to the countries with the most incident cases of multidrug-resistant tuberculosis (MDR-TB) (55 new cases per 100 000 per year, 2006).¹⁸⁷

Circulatory diseases are the leading cause of death in Armenia and account for 47% and 53% of all deaths in men and women, correspondingly.¹⁸⁸ Cancer causes 159 deaths per 100.000 populations (2006).¹⁸⁹ According to the National Statistical Service, 7,336 people were diagnosed with cancer in Armenia during 2008. For comparison, the number of new cancer cases in 1995 was 4,705, and in 2000 it was 5,413.¹⁹⁰ HIV/AIDS situation assessment has shown that the estimated number of people living with HIV (PLHIV) in the country is between 2,800 and 3,000.¹⁹¹ From 1988 to 31 December 2009 823 HIV cases had been registered in the Republic of Armenia among citizens of the Republic of Armenia and 149 new cases of HIV infection were registered during 2009. Males constitute a major part in the total number of HIV cases - 601 cases (73%), females make up 222 cases (27%). 823 reported cases include 16 cases of HIV infection among children (1.9%). 60% of the HIV-infected individuals belong to the age group of 25-39. In the Republic of Armenia the main modes of HIV transmission are through heterosexual practices (50.2%) and injecting drug use (41%). From the beginning of the epidemic 205 death cases have been registered among HIV/AIDS patients (including 35 women and 4 children).¹⁹²

Infant and neonatal deaths and under-5 mortality appear to be underreported in Armenia. Between 1990 and 2003, the infant mortality rate fell by a third. Since 1991, the neonatal mortality rate has stayed around 8 deaths per 1000 live births, compared with the EUR B+C average of 7 deaths per 1000 live births. Between 2000 and 2003, the WHO estimates that under-5 mortality dropped at an annual average rate of 3.3%, while the comparable annual average rate of decline for the European Region was 3.5%.¹⁹³ Infant mortality is substantially higher in rural areas than in urban areas.¹⁹⁴ Accepting nationally reported figures for the period 1990–2008, the maternal mortality rate in Armenia fell by about 27%.¹⁹⁵

For Armenia to reach its Millennium Development Goal by 2015, the maternal mortality rate has to fall a further 61% to reach the level of 1990.¹⁹⁶ Maternal and child health has improved in recent years: Although there is a discrepancy between the nationally-reported data, WHO estimated data, and data from various surveys, all sources testify to the declining trend in infant, child, and maternal

¹⁸⁶ Hacker B., *Langsamer Abschied von der Universalitaet?*, 326, in Klenner C., Leiber S. (eds), *Wohlfahrtsstatten und Geschlechterungleichheit in Mittel- und Osteuropa*, 2009

¹⁸⁷ Armenien, *Die Aktivitaeten von Aerzte ohne Grenzen im Ueberblick*,

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¹⁸⁸ *National Statistical Service of RA*, *Women and Men in Armenia*, 2009, 29

¹⁸⁹ Jakubowski E., Arnaudova A., *10 health questions about the Caucasus and central Asia*, 2009

¹⁹⁰ *National Statistical Service of RA*, *Social Situation of RA 2008* (in Armenian), 175

¹⁹¹ *National Programme on the Response to HIV Epidemic in the Republic of Armenia for 2007-2011*, 2

¹⁹² *National Centre for AIDS Prevention*, http://www.arm aids.am/main/free_code.php?lng=1&parent=3

¹⁹³ EUR B: European countries with *low child and low adult mortality*; Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Georgia, Kyrgyzstan, Poland, Romania, Slovakia, Tajikistan, The former Yugoslav Republic of Macedonia, Serbia and Montenegro, Turkey, Turkmenistan, Uzbekistan.

EUR C: European countries with *low child and high adult mortality*; Belarus, Estonia, Hungary, Kazakhstan, Latvia, Lithuania, Republic of Moldova, Russian Federation, Ukraine.

¹⁹⁴ WHO Regional Office for Europe, *Highlights on health in Armenia*

¹⁹⁵ *National Statistical Service of RA*, *The Demographic Handbook of Armenia*, 2009, 71

¹⁹⁶ WHO, http://www.euro.who.int/Document/Countryinformation/e92744_armenia.pdf

mortality. In spite of positive immunization results (e.g. achievement of the status of a polio-free region), the coverage rate of fully-immunized children, valid by recommended age, dropped to 42.3% in 2006 despite adequate vaccine supply.¹⁹⁷

5.2 Organization and Financing of Health Care

The framework for the health care services is laid down by the organization and administration as foreseen by the laws and the financial structures.

Legislation, regulation

The health system is based on constitutional and legislative regulations of Republic of Armenia (RA). Under the Constitution of RA, “everyone shall have the right to free of charge benefit from basic medical aid and services” (Article 38 of the Constitution). According to the Law on “Health Care and Public Services for the Population”, everybody has the right to receive health care and to get it free of charge in the frame of special state medical programs ensured by the government of Armenia.¹⁹⁸

The Ministry of Health usually conducts the public regulation. The following spheres are under its authority:

- State Hygiene and Sanitary-Epidemiological Inspectorate
- Drug and Technology Scientific Expertise Centre
- National Institute of Health
- State Health Agency, with a central office in Yerevan and 10 regional branches

In transition countries as well as in developed countries a very important role is assigned to the Supreme Legislative body of the country, in Armenia its “Permanent Committee on Public Health, Protection of Childhood and Maternity”. However, the role of the local/municipal (regional) government is becoming constantly more important. Meanwhile every region has its own subdivision (branch) responsible for public health. There has been a major change in comparison to the centralized Semashko-model of the Soviet times. Hakobyan, Nazaretyan, Makarova, Aristakesyan, Margaryants and Nolte have analysed the development and show that the first stage of devolution - between the mid-1990s and 1998 - saw the transfer of financial responsibility for the provision of statutory health services from the central Government to regional governments. Regional/local authorities attained a certain degree of independence from the central Government, e.g. negotiating contracts with regional/local health care providers, monitoring quality and amending regional/local budgets. From 1996 on responsibility for the provision of primary and secondary care has been transferred to regional and local governments. The Ministry of Health remained responsible for tertiary-level institutions, while most hospitals and polyclinics are under the responsibility of governments at the regional (marz) level. In 1998, the responsibility for some rural outpatient clinics was transferred to governments at the community (village) level.¹⁹⁹

The system works comparably efficiently in Yerevan. Some state independent bodies, such as the State Commission for the Protection of Economic Competition of the Republic of Armenia and the

¹⁹⁷ WHO Regional Office for Europe, Highlights on health in Armenia
http://www.euro.who.int/document/CHH/ARM_Highlights_rev1.pdf

¹⁹⁸ National Assembly Republic of Armenia, Law on “Health Care and Public Services for the Population”, Article 2,
<http://www.parliament.am/legislation.php?sel=alpha<ype=3&lang=rus>

¹⁹⁹ Hakobyan T., Nazaretyan M., Makarova T., Aristakesyan M., Margaryants H., Nolte E., Armenia health system in review, Health systems in transition, Vol. 8, No 6, 2006, <http://www.euro.who.int/document/e89732.pdf>

Central Bank of Armenia (CBA) the banking and insurance regulator are also starting to find their own niche in the process of regulating the public health sector.

Financing

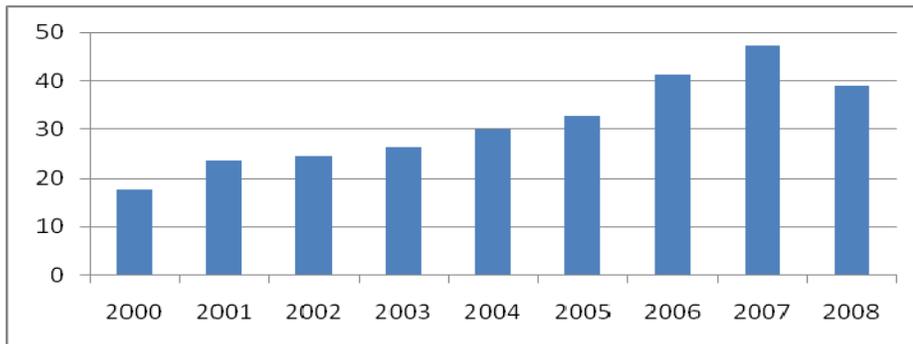
The Armenian health care system is financed by different sources. The main sources being analyzed in more detail in this paragraph are:

- State budget;
- Private funds;
- International assistance..

Health care in Armenia is still largely funded by general tax revenues. This income is distributed among the Ministry of Health Care (MOH) and the State Health Agency (SHA). The budget is estimated by the MOH, approved by the Ministry of Finance and by the Parliament. After the approval the budgetary resources are distributed between the MOH (about 20%) and SHA (about 80%) to distribute it among the 11 regional governments. The State Health Agency was established as an independent authority in 1998 with the help of World Bank and with the focus on preparing a social health insurance system. The state budget includes primary and emergency health care, hospitals, related expenses such as hygienic anti epidemic services, and administration costs.

The Armenian government has tried to satisfy needs for medical services and raised the health care budget from 1.0 % in 2000 to 1.3 % of GDP in December 2009²⁰⁰, and, as recently confirmed by the Minister for Economic Reforms, is planning a further substantial increase with the objective of reaching 2.2 % of the GDP in 2012. However, in comparison to other public expenditures (e.g. government expenditures for education will increase to 3.6% of the GDP in 2012) the level of expenditures for health care will remain low. As far as this figure is concerned, overall expenditure for health seems to be within a regular range. However, general government expenditure on health as percentage of total expenditure on health was 38.9% in 2008. In 2000 this indicator comprised 17.7%.²⁰¹

Figure 5.2.1 General Government Expenditure on Health, 2000 -2008 (as % of total budget expenditure)



Source: WHO, World Health Statistics 2009, Health expenditure, 108

From 2000 to 2006 the general government expenditure on health as percentage of total government expenditure increased from 4.6 % to 9.7%.²⁰²

The expenses designated for the public health by the draft of the State Budget of the Republic of Armenia for the year 2010 (without the expenses for the maintenance of the administrative

²⁰⁰ National Statistical Service, Socio- Economic Situation of RA, January-December 2009 (in Russian), 103

²⁰¹ WHO, World Health Statistics Health expenditure 2005, 2006, 2007, 2008 2009, WHO, Armenia, Health system performance assessment 2009, 152

²⁰² WHO, World Health Statistics 2009, Health expenditure, 108

apparatus of the Ministry of Healthcare of the Republic of Armenia) make up 54,210.0 million AMD. The expenses have been reduced in relation to the respective indicator of the State Budget of the Republic of Armenia for 2009 by 10,734.3 million AMD or by 16.7 per cent and in relation to the expected accomplishment of the State Budget of the Republic of Armenia for 2009—by 1,147.1 million dram or by 2.1 per cent.²⁰³ However the average cost of a one-day treatment of a patient is expected to rise by 8% from 2009 to 2010 up to 12,400 Drams (26 EUR).²⁰⁴

Private Expenditure on Health Care

In March 1996, the law “On medical aid and medical services for the population” was adopted by the National Assembly, which in effect abolished the belief that everyone was entitled to free health care and which allowed private out-of-pocket payments. Although citizens have to pay taxes as before, they additionally have to cover the costs in the case of illness. A health system that does without state interventions represents a rather market oriented system; the ability and willingness to pay of the patients should be the precondition. However, different empirical studies, one of them assigned by the World Bank, show that these requirements are not yet met in Armenia. From 1996 until 2006 all health care services had to be taken on by private individuals. This means, after a medical consultation, individuals had privately to settle their account with the physician, hospital etc. Patients falling into vulnerable segments of the population are eligible to receive free health care services whilst all others have to pay out of pocket, in full.²⁰⁵ From 2006 on, primary care, i.e. consultation in polyclinics, has been free of charge.

Between 2000 and 2008 there was a reduction in the share of private expenditure on health care as a percentage of total expenditure on health care in Armenia -from 82.3% to 61.1%. Such a drastic reduction was not observed in any other CIS country. The above indicator for Georgia decreased from 83.3% to 78.5% and for Azerbaijan, it decreased from 81.9% to 73.9%. In Belarus and Kyrgyzstan the share of private expenditure on health care as a percentage of total expenditure on health care, though very slightly, increased from 23.4% to 25.1 and from 55.7% to 57.7%, respectively²⁰⁶.

The insurance industries are not well developed in Armenia yet, so that the market itself does not succeed in providing adequate private health insurance. Voluntary private insurance has a limited role and supplementary character, which already has a reasonably comprehensive coverage. The amount of offered services is limited (comfortable service or direct access to high qualified specialists) or duplicates the publicly funded services. Less than one percent of the population has private insurance. The share of private insurance in total expenditure of health care in 2008 was 0.2%.²⁰⁷

In 2000 quick wave of privatizations began. The number of privatized health institutions is hovering in the double-digit range, and all emphasize that it is the large multi-profile and general practice health facilities and maternal hospitals and polyclinics that have been privatized in first place, that is, institutions that had been built by the end of the Soviet era and that had been modernized after the severe earthquake in 1988 with the help of international organizations and bilateral help.

Table 5.2.2 State and Non-State Hospital Providers, 2008

²⁰³ State Budget of the Republic of Armenia, www.minfin.am, last access 22.02.2010

²⁰⁴ Arka, News agency, Medicine and healthcare. <http://www.arka.am/eng/medicine/2009/11/11/17580.html>

²⁰⁵ Hakobyan T., Nazaretyan M., Makarova T., Aristakesyan M., Margaryants H., Nolte E., Armenia health system in review, Health systems in transition, 34 Vol. 8, No 6, 2006, <http://www.euro.who.int/document/e89732.pdf>

²⁰⁶ World Health Statistics 2009, Table 7: Health expenditure, 108 112

²⁰⁷ WHO, Armenia, Health system performance assessment 2009, 49,152

	Total	Units belonging to the Ministry of Health Care	Private	Other institutions ²⁰⁸
Hospitals	130	94	27	9
Hospital beds	12,358	8,732	3,626	n/a
Patients	306,635	180,744	125,891	n/a
Average occupancy of hospital beds per year	223	223	225	n/a
Duration of stay of patient	9.2	9.0	7.2	n/a

Source: NSS of RA www.armstat.am Publications: "Social Situation of RA 2006 (in Armenian)" page 77; "Social Situation of RA 2009 (in Armenian)" pages 158, 161, and 182.

Short-time and large-scale privatization has been also scheduled for primary health care.

Table 5.2.3 State and Non-State Ambulatory-Polyclinic Facilities, 2005

	Total	Units belonging to the Ministry of Health Care	Private	Other institutions
Ambulatory-polyclinic facilities	458	398	51	9
Power of out-patient	39,236	31,933	6,440	863

Source: NSS of RA www.armstat.am Publications: "Social Situation of RA 2006 (in Armenian)," page 161.

After deciding to reduce the speed of the privatization process it was determined that hospital and ambulatory-polyclinic facilities should be commercialized,. At present the medical care providing facilities of the country have the status of state joint-stock companies and are business organizations for profit.

More than 100 ambulatory-polyclinic facilities were transferred to municipalities and are in their possession while still being administrated by the Ministry of Health Care.

International Aid

Unfortunately, the available information on international aid for health care is less yielding than other data. It must be pointed out that international help for medical facilities and private households is of great importance not only because of its financial contribution but also because of its structural implications. Financing of the health care system through the use of donors' money is becoming more and more widespread. According to the World Health Statistics, external resources are becoming a major source of health funding in low-income countries as some low-income countries have two thirds of their total health expenditure funded by external resources. Thus, predictability of aid is an important concern.²⁰⁹

In 2000 8.5 per cent of total expenditures of the public health sector of Armenia were financed by external sources, and in 2007 the number increased up to 14.5 per cent²¹⁰. No single country from the former socialist block has such a high rate of dependence from external donations. It is difficult to estimate whether donations are used efficiently in Armenia because there is no unified picture of their use; however, the overall tendency of its proportion's increase in total expenditures suggests a change in their utilization. Provision of any type of humanitarian assistance assumes its better application, which would allow increasing the access to medical services for the low-income population and would create preconditions for sustainable development.

²⁰⁸ E.g. Ministry of the Interior Affairs, Ministry of Defense

²⁰⁹ World Health Statistics 2009, Table 7: Health expenditure, 107

²¹⁰ World Health Statistics 2009, Table 7: Health expenditure, 107

In November 2009 the Armenian mass media reported that a decision was made to start increasing prices for medical services in hospitals from two to four times beginning in January 2010.²¹¹ However, up to now there is no final decision regarding this question. This sort of information has appeared because, at the end of November 2009, the “Permanent Committee on Health, Protection of Childhood and Maternity” of the Armenian Parliament discussed measures related to such kind of increase.²¹²

Informality and Corruption

In health care, as in any other area of the economy of Armenia, a part of all activities takes place in the informal sector. These are activities that are not recorded in the financial statements and the proceeds are not taxed. Determination of its reality is carried out mainly on indirect indicators. Therefore, evaluation of cash flow is usually in the shadow of the costs and causes of disputes.

The health sector offers a range of extra-income opportunities for physicians and nurses, e.g. offering services without waiting in a queue, nursing when undergoing an operation. A survey conducted in 2008 by the Caucasus Research Resource Centers program (CRRC) revealed that corruption in different sectors and public services is perceived to be quite common. This is especially the case for electoral systems and processes, where 66% believe corruption is common, the police (65%), traffic police (62%), health care (61%), and education (58%).²¹³

In 2007 the most corrupt areas were considered education (20.5%), judicial (including the prosecutor’s office, courts, police) (15.9%) and health care (11.7%) systems, whereas in 2005, the level of corruption in healthcare was estimated 7.8%,²¹⁴ the informal payments in healthcare reach even 45% of expenditures.²¹⁵ Total expenditure on health makes up 4.7 % (2006) of the Armenian GDP.²¹⁶

Corruption is a rather disseminated phenomenon and it is the cause of some of the serious problems in health care. The problem of informal sector economy and corruption in the health sector is not only the fact itself but also the indirect effect - the implicit loss of the reliability of the official data concerning the demand and supply within the health sector and thus the loss of a controlling tool.

Organizational Structure

In the communist era, Armenia enjoyed one of the best health-care systems in all the Soviet republics. Since then the system has fragmented along partially free-market lines and is today failing the majority of the people it is supposed to serve.²¹⁷ The health care system is governed by two administrative levels:

Figure 5.2.4 Administrative Levels of Health Care



²¹¹ Law and Health, “Ոլիգարխի օլիգարխները փորձում են թանկացնել բուժսպասարկումը”, 26.11.2009 (in Armenian: Oligarchs try to push up the prices for healthcare services) <http://www.healthrights.am/arm/more/721/>

²¹² Babayan N., <http://www.aravot.am/am/articles/society/72704/view>

²¹³ Armenian corruption household survey Caucasus Research Resource Centers program (CRRC)

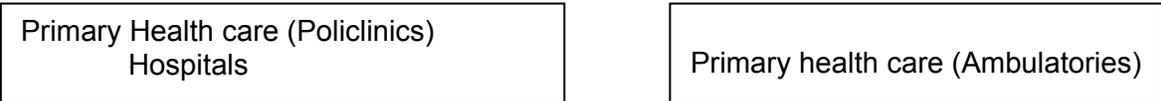
²¹⁴ Corruption perception in Armenia, 2007 phone survey.

<http://www.transparency.am/dbdata/Corruption%20Survey-2007-eng.pdf>

²¹⁵ Torosyan A., Romaniuk P., Krajewski-Siuda K., The Armenian healthcare system: Recent changes and challenge, *Journal of Public Health*, Volume 16, Number 3 / June, 2008

²¹⁶ WHO, World Health Statistics 2009, Health expenditure, 108.

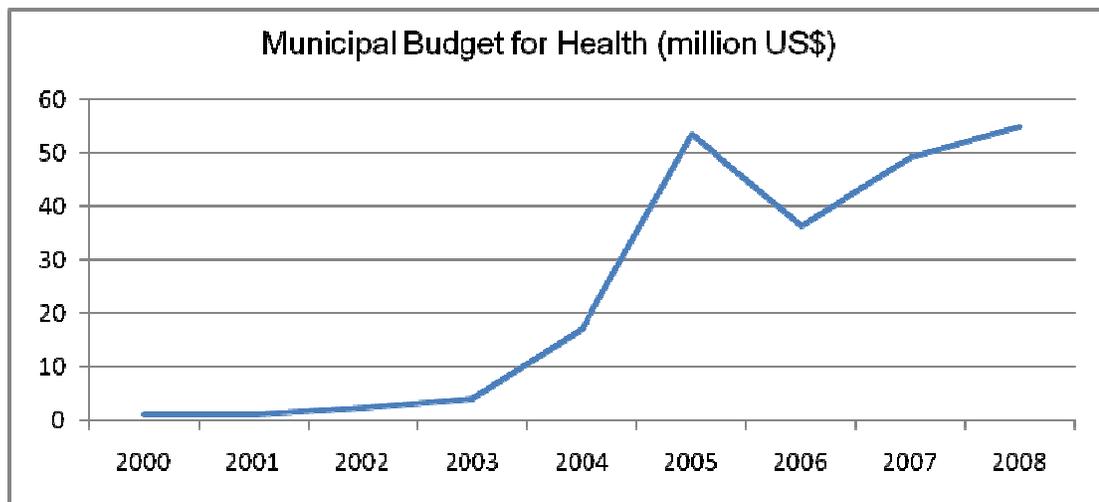
²¹⁷ Bulletin of the World Health Organization (BLT); “Armenians struggle for health care and medicines” <http://www.who.int/bulletin/volumes/87/7/09-010709/en/>



Primary care services differ in rural and urban areas. The country has inherited the system from before independence, when primary care was underdeveloped and investment was focused on secondary and specialized inpatient care rather than outpatient services.²¹⁸ Skewed towards expensive hospital interventions that swallow up more than 50% of the national health budget²¹⁹, health care indicators show significant differences between rural and urban areas (Annexes 5.7 and 5.8).

For health care in local governments, only rural municipalities are granted the responsibility to regulate and manage operation of primary health care units – dispensers. According to law and subsequently issued government decree, these units were transferred under the ownership of rural municipalities. Urban municipalities have no functions in this area.

Figure 5.2.5 Municipal Budget and Municipal Budget for Health, 2000-2008



Source: NSS of RA www.armstat.am Publications: “Finances statistics of Armenia, 2009 (in Armenian)” page 11-25; “Finances statistics of Armenia, 2005 (in Armenian)” page 15-29. Data for 2009 will be available from the same source.

Historically, not all rural communities have medical institutions. Primary medical care in rural regions of Armenia is offered in clinics where mostly nurses or medical assistants work.²²⁰

Table 5.2.6 Share of the Communities Having Health Institution, 2009 (% of the total number)

	Percent of villages having health	Percent of villages where health
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²¹⁸ Euro WHO, Country information, Armenia http://www.euro.who.int/Document/Countryinformation/e92744_armenia.pdf

²¹⁹ Bulletin of the World Health Organization (BLT); “Armenians struggle for health care and medicines” <http://www.who.int/bulletin/volumes/87/7/09-010709/en/>

²²⁰ Poletti T., Balabanova D., Ghazaryan O., Kamal-Yanni M., Kocharyan H., Arakelyan K., M. Hakobyan, “Options for scaling up community-based health insurance for rural communities in Armenia”, http://www.hsd.lshtm.ac.uk/publications/books/Armenia_book.pdf

	care facilities	care facilities are in need of repair
Medical centre	66	59
Ambulatory, Policlinic	32	42
Hospital	6	87
Pharmacy	23	27
Dentist	10	41

Source: NSS of RA www.armstat.am Publications: "Report on Rural Community Survey, 2009" page 9.

The Armenian health system falters at the local community level and is often totally absent from rural areas.²²¹

Drugs Market

In Armenia officially there are five thousand work places in the market of drugs. Twelve pharmaceutical companies, eighty eight hundred independently operating drugstores, and four large networks of pharmacy create these work places. One of these four networks has 75 drugstores with 400 employees in all regions of the country.

One of the greatest concerns in the medicine market is their illegal import from abroad. Persons physically crossing the borders of Armenia have been involved in this business for more than several decades. Illegally imported medical equipment is sold everywhere, including markets, drugstores, etc. The received profit is distributed in a shadow market. Taking into account the official prices and "self –freedom" from VAT this kind of business is becoming more and more popular. The value added tax on medical supplies is nineteen per cent. According to the official statistics fifteen per cent of drugs in Armenia are false (spurious) and they cross the country's boarder avoiding customs. Most of all, the so-called "shuttlers" ("chelnoki") bring the counterfeit in their suitcases walking through the Armenian-Georgian border.²²²

Medicines with Expired Validity and Ecological Aspects

One further important problem is the intolerable burden on ecology. In Armenia there are no means for processing of unused medical supplies. It was decided that an enterprise for their processing should be created. Within the last years the establishment of this sort of enterprise at the expense of the state budget this has been discussed more and more. However, it is not clear why the pharmaceutical industry should get additional profits and why expenses for unrealized products should be covered by the State, i.e. in the long run, by the patients themselves.

It is not quite right to expect that the environment may be protected only by a rational thinking of population or by its lack; it is necessary also to have the government's intervention but not only by financing of processed or overdue medical supplies but, first of all, by creation of appropriate framework in this sphere. It is not quite clear where, when, and to whom it is possible be given these unused and/or overdue drugs. Also it is not clear what happens with these drugs in future.

5.3 Ethnic Minorities and Public Health

Although Armenia is ethnically the most homogeneous of the former Soviet republics, there are many ethnic minorities living in Armenia. The largest ethnic groups are Armenians (majority, more than 95% of the population), Yazidis/Kurds (largest ethnic and religious minority), Russians, Molokans, Assyrians, Georgians, Greeks, Jews, Azerbaijanis/Azeri and some smaller communities.

²²¹ Bulletin of the World Health Organization (BLT); "Armenians struggle for health care and medicines" <http://www.who.int/bulletin/volumes/87/7/09-010709/en/>

²²² Interstate TV and Radio Company "Mir": "In Armenia the Market of False Drugs is Increasing" 08.11.2009, <http://mirtv.ru/content/view/82042/104/>

Unfortunately, this population has been constantly decreasing and it can be an irreplaceable loss for the country. The question of why people are leaving the places where they have lived for centuries has various answers, the living conditions and the access to a better, guaranteed system of public health care being an important part of this. Unfortunately, the official data are not differentiated enough to do analyze ethnic minorities (e.g. there are no information about life expectancy or HALE of ethnic minorities).

There are no professionally trained employers in the health sector able to professionally understand ethnic nuances and differences of the Armenian population. There is especial a lack of physicians and nurses speaking Yazidish. There certainly is room for improvement as to the knowledge and appropriate training in dealing with other cultures. As to the ethnic minority of the Yazidi, as they mostly live in the rural areas, they also suffer from the worse health care services being offered, in comparison to the capital city Yerevan.

5.4 Human Resources

The output and quality of the health care system is highly dependent on the human resources and skills of the personnel working in the health care sector.

Nursing

To become a nurse in Armenia it is necessary to finish medical college. The general basic conditions for studying in medical college is an eight-year school leaving certificate (“attestat”), which usually is obtained at the age of 14-15 years. The education at the medical college usually takes 3 years. About 29,632 students studied at all specialized secondary public schools in 2008, 10,080 planning a degree in health and sports. Every year more than approximately 3,000 of graduates of medical and sports state colleges overstock the labor market.²²³ Besides, the labor market is also supplemented by 364 graduates of private colleges with more or less the same qualification profile.²²⁴ The average salary of nurses and midwifery personnel was 49,000 Drams (100 euro) in 2009 and remained the same in 2010.²²⁵

Table 5.4.1 Number of Students of Specialized Secondary Educational Establishments

	2004/05	2005/06	2006/07	2007/08	2008/09
Health care and sport	2,338	2,837	2,789	2,965	3,462

Source: NSS of RA www.armstat.am “Statistical Yearbook of Armenia 2009” page 115.

At first sight there seems to be no problem connected with nursing and midwifery personnel in Armenia. However, there are some differences in comparison with other transition countries. By number of nurses and midwives Armenia lags behind the European average and many former communist countries. According to a recent World Health Organization report, the number of *nurses* in Armenia is about *49 per 10.000* persons, in Belorussia it is 125 per 10,000 persons, Uzbekistan has a ratio of 109, and the average for WHO European Regions is 79.²²⁶ Among the CIS countries, the number of nurses *per 10.000* persons is lower only in Georgia and Tajikistan.

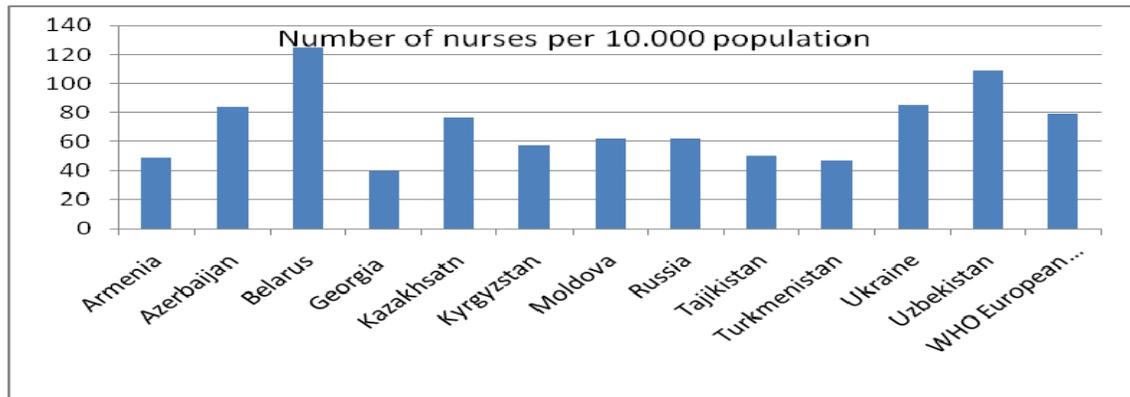
Figure 5.4.2 Number of Nurses per 10.000 Inhabitants in CIS countries, 2006

²²³ NSS of RA www.armstat.am Publications: “Socio-Economic Situation of RA, January-December 2008 (in Armenian)”, page 73.

²²⁴ NSS of RA www.armstat.am Publications: “Socio-Economic Situation of RA, January-December 2008 (in Armenian)”, page 81.

²²⁵ “Arka” News agency, Medicine and healthcare. <http://www.arka.am/eng/medicine/2009/11/11/17580.html>

²²⁶ World Health Statistics 2009, Table 6, Health workforce, infrastructure, essential medicines, 96-105



Source: World Health Statistics 2009, Table 6, Health workforce, infrastructure, essential medicines, 96-105.

Higher Education

In order to become a physician, it is necessary to graduate from a medical higher education institution (HEI). There are both state and private universities; the absolute majority prefers the state HEI. The primary reason for this is that the state scholarships are available only for the students of the state universities. However, a state scholarship covers mainly tuition fees and makes up very little payouts to the students, which are not enough for living but which are perceived as a status symbol. State scholarships are available only for a small number of students. Therefore, the great majority of students study at state universities on paid basis, with the tuition fee being the highest in the country: the tuition fee for one semester in the Medical University may exceed the fee for natural sciences by a large number. This has made higher medical education mostly a prerogative of people with access to financing. The increase in tuition fees at the Medical University is mirrored by the number of students.

Table 5.4.3 Number of Students in Higher Education

	2004/05	2005/06	2006/07	2007/08	2008/09
Health care and sport	1868	1729	4005	3221	1179
Total number of students of all specializations	22,997	24,655	25,567	26,157	27,657

Source: NSS of RA www.armstat.am "Statistical Yearbook of Armenia 2009" page 115.

With a diploma as a medical scientist (usually at the age of 23-25) there is a good opportunity to find a job in Armenia, although it is difficult to find a job as a physician directly after graduating from university.

In 2007, the Centre for Regional Development of Transparency International in Armenia reported the existence of unofficial private payments for medical treatment.²²⁷ Given the low salaries for physicians and medical personnel this seems plausible. If this is the case, poor people are seriously discriminated as to their right to medical care. This was confirmed by another study supported by the UK Department for International Development (DFID). The "informal" payment, going directly to physicians, in 2006, increased by 6%. The payments for nurses and laboratory tests rose by 4%, climbing from 28% to 32%. Answering the question about their private sources for the money paid "informally" for the medical treatment, 44% of the patients claimed to have lent the money, 16.5% said they had been forced to sell something, 24% of the of the patients reported to have used their savings. Rural population usually had to lend the necessary money or had to sell something.

²²⁷ Corruption perception in Armenia, 2007 phone survey.
<http://www.transparency.am/dbdata/Corruption%20Survey-2007-eng.pdf>

Table 5.4.4 Average Monthly Nominal Wages in selected sectors, 2001-2008 (drams)

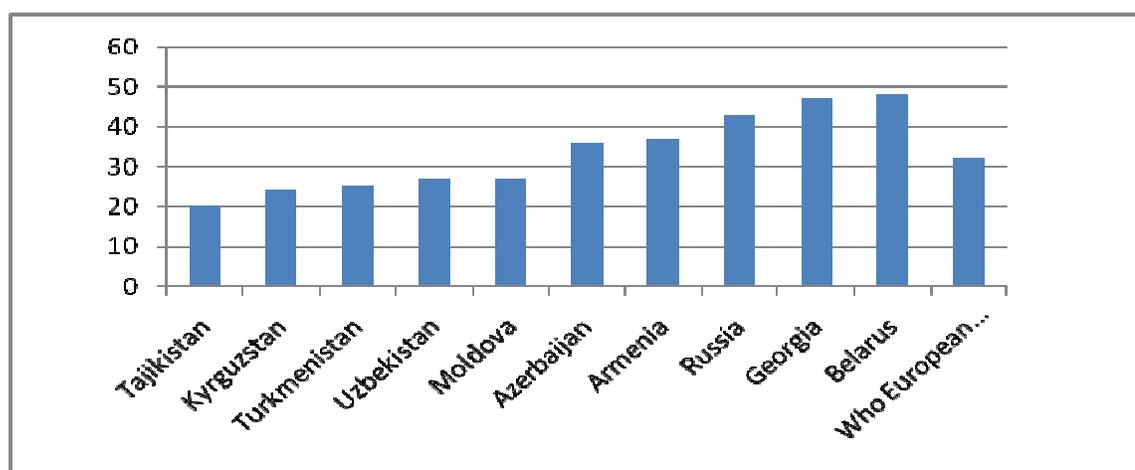
	2001	2002	2003	2004	2005	2006	2007	2008
Health care, physical culture and social security	13,045	13,070	15,002	19,770	27,848	38,757	44,394	56,433
Education	12,659	15,016	19,293	29,164	38,636	45,986	54,334	63,112
Crediting and insurance	98,732	109,664	133,483	152,991	174,918	205,454	227,970	277,044
Government staff	36,034	38,612	53,465	67,243	75,250	76,328	88,093	99,188

Source: NSS of RA www.armstat.am "Statistical Yearbook of Armenia 2009", page 75; "Statistical Yearbook of Armenia 2006", page 81.

Although the education system is also financed by scarce public funds, salaries of teachers rose between 2001 and 2008 on average by 500%, whereas the salaries of physicians rose by 430%. Salaries of employees within the market sector in the Armenian society are even higher, e.g. the official salary of an employee within the banking sector today is about five times as high as the official salary of a physician. The average salary of medical personnel was 62,000 Dram (120 Euro) in 2009 and is not expected to change in 2010.²²⁸

Physicians

By the number of physicians per capita, Armenia occupies a place above the average when comparing with the CIS countries. Moreover, Armenia's indicator is higher by 15% than the average level of WHO European Region. As to the number of physicians per 10,000 persons among European countries, Armenia occupies a place above the average. For comparison, if the figure for the WHO European Region is 32, for Armenia it is at the level of 37.²²⁹ The Armenian health care system can be characterized as rather labor intensive and overstaffed with physicians.

Figure 5.4.5 Number of Physicians per 10.000 Inhabitants, 2006

Source: World Health Statistics 2009, Table 6, Health workforce, infrastructure, essential medicines, p.96-105.

Among the former socialist countries the lowest ratio of physicians per 10,000 persons is in Albania and the highest ratio is in Belarus - 48 physician per 10,000 persons - followed by Georgia - 47 physician per 10,000 persons.

²²⁸ Arka, News agency, Medicine and healthcare. <http://www.arka.am/eng/medicine/2009/11/11/17580.html>

²²⁹ World Health Statistics 2009, Table 7: Health expenditure, 108 and 116

Annex 5.9 indicates the total number of physicians by the regions of Armenia. The annex shows that the total number of physicians in Armenia has not declined since 2004. Medical professionals are overwhelmingly concentrated in the capital city of Yerevan. In 2008 the number of physicians in Yerevan was 7,352 in comparison to 5,006 in the remaining part of the country. The effects may be especially negative for the non-urban elderly and poor population as well as national minorities living mostly outside Yerevan.

Medical Personnel and Gender Issues

The situation concerning division of responsibilities in provision of medical services also deserves attention. The average monthly salary for females working in public health care sector is 52,332 drams (100 EUR), while for males this number is 72,436 drams (150 EUR).²³⁰

In terms of jobs for women, the health care system yields only to agriculture and pedagogies in number of working positions for females. The absolute majority (83.2%) employed in this sphere are females but they are governed by males. There was no single case where the Minister of Health was a woman. The proportion of male and female employees in the Ministry of Health is approximately equal.

The situation is also difficult in the sphere of higher education. Out of 66 State Doctors of Medicine, only 19 are females and out of 45 professors working at the State Medical University only 11 are females. Out of 88 rectors and deputy rectors on scientific affairs of higher education institutions only 9 are females; out of 146 deans only 21 are females; out of 582 head of chairs only 126 are females.²³¹

Briefly summarizing, it must be stated that the difference between male's and female's chances within the Armenian health care system is striking and certainly not in the favor of females, as is the case in politics and economics in general. This is reflected also on the level of access and quality of medical services provided. Earning approximately half as much as males do, females are in a much more difficult situation in terms of paying for services provided by the health sector.

5.5. Access to Health Care Services and Pharmaceuticals

The health care provision in Armenia is designed to allow access for all citizens of Armenia, without any financial, geographic or other barriers to access. This principle basically has not changed so far; the government has ensured that a basic package of care is still available to the most vulnerable groups.

The list of services paid from state budget is defined in the Basic Benefit Package (BBP)²³². The package provides specific health-care services, including medicines, free of charge to vulnerable segments of the population. Socially vulnerable groups are defined as including 24 defined population groups (Annex 5.11).²³³ From 1996 to 2006 the BBP covered the following services:²³⁴

- Hygienic anti epidemic services;
- Health care for children;
- Obstetrics, medical care for socially vulnerable groups;
- Communicable and non-communicable disease control;

²³⁰ NSS of RA www.armstat.am Publications: "Women and Men in Armenia, 2009" page 93.

²³¹ NSS of RA www.armstat.am Publications: "Social Situation of RA 2008 (in Armenian)" page 108.

²³² The "Law of healthcare for population Republic of Armenia" adopted 4 March 1996 and Government Decision of Republic of Armenia On State Guaranteed Medical Services in 04.03.2004, No 346n.

²³³ WHO, Armenia, Health system performance assessment 2009, 156

²³⁴ Law of health care for population Republic of Armenia, adopted 4 March 1996, and Government Decision of Republic of Armenia On State Guaranteed Medical Services in 2004,

- The emergency healthcare program.

In 2006 the Basic Benefit Package was changed and now includes all primary health care: i.e., primary healthcare services and specialized services provided at the ambulatory-polyclinic institutions. Since 2006, all primary health care services (i.e., primary healthcare services and specialized services provided at the ambulatory-polyclinic institutions) have been free of charge.

The concept of BBP has changed and stretched, as “each year the number of people included on the “vulnerable” list is increased by the Armenian authorities and as a consequence, the money attributed to each individual decreases”.²³⁵ However, being eligible is not the same as being covered. Thus, it has been reflected that funding has “fallen short of targets, thus requiring patient co-payments even in the case of these targeted groups” with the consequence that “health care is most available to those able to pay out-of-pocket”.²³⁶

Angel-Urdinola and Prina have analyzed the utilization of health care and they have found that while inpatient care admissions in the region oscillate between 15 and 20 per 100 inhabitants, this figure is less than 8 (about half) for Armenia. The average number of outpatient visits in the region stands between 6 and 10 per person per year, while it amounts to less than 3 per person per year in Armenia.²³⁷ As to the target group of the program, they discovered that “only 60 percent of the poor who use health services benefit from public outpatient services and less than 5% (a very low share) of all poor users benefit from public inpatient services”.²³⁸ In fact, Tonoyan seems right when noting that “health care is most available to those able to pay out-of-pocket.”²³⁹

Hayrapetyan and Khanjian discovered in their study that “in Armenia, in order to increase their revenues, some doctors are aggressively looking for patients and acting like ‘patient hunters’.” They explain this behavior as being the result of the drastic reduction of patients at health institutions and the oversupply of physicians. They claim that “some of the physicians are recommending unnecessary procedures or are not disclosing the full cost of the operation at the beginning of the treatment and refusing to complete it without additional payments”.²⁴⁰ However, this makes the question of access crucial: income disparity contributes to unequal access to medical services.

Out of 3,260 drugs actively realized in the market, 445 (14 percent) are produced in Armenia, whereas 718 (22 per cent) are produced in CIS and 2,097 (64 per cent) in other countries. In the list of main drugs consisting of 342 titles, the share of locally produced drugs is 76 (22 %); in the primary list of drugs consisting of 168 titles the local titles are 53 (32 %), and in the additional list of drugs consisting of 174 titles the local ones are 23 (13 %). Currently there are twelve pharmaceutical companies in Armenia.²⁴¹

From 2005 to December of 2009 the price for medical services and medicine has increased by 48.4%.

Table 5.5.1 Price Changes for Provision of Medical Services and Medicine, 2005-2009

	2005	2006	2007	2008	2009 (November)
Medical Services and Medicine	100	107.7	112.1	135.6	148.4

²³⁵ Bulletin of the World Health Organization (BLT); “Armenians struggle for health care and medicines” <http://www.who.int/bulletin/volumes/87/7/09-010709/en/>

²³⁶ Tonoyan T., Health care system in Armenia: Past, present and prospects, Berlin 2004, 7

²³⁷ Angel-Urdinola D. F., Jain S., Prina S., Armenia, Social sectors and poverty in Armenia: From equity in access to equity in quality, 2006, 25

²³⁸ Angel-Urdinola D. F., Jain S., Prina S., Armenia, Social sectors and poverty in Armenia: From equity in access to equity in quality, 2006, 7

²³⁹ Tonoyan T., Health care system in Armenia: Past, present and prospects, Berlin 2004, 7

²⁴⁰ Hayrapetyan S., Khanjian A., Health care in Armenia: Challenges and prospects., Working paper No. 04/13, Armenian international policy research group.

²⁴¹ Kuleshova Y. “There is no Adequate Attention to Pharmaceuticals,” Delovoy Express, 08.12.2009, http://www.express.am/45_09/actsub45.html

Source: NSS of RA www.armstat.am Publications: "Consumer price indexes (prices) in the Republic of Armenia, January-December 2009 (in Armenian)" 2009, 2008, 2007, 2006.

On November 17, 2009, practically all mass media reported that State Commission for the Protection of Economic Competition (SCPEC) was starting to investigate the situation with the medical supplies (medicines') market. On 21 December 2009, the SCPEC officially announced the rate of penalties that had to be paid by the guiltiest representatives of this market.²⁴² The amount of penalties has been fixed on the level not higher than 2 % of the total volume of their activities during the previous year (2008).²⁴³

With the SCPEC there is one more active authority regulating the Armenia's health sector. Beforehand the role of Armenian State was described on the WHO's web site in the following way: «The Government's principal role with regard to pharmaceuticals is to regulate the sector and to procure a supply of drugs to meet the Government's commitments. Regulation primarily involves the registration of pharmaceuticals and the licensing of pharmacists and the pharmaceutical distribution system».²⁴⁴

Emil Gabrielyan, the Head of Drug and Technology Scientific Expertise Centre (who was the Minister of Health of the Armenian SSR from 1975 up to 1989), confirms that "for this moment there is no state inspection in the country although it is an absolute necessity. It is necessary to constantly monitor the drugstores' activity in every sense".²⁴⁵ The law regulating the drug supplies has been adopted in 1998. Since that time the medical supplies (drugs) are considered as a market commodity (market goods) the price of which is regulated by the free market. The specificity of the Armenian approach to the issues of regulating public health was manifested once more in the form of hesitant wait and then the State's involvement with lightning speed through an independent regulating authority. 25 February 2010, the head of SCPEC resigned his position (SCPEC had been founded in November 2000). There was a similar situation in Armenia at the Ministry of Health. In the course of the reforms, the Ministry of Health experienced a change of seven ministers, each of whom modified the direction of the reform and brought his own vision of the future health system.

Regional Access

Armenia is the country with one of the highest population densities among the former Soviet republics with about 100 persons per km². This makes it on the one hand easier to establish the necessary infrastructure for health care within the country. Nevertheless, the disparity in access to health care between the capital Yerevan and other regions remains one of the major problems. Patients living in Yerevan have more opportunities to get the necessary medical care; 68.4% of all the physicians have been working in Yerevan. Health care utilization is low, especially among the poor and those living in rural regions of Armenia.²⁴⁶

The situation in rural districts is different from the situation in Yerevan. The majority of people (95%) walk to the rural dispensary. After an inspection in rural health posts, in which mostly medical

²⁴² State Commission for the Protection of Economic Competition of the Republic of Armenia, "On implementing sanctions toward some entities involved in distribution of drugs", in Armenian (Դեղերի շրջանառության ոլորտում գործող մի շարք տնտեսվարող սուբյեկտների նկատմամբ պատժամիջոցներ կիրառելու մասին մասին), 18,

http://competition.am/uploads/resources/93_a_voroshum.pdf

²⁴³ Armenian pharmaceutical companies will file a complaint against the penalties of the SCPEC (State Commission for the Protection of Economic Competition of the Republic of Armenia)

<http://www.arka.am/rus/medicine/2009/12/25/18201.html>

²⁴⁴ WHO, Regional Office for Europe, Armenia, http://euro.who.int/pharmaceuticals/Topics/Overview/20020430_10

²⁴⁵ Interstate TV and Radio Company "Mir": "In Armenia the Market of False Drugs is Increasing", 08.11.2009, <http://mirtv.ru/content/view/82042/104/>

²⁴⁶ Breitscheidel L., Tuberculosis in Armenia: still an open question, The Internet Journal of Infection Diseases, <http://www.ispub.com/ostia/index.php?xmlFilePath=journals/ijid/vol5n2/armenia.xml>

nurses or medical assistants work, the patients can either go to a pharmacy or are forced to turn to specialized medical institutions. Usually they are located either in the regional center or in Yerevan.

The average distance to the pharmacy for a rural countryman is 10 km and to the hospital is 12 km. 23% of patients go to the pharmacy on foot; only 5% can walk to the hospital. The remaining 72% have to pay for the transportation by themselves. The cost of a bus trip to the regional center and back is about 769 drams (1.7 EUR) and the cost to Yerevan is 2015 dram (4 EUR). 32 % of patients ride to the pharmacy by bus/minibus and 25% patients ride to the hospital by bus/minibus. The rest are paying for a taxi or petrol/ gas, for own car, or for the neighbor's, relative's, or colleague's vehicle.

Table 5.5.2 Transportation Mode Used to Get to Social Services, 2008 (%)

	Total	Car\Truck	Minivan\Bus	Taxi	Walking / no transportation
Health Post	100	3	2	0	95
Hospitals (Emergency)	100	65	25	5	5
Pharmacy	100	45	31,6	0,4	23

Source: NSS of RA www.armstat.am Publications: "Report on Rural Community Survey, 2009" page 14.

Refueling a ride to the regional center is 4,311 drams (8 Euro), from Yerevan is 10,438 Dram (12 Euro), ride by bus/minibus is 1,276 Dram (2.5 Euro) and 2,660 (5 Euro), respectively, and by taxi is 5,039 Dram (10 Euro) and 12,912 Dram (24 Euro). The average monthly salary was 90,000 Dram (180 Euro) in Armenia in 2008; thus, the private costs for transport to a hospital or a pharmacy is a real burden and often excludes patients from the public health care.

Quality of Health Care

The health care services are delivered by:

- Out-patient institutions (polyclinics and ambulatories);
- Hospitals which situated in county cities in regions;
- Specialized institution and hospitals in Yerevan.

The Government of Armenia began reforming the health sector in the end of the 1990-s with assistance from international and bilateral organizations. In recent years, the Government of the Republic of Armenia adopted and approved the following programs:

- Poverty Reduction Strategy Paper;
- The strategy of maternal and Child Health Care for 2003-2015;
- National Programme on the Response to HIV Epidemic;
- National Tuberculosis Program;
- The National Tobacco Control Programme;
- Primary Health Care Strategy;
- Regional Health System Optimization Programme.

In 2002 the Government of Armenia ,developed the Poverty Reduction Strategy Paper (PRSP) including the National Strategy for Social-Economic Development which clearly formulates the Government's aspiration to improve the quality and quantity of medical services provided to the population and, first of all, on the regional and local levels. According to some experts²⁴⁷, by 2015 the Government of Armenia will be able to achieve specific goals related to gender and education, which are developed according to the UN *Millennium Goals*. However, it is unlikely that it will be possible to achieve the ambitious *child mortality goals*.

²⁴⁷ Armenien-europaeische Gemeinschaft, Laenderstrategiepapier fuer den Zeitraum 2007-2013, 33 http://ec.europa.eu/world/enp/pdf/country/enpi_csp_armenia_de.pdf

The objectives of the National Programme to improve reproductive health, in particular, are increasing rates of prenatal control, reduction of maternal mortality, reduce the incidence of cancer of the reproductive organs, diseases, sexually transmitted infections, infertility, and induced abortion.

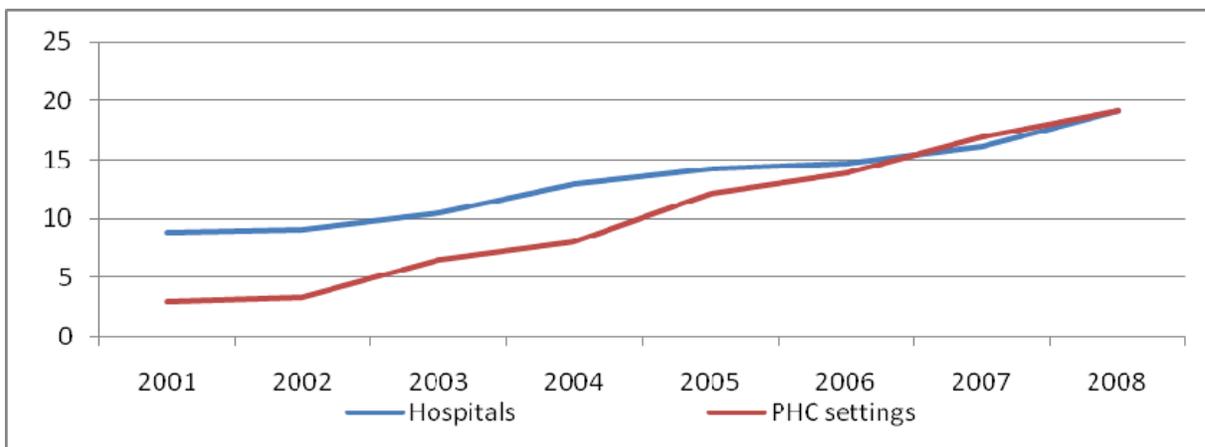
A National Programme on the Response to HIV Epidemic in the Republic of Armenia for 2007-2011 has been developed and discussed with the technical assistance provided by The Joint United Nations Programme on HIV/AIDS (UNAIDS/UNDP).²⁴⁸ In December 2009, the UNAIDS Country Coordinator for Armenia, Azerbaijan and Georgia appreciated these steps for strengthening the health system while pointing out that the cost efficiency would need to improve in order to save resources.²⁴⁹

Tuberculosis (TB) is a major public health problem in Armenia. The National Tuberculosis Program (NTP) was approved by the government of Armenia in 2003. Its objectives have been to develop and implement national measures focusing mainly on prevention and control of TB.²⁵⁰

The global burden of diseases resulting from tobacco smoking in Armenia is well understood. The National Tobacco Control Program was adopted in November 2004 by Armenia's Parliament and increased fines and outlawed smoking in educational facilities, on public transportation, and in other public places. The main goals of the Primary Health Care Strategy are: (i) empowerment of the preventive services, increase the share of public expenditures allocated to PHC and; (ii) establishment and empowerment of family medicine.

The country's hospital-based, highly specialized health care system is slowly being replaced with more responsive and effective primary care. The World Bank provided a US\$ 19 million equivalent credit for the Armenia health care modernization to support the efforts to scale up the implementation of family medicine based primary health care reforms in Armenia in order to improve the access to health services.²⁵¹ This is the second World Bank-supported project for health sector (see Figure 5.5.3).

Figure 5.5.3 Government Health Expenditures by Type, 2001-2008 (billions drams)



Source: WHO, "Armenia, Health system performance assessment 2009" page 152.

²⁴⁸ National Programme on the Response to HIV Epidemic in the Republic of Armenia for 2007-2011, 2

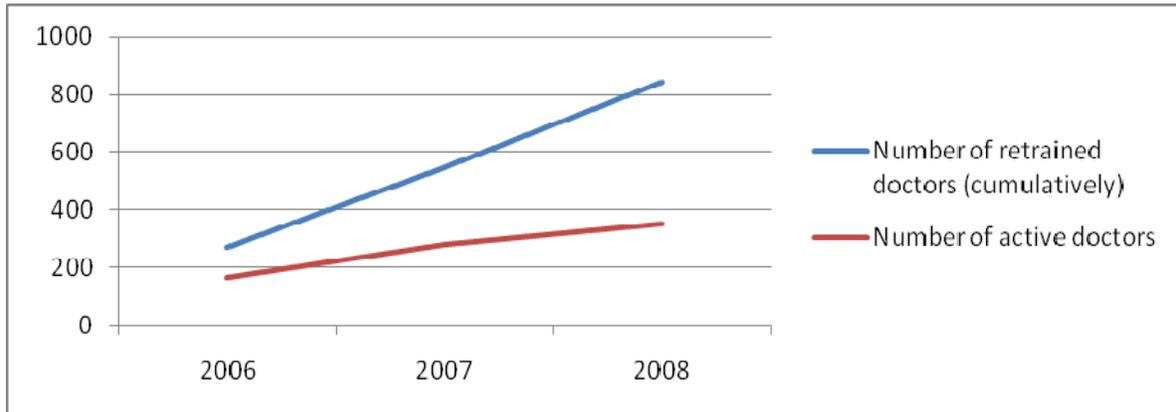
²⁴⁹ United Nations Information Centers, Leaders in Armenia commemorate World Aids Day under the theme "Universal Access and Human Rights", <http://unic.un.org/imu/recentActivities/post/2009/12/Leaders-in-Armenia-commemorate-World-Aids-Day-under-the-theme-e2809cUniversal-Access-and-Human-Rightse2809d.aspx>

²⁵⁰ Breitscheidel L., Tuberculosis in Armenia: still An Open Question, in The Internet Journal of Infectious Diseases, 2006 Volume 5 Number 2 <http://www.ispub.com/ostia/index.php?xmlFilePath=journals/ijid/vol5n2/armenia.xml>

²⁵¹ World Bank supports health system modernization in Armenia, <http://lnweb90.worldbank.org/eca/eca.nsf/0/9A05901F7C96236B85256EAF0064A429?OpenDocument>

It is estimated that 80% of illnesses could be cured through primary health care.²⁵² However, the current health system is still hospital-dominated. From 2003 to 2008 the total number of physicians increased by 10% and the number of doctors in outpatient clinics by 6.8%.²⁵³ Most urban polyclinics continue to operate based on the former Soviet tradition, where there are no family physicians.²⁵⁴ As in other transition countries newly trained general practitioners commonly return to practice in polyclinics where they often revert to old models of practice due to lack resources, incentives and support at a system level.²⁵⁵

Figure 5.5.4 Number of Retrained and Active Family Doctors, 2006 -2008



Source: WHO, "Armenia, Health system performance assessment 2009" pages 49 and 155.

Physicians, nurses and midwifery personnel in polyclinics are the health staff in charge of providing primary health care. The waiting time for an outpatient appointment is short (0–0.5 hour).

There are 241 ambulatories in rural areas. They are supposed to function as "gatekeepers" and the connection to all secondary and tertiary medical services. There are 871 rural municipalities; not all of them can offer health care institutions to the population.

Table 5.5.5 Out-Patient Institutions, 2004-2008

	Number of out-patient institutions, unit				Number of attendances in out-patient institutions, thousand				
	2004	2005	2006	2007	2004	2005	2006	2007	2008
Republic of Armenia	458	460	467	474	6,567.5	7,668.6	8,508.1	9,522.6	10,402.6
Yerevan	98	97	110	117	2,561.6	3,078.3	3,277.2	3,975.7	4,400.8
Outside of Yerevan	360	370	357	357	4,005.9	4,590.3	5,230.9	5,546.9	6,001.8

Source: NSS of RA www.armstat.am Publications: "Marzes of the Republic of Armenia in Figures, 2009" page 94-96.

According to studies conducted in two rural regions of Armenia in 2009 the majority of patients were satisfied with their provider. Most patients (89.0%) would visit the same provider again, and would recommend the provider to friends (85.6%). 78% of respondents considered the care they received

²⁵² Hayrapetyan S., Khanjian A., Health care in Armenia: Challenges and prospects., Working paper No. 04/13, Armenian international policy research group.

²⁵³ National Statistical Service of RA, Social Situation of RA 2008 (in Armenian), 171, and Annex 5.6

²⁵⁴ Hayrapetyan S., Khanjian A., Health care in Armenia: Challenges and prospects, Working paper No. 04/13, Armenian international policy research group.

²⁵⁵ Balabanova D., Health Sector Reform and Equity in Transition, 2007, 1, <http://web.wits.ac.za/NR/rdonlyres/851C49D3-8EE2-46CA-8FAC-2D12D9386D66/0/Balabanova.pdf>

to be ‘excellent’ or ‘good’. Satisfaction with other aspects of care, including waiting time, accessibility of services, confidentiality and cleanliness of the facility, was also high.²⁵⁶

As to the medical treatment, there still is a Soviet heritage to overcome. Clinicians in the former Soviet Union have developed distinct treatment approaches and do not share the Western paradigm of evidence based medicine. Diagnostic criteria are often different, and many drug treatments and physical therapies (x rays, electric fields, etc.) are unheard of in the West. Generally, treatment methods from Soviet times tend to involve many— often obsolete—drugs, long treatments, some of the highest use of injections in the world, and lower thresholds for admission to hospital and surgery.²⁵⁷ Certain persons in the political nomenclature also enjoyed special privileges in health care.²⁵⁸ This was possible at the expense of national minorities, the socially vulnerable population, and as informal payments began to creep into the system.²⁵⁹

The medical technology and equipment in health facilities have become outdated; a part of the available equipment is used inefficiently and needs to be redistributed.²⁶⁰ However, people are satisfied with the quality of offered health care services. This can be explained by the fact that rural patients often have only a limited choice of providers and they need to travel greater distances to obtain health care than those patients in urban areas. Harutyunyan, Demirchyan, Thompson, and Petrosyan have reasoned that “these factors may lead to lower expectations and higher gratitude among rural clients. Additionally, patients and providers who live in areas with lower population density may be more likely to see each other outside the health care setting; these interactions may positively affect patients’ perceptions of their providers”.²⁶¹

Not all communities have equal access to institutions that provide health services, but most have problems with the quality of their provision. It is not about excessively modern laboratories or technical equipment, but about the most ordinary conditions provided for physical examination, starting with the buildings, most of which need major refurbishment.

Table 5.5.6 Age Structure of Community Medical Institutions

	Age of health care facilities in % to total			
	Total	Including		
		up to 5 years	5-20 years	more than 20 years
Medical centre	100	8	25	67
Ambulatory-Policlinic	100	13	23	64
Hospital	100	7	20	73
Pharmacy	100	43	22	35
Dentist	100	26	26	48

Source: NSS of RA www.armstat.am Publications: “Report on Rural Community Survey, 2009” page 9.

The physical conditions in health posts and polyclinics are often poor. In accordance with the Regional Health System Optimization Programme the number of hospitals along with the number of hospital beds in the regions will be reduced. In each regional county city, one multi-sectoral hospital

²⁵⁶ Harutyunyan T., Demirchyan A., Thompson M., Petrosyan V., Patient satisfaction with primary care in Armenia: good rating of bad services?, 12, in Health Services Management Research, Volume 23 Number 1, 2010

²⁵⁷ Schoen-Angerer Tido von, Understanding health care in the south Caucasus: examples from Armenia, http://www.msf.org/msfinternational/invoke.cfm?objectid=70E22B82-1705-4FB7-68E901928B30BB9&component=toolkit.article&method=full_html

²⁵⁸ Baum-Ceisig A., Busch K., Hacker B., Nospickel C., Wohlfahrtsstaaten in Mittel- und Osteuropa Entwicklungen, Reformen und Perspektiven im Kontext der europäischen Integration, 161

²⁵⁹ Balabanova D., Health Sector Reform and Equity in Transition, 2007, 1, <http://web.wits.ac.za/NR/rdonlyres/851C49D3-8EE2-46CA-8FAC-2D12D9386D66/0/Balabanova.pdf>

²⁶⁰ Tonoyan T., Health care system in Armenia: Past, present and prospects, Berlin 2004, 7

²⁶¹ Harutyunyan T., Demirchyan A., Thompson M., Petrosyan V., Patient satisfaction with primary care in Armenia: good rating of bad services?, 12, in Health Services Management Research, Volume 23 Number 1, 2010

is to be designated for upgrading and improvement. Until 2012, in the ten hospitals located in the various regional centers of Armenia, there will be a full refurbishment and they will be equipped with modern technology meeting the European standards.²⁶² The first of these ten hospitals, the hospital in the town of Hrazdan, 50 km from Yerevan, was already renovated within the framework of the World Bank "Modernization of the Armenia's health care system" credit program.²⁶³

5.6 Long-Term Care

The long-term medical care services in Armenia are extremely limited and the private sector is not involved in provision of these services.²⁶⁴ In 2008, there were 7 social service organizations for aged and disabled people in Armenia, 4 of them public and 3 private. In 2008, all together they employed 28 physicians, 25 of them working for the public and 3 of them for private institutions. The number of nurses in public institutions was 125, and only one nurse worked for a private organization. The situation is similar as to the Care Institutions for Children (orphanages). In 2008 there were 12 orphanages in Armenia, 8 of which being public and 4 private. 32 from 34 physicians have been working for public organizations (orphanages).²⁶⁵

There is no specific scheme for long-term care. Benefits are provided by branches of social security.²⁶⁶ All organizations working in this field are administered by the Ministry of Labor and Social affairs.

There were 175,094 disabled people in Armenia in 2009. More than 77,9 thousand disabled persons are women and more than 8,5 thousand of the disabled are children.²⁶⁷ Armenia had no standards in the field of social protection of disabled people until 2006. In 2006, the Government adopted the "2006-2015 strategy for social protection of the disabled people". The state realizes programs of medical care for disabled persons, which are partially confirmed legislatively. Free health service is provided for all disabled persons. At the same time, disabled children and adults of the first and the second groups are provided with medicine free of charge while disabled persons of the third group are provided with medicine at 50 % discount. The Ministry of Social Security of the Republic of Armenia renders prosthetic-orthopedic assistance, provides additional technical means - carriages, hearing aids, vocal devices, etc. Since 2007 the Ministry has been giving ocular prosthesis free of charge. From year to year, the state increases volumes of medical aid and tries to consider needs of each separate citizen with limited possibilities.²⁶⁸ The long term medical and psychological care could be characterized as insufficient in terms of quality and quantity.²⁶⁹

Not all disabled persons have been informed that medical care is free. According to a study, 62.5% of the people with disabilities were aware of free medical service being provided by the state,

²⁶² Interview with the Minister of Health on the web site of the Ministry of Health of the Republic of Armenia http://www.moh.am/img/DF_journal.pdf

²⁶³ President Sargsyan attended the opening ceremony of the fully renovated medical center in Hrazdan town, 29.12.2009, <http://www.president.am/events/visits/eng/?visits=2&year=2009&id=87>

²⁶⁴ Hovhannisyanyan S., Tragakes E., Lessof S., Aslanian H., Mkrtchian A., Health care systems in Transition, Armenia 2001, 52, <http://www.euro.who.int/document/e73698.pdf>

²⁶⁵ *National Statistical Service of RA, Social Situation of RA 2008 (in Armenian)*, 216, 224, 234, 240

²⁶⁶ Comparative tables of social protection systems in 12 member states of the Council of Europe and 3 observer state, 2009, 11

²⁶⁷ *National Statistical Service of RA, Social Situation of RA 2008 (in Armenian)*, 191

²⁶⁸ Интервью начальника управления по вопросам инвалидов и престарелых Министерства труда и социальных вопросов Армении Джеммы Багдасарян Агентству международной информации «Новости-Армения». <http://www.newsarmenia.ru/exclusive/20080814/41929147.html>, 19.02.2010

²⁶⁹ Statement by Mrs. Lena Terzikian, 47th session of the Commission for Social Development, 2009, www.un.int/.../February%204.2009%20Statement%20by%20Mrs.%20Lena%20Terzikian

21.1% heard, but were not well-informed, and 16.4% absolutely did not know.²⁷⁰ Disabled persons are exempt from the payment, not only for consultations with doctors, but also for medical products and public transport, but there is a lack of information.

Among the medical expenses made during the last visit, the following expenses were more often specified: purchase of medicine - 56.5%, transportation expenses - 44.7% and payment to doctor - 25.2%. Among the means to cover the medical expenses of the people with disabilities during the last visit, there were often specified: the current household budget - 28.9%, borrowings - 19.4%, savings - 11.5%, aid from relatives and friends - 11.0%. Meanwhile, for the people with disabilities living alone these were more often specified: the aid from relatives and friends - 21.0%, borrowings - 20.1%, savings - 12.6%, current budget - 8.5%.²⁷¹

*Long-term care in Armenia is generally providing for a hospital-based clinical service for chronic patients and/or temporarily or permanently disabled persons. However, an analysis shows that the care for the patients with severe physical and functional impairments, particularly in rural areas, is often inappropriate as it frequently involves rehabilitative services even though long-term care might be more appropriate.*²⁷² Experts have explained this with the Armenian tradition of caring for the extended family, on humanitarian assistance and on the acute hospital sector to meet social care needs. This stance creates real difficulties for a health system already starved of resources: "Acute beds become blocked with social cases, and elderly and chronically ill patients are cared for in an inappropriate setting. Mental illness causes particular strain on provisions since the health sector is expected to meet the cost of both acute and chronic care."²⁷³

There is one single hospital for mentally and physically handicapped designed for long stay patients, which is under the supervision of the Ministry of Social Affairs.²⁷⁴ There are no nursing homes for patients that need continuing, long-term care. Home nursing is provided for disabled persons and elderly living alone. All registered costs for services of long-term nursing services in 2008 amounted 51.3 million Dram (100 thousand EURO), the same indicator for 2007 was ten times less and amounted 5.1 million Dram (10 thousand EURO). This amount was paid by the Ministry of Labor and Social Affairs for nursing long-term services provided in inpatient day-care conditions.²⁷⁵

The government claims that "inequity of access to mental health services for other minority users (e.g. linguistic, ethnic, religious minorities) is not an issue in the country" and further "In case if neither Armenian nor Russian is understood by the patient a translator is invited."²⁷⁶ There is no information on how many people belonging to minorities are in mental treatment and how many translators are needed, whilst there is no possibility to study Yezid or Kurd language.

²⁷⁰ National Statistical Service of RA, Report on Sample Survey of Living Conditions for the People with Disabilities in the Republic of Armenia, 2009, 30-49

²⁷¹ National Statistical Service of RA, Report on Sample Survey of Living Conditions for the People with Disabilities in the Republic of Armenia, 2008, 30-49

²⁷² Hakobyan T., Nazaretyan M., Makarova T., Aristakesyan M., Margaryants H., Nolte E., Armenia health system in review, Health systems in transition, Vol. 8, No 6, 2006, <http://www.euro.who.int/document/e89732.pdf>

²⁷³ Hovhannisyan S., Tragakes E., Lessof S., Aslanian H., Mkrtchian A., Health care systems in transition, Armenia 2001, 52, <http://www.euro.who.int/document/e73698.pdf>

²⁷⁴ WHO-AIMS Report on Mental health System in Armenia, 12 http://www.who.int/mental_health/armenia_who_aims_report.pdf

²⁷⁵ National health accountants of the Republic of Armenia, 2009, 31, 35

²⁷⁶ WHO-AIMS Report on mental health system in Armenia, 14 http://www.who.int/mental_health/armenia_who_aims_report.pdf

5.7 Key challenges

It cannot be denied that Armenia has shown successful development in many fields of the economic agenda. Regarding health care, there is indeed evidence of an improvement; however, the health care system still has to cope with important challenges.

In terms of the share of private expenditure in total spending on health, Armenia is at the level of developing countries with low per capita income. As to the government commitment to health, Armenia is ahead of many countries with developed market economies. However, excessive government commitment is tending to deter and, perhaps, entirely exclude the construction of a rational, resource saving system of economic relations in health care. The imbalance between public commitments and the financial benefit makes it difficult to realize an effective control over the quality care. For this reason, Armenian public health care could be characterized as having a noble purpose with inadequate resource allocation.

The analysis shows that health care, or at least a significant segment of it, forms a part of the informal sector of the Armenian economy whilst representing one of the most effectively organized components of the economy. To improve the efficiency, a number of well-coordinated reforms are necessary, not only in the healthcare system, but also in assessment of the transformation process. It can be stated that it is not the question of state versus private provision in the health sector in the first place. However, the key point and focus is the assurance of competition. It seems to be necessary to further re-interpret the role of the state. It is necessary to create frames for development of health care accessible for all strata of population.

In order to further develop the national health care strategy, it would be helpful to have more informative health status data, especially with regard to the regions (marz) and to the socioeconomic background (income, age, ethnic group etc.). Also, the quality of the statistical data and key indicators should be improved. With additional information it would be possible to obtain a better picture of the status quo and of the further necessities and tasks.

Despite the improvement with regard to infant/children mortality rates, Armenia cannot meet the Millennium Development Goal (MDG) targets yet. This requires special attention and concentration of the relevant health care measures on the vulnerable group of expecting mothers, infants, and children. On the other hand, there could also be a focus on non-communicable diseases such as cardiovascular diseases and life-style/habits, health care education and prevention.

A special challenge is the accessibility of health care services. The government, administration, and the health care personnel must ensure that everyone who needs health care will have access to the services, irrespective of, for instance, income. This is an important argument for state intervention: if the assurance for the access of the vulnerable is lacking, there is no legitimating to invest public money in this order of magnitude. To ensure access, the status of the health care infrastructure should be observed (especially primary care and hospitals), and corruption and the informal sector should be resolved.

The conditional framework as laid down by the state is important in order to offer the right incentives and in order to introduce and develop competition within the health care system rather than proclaiming unfeasible wishes. Thus, the surrender of the health system to market mechanisms, e.g. insurances, could lead to price, or at least to quality competition, and bring innovations and other advantages associated with this. A feasible option might be the Bismarck model that was chosen by the majority of former socialist countries of Eastern Europe.

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Annexes

Annex 5.1 Population profile

Sex ratio - 0.89 males per female;
Urban - 64%; EU 27: 74%, EU 15: 77%, CIS 8: 64%

The population of Armenia is young compared with the one in the countries of European Union and CIS; that is why it is healthy and is not creating a financial burden in the system of public health, as it will happen in several years when the population’s aging will be more obvious. In terms of paying for medical services the most expensive part of somebody’s life is his/her last years.

The age structure is distributed as following:

1. 14 years: 18.2% (male 289,119/female 252,150)²⁷⁷
EU 27: 16%, EU 15: 16%, CIS 8: 7%²⁷⁸
2. ≥ 65 years 10.6% (male 122,996/female 192,267) (2009 est.)²⁷⁹
EU 27: 17%, EU 15: 17%, CIS 8: 7%²⁸⁰

The growth of population is estimated to be 0.03% (2009 est.) The birth rate per 1,000 people is estimated to be 12.53 (2008 est.). Death rate is 8.34 deaths per 1,000 people.²⁸¹

Annex 5.2 What do the Armenians suffer from?²⁸²

Cardiovascular diseases

The leading cause of death: 53% of the total deaths (2003)

Within this group, the major killers are as follows (2003)

- Diseases of the circulatory system: 627 deaths per 100 000

EU 27: 273, EU 15: 214, CIS 8: 684

- Ischemic heart diseases: 387 deaths per 100 000, causing 13% of the disease burden.
- Cerebrovascular diseases: 277 deaths per 100 000, causing 7% of the disease burden and 16% of all deaths.
- High blood pressure causes an estimated 8% of deaths among men and 9% of deaths among women.

EU 27: 103, EU 15: 82, CIS 8: 350

Cancer (malignant neoplasms)

- Cancer causes 159 deaths per 100 000 population (2003).

EU27: 180, EU15: 170, CIS8: 110

- There are 222 new cases of cancer per 100 000 per year (2006).

EU27: 460, EU15: 475, CIS8: 110

- New cases per 100 000 per year (2003): cervical cancer: 7, (CIS8: 10);
- Breast cancer: 30 (CIS8: 16); and lung cancer (2006): 38

EU27: 54, EU15: 54, CIS8: 13.

Respiratory diseases

- Chronic obstructive pulmonary disease causes 3% of all deaths and 2% of the disease burden.

Diabetes

- Prevalence of diabetes (2006): 1.2%.
- Diabetes causes 4% of the disease burden and 61 deaths per 100 000 (2002).

EU 27: 14, EU 15: 14, CIS: 25

Mental health

Per 100 000 population per year (2006)

- New cases of mental disorders: 78, CIS 8: 100
- Suicide or death from self-inflicted injuries: 2,

EU 27: 11, EU 15: 10, CIS 8: 8

²⁷⁷ WHO-AIMS Report on Mental Health System in Armenia, 2009, 8

http://www.who.int/mental_health/armenia_who_aims_report.pdf

²⁷⁸ Jakubowski E., Arnaudova A., 10 health questions about the Caucasus and central Asia, 2009, 85-86

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²⁸⁰ Jakubowski E., Arnaudova A., 10 health questions about the Caucasus and central Asia, 2009

²⁸¹ WHO-AIMS Report on Mental health System in Armenia, 2009, 8

http://www.who.int/mental_health/armenia_who_aims_report.pdf

²⁸² Jakubowski E., Arnaudova A., 10 health questions about the Caucasus and central Asia, 2009

- New cases of alcoholic psychosis: 2, CIS 8: 43
- Infectious and parasitic diseases
 Infectious diseases cause less than 1% of all deaths (2003).
- Tuberculosis is a substantial problem: 55 new cases per 100 000 per year (2006).
 - New cases of HIV infection (2006): 2 per 100 000,
- EU27: 6, EU15: 6, CIS8: 5
- Sexually transmitted infections (per 100 000 per year, 2007):
 - New cases of syphilis: 5.
- EU27: 4, EU15 (2004): 3, CIS8 (last available year): 14
- New cases of gonococcal infection: 24.
- EU27: 8, EU15 (2006): 9, CIS8 (last available year): 21
- Total alcohol consumption (2003): 1.1 liters per person per
- Year. EU27: 9.0, EU15: 9.4, CIS8: 1.5

Annex 5.3 Population groups eligible for state basic benefit package.²⁸³

1. I group disability (most severe)
2. II group disability
3. III group disability (least severe)
4. World War II veterans
5. Single-parented children younger than 18
6. Orphans younger than 18
7. Disabled children younger than 18
8. Children of families with 4 or more children younger than 18
9. Family members of those who served in the military and who died in Armenia defense or while carrying out professional duties
10. Persons who participated in clean-up of Chernobyl accident
11. Exiles
12. People referred for additional examinations under SMEC
13. Children who have disabled parents and are younger than 18
14. Children under 7 years old
15. People of pre-conscript and conscript age
16. Military employees and their family members
17. People in detention
18. People receiving poverty family benefit
19. People in orphanages or retirement homes
20. Children under 8 and also 12 years old, 65 and over population – specialized dental care
21. People referred by the Ministry of Health, provincial governments or medical facilities
22. Women in fertility age (in pregnancy, delivery and postnatal period) in order to the Ministry of Health of Armenia
23. Victims of trafficking
24. Persons referred by RoA MOH, regional governments and medical facilities

Tables

Table 5.1 Disease Burden in Armenia, CIS 8 and the EU

Cause	Share of disease burden (%)			
	Armenia	CIS 8	EU 27	EU 15

²⁸³ WHO, Armenia, Health system performance assessment 2009, 156.

Cardiovascular diseases	18	22	14	12
Neuropsychiatric disorders	17	16	30	32
Unintentional injuries	7	8	8	7
Infectious and parasitic diseases	5	7	2	2
Prenatal conditions	7	5	2	2
Digestive diseases	4	6	5	4
Musculoskeletal diseases	3	NA	4	NA
Congenital abnormalities	5	NA	NA	NA
Cancer (malignant neoplasm's)	10	6	13	13
Sensory organ disorders	6	4	4	4
Total no communicable diseases	87	82	87	84
Total communicable diseases	5	7	2	2
Total injuries	8	11	11	10

Source: Jakubowski E., Arnaudova A., 10 health questions about the Caucasus and Central Asia, 2009, p.85-86

Table 5.2 Top 10 Causes of Death in Armenia

Cause	Total deaths (%)
1. Ischemic disease	33
2. Cerebral-vascular disease	16
3. Diabetes mellitus	6
4. Tracheal, bronchial and lung disease	4
5. Chronic obstructive pulmonary disease	3
6. Inflammatory heart disease	2
7. Hypertensive heart diseases	2
8. Breast cancer	2
9. Stomach cancer	2
10. Cirrhosis of the liver	2

Source: Jakubowski E., Arnaudova A., 10 health questions about the Caucasus and central Asia, 2009, 85-86

Table 5.3 Main Indicators of Public Health, 1999-2008

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of physicians of all specialists	12625	12270	11529	11508	11728	11396	12307	12388	12251	12929
Per 10 000 population	33,2	32,3	30,3	35,8	36,5	35,4	38,2	38,4	37,9	39,9
Number of paramedical personnel	24559	22632	20431	19257	18379	17874	18364	18574	18595	18594
Per 10 000	64,9	59,5	53,8	59,9	57,2	55,6	57,0	57,6	57,6	57,4
Number of hospitals	174	146	142	135	137	140	145	140	135	130
Number of hospital beds	23574	20795	16157	13968	14208	14259	14353	14276	13126	12358
Number of medical institutions rendering out-patient and dispensary aid to population	504	503	460	446	452	448	458	460	467	474
Power of out-patient and dispensary institutions, attendance during a shift, total	43366	42890	39347	38506	38505	38399	39236	39582	37964	38937
Per 10 000 population	114,0	112,8	103,5	119,9	119,9	119,4	121,9	122,9	117,7	120,4

Source: NSS of RA www.armstat.am "Statistical Yearbook of Armenia 2006" page 129; "Statistical Yearbook of Armenia 2009" p. 138.

Table 5.4 Main Indicators on Public Health by Regions, 2004-2008

	Number of doctors, person					Number of paramedical personnel, person					Number of hospital beds, unit				
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008
Republic of Armenia	11396	12307	12388	12251	12929	17874	18364	18574	18595 ³	18594	14259	14353	14276	13126	12358
Yerevan	7766	8366	8457	8253	8849	7941	8006	8192	8375	8438	7393	7435	7393	7340	7352
Aragatsotn	232	231	241	234	237	732	748	730	699	699	478	468	468	438	258
Ararat	404	440	455	451	459	1020	1064	1071	1068	1101	800	830	805	805	693
Armavir	413	414	410	402	393	1116	1145	1116	1153	1153	632	632	632	362	345
Gegarkunik	322	331	333	345	346	1191	1248	1256	1221	1155	914	889	889	807	807
Lori	505	507	502	502	525	1176	1200	1203	1196	1207	830	840	840	600	555
Kotayk	569	575	564	545	528	1338	1338	1352	1263	1263	920	935	935	785	669
Shirak	591	576	557	555	557	1750	1714	1679	1604	1528	982	1039	1034	894	874
Syunik	280	292	305	286	301	797	812	855	814	814	735	710	710	545	435
Vayots Dzor	86	116	106	113	110	209	276	279	282	306	190	190	190	180	95
Tavush	228	250	247	251	253	604	674	695	696	664	385	385	380	370	275

Source: NSS of RA www.armstat.am Publications: "Marzes of the Republic of Armenia in Figures, 2009" p. 94-96.

Table 5.5 Out-Patient Institutions in Armenia, 2005-2008

	Number of out-patient institutions, unit				Number of attendances in out-patient institutions, ths.			
	2004	2005	2006	2007	2005	2006	2007	2008
Republic of Armenia	458	460	467	474	7668.6	8508.1	9522.6	10402.6
Yerevan	98	97	110	117	3078.3	3277.2	3975.7	4400.8
Aragatsotn	26	26	23	23	267.5	226.9	287.2	321.8
Ararat	61	60	59	59	586.8	620.4	702.4	727.9
Armavir	59	60	59	59	531.6	631.5	697.6	768.5
Gegharkunik	35	35	35	36	521.1	605.2	605.9	693.5
Lori	45	46	43	43	613.5	723.9	747.0	822.3
Kotayk	43	43	44	44	582.3	672.0	753.7	774.0
Shirak	35	36	36	33	575.5	700.6	717.2	750.0
Syunik	24	25	27	28	503.6	614.5	596.7	666.5
Vayots Dzor	9	9	9	9	131.7	144.8	153.5	169.0
Tavush	23	23	22	23	276.7	291.1	285.7	308.3

Source: NSS of RA www.armstat.am Publications: "Marzes of the Republic of Armenia in Figures, 2009" page 94-96.

Table 5.6 Main Indicators on Public Health per 10.000 persons by Regions, 2004-2008

	Number of doctors, person					Number of paramedical personnel, person					Number of hospital beds, unit				
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008

Republic of Armenia	11396	12307	12388	12251	12929	17874	18364	18574	18595	18594	14259	14353	14276	13126	12358
Yerevan	7766	8366	8457	8253	8849	7941	8006	8192	8375	8438	7393	7435	7393	7340	7352
Aragatsotn	232	231	241	234	237	732	748	730	699	699	478	468	468	438	258
Ararat	404	440	455	451	459	1020	1064	1071	1068	1101	800	830	805	805	693
Armavir	413	414	410	402	393	1116	1145	1116	1153	1153	632	632	632	362	345
Gegharkunik	322	331	333	345	346	1191	1248	1256	1221	1155	914	889	889	807	807
Lori	505	507	502	502	525	1176	1200	1203	1196	1207	830	840	840	600	555
Kotayk	569	575	564	545	528	1338	1338	1352	1263	1263	920	935	935	785	669
Shirak	591	576	557	555	557	1750	1714	1679	1604	1528	982	1039	1034	894	874
Syunik	280	292	305	286	301	797	812	855	814	814	735	710	710	545	435
Vayots Dzor	86	116	106	113	110	209	276	279	282	306	190	190	190	180	95
Tavush	228	250	247	251	253	604	674	695	696	664	385	385	380	370	275

Source: NSS of RA www.armstat.am Publications: "Marzes of the Republic of Armenia in Figures, 2009" page 94-96.

Table 5.7 Number of Attendances in Out-Patient Institutions per Capita, 2004-2008

	2004	2005	2006	2007	2008
Republic of Armenia	2.0	2.4	2.8	3.0	3.3
Yerevan	2.3	2.8	3.4	3.6	4.0
Aragatsotn	1.7	1.9	2.1	2.0	2.3
Ararat	1.9	2.1	2.3	2.5	2.6
Armavir	1.7	1.9	2.3	2.5	2.7
Gegharkunik	1.7	2.2	2.5	2.5	2.9
Lori	2.0	2.2	2.6	2.6	2.9
Kotayk	1.8	2.1	2.4	2.7	2.8
Shirak	1.6	2.0	2.5	2.6	2.7
Syunik	3.1	3.3	4.0	3.9	4.4
Vayots Dzor	2.3	2.4	2.6	2.8	3.0
Tavush	2.0	2.1	2.2	2.1	2.3

Source: NSS of RA www.armstat.am Publications: "Marzes of the Republic of Armenia in Figures, 2009" page 94-96.

Table 5.8 Employed Population by Type of Economic Activity, 2008

	Proportion to total		Distribution by sex	
	Female	Male	Female	Male
Agriculture	45,9	30,6	55,6	44,4
Fishing, fish-breeding	0,1	0,1	50,3	49,7
Mining and quarrying	0,3	1,8	12,4	87,6
Manufacturing	5,4	7,7	36,8	63,2
Energy, gas and water supply	1,1	5,0	15,1	84,9
Construction	0,5	15,9	2,6	97,4
Wholesale and retail trade	8,3	9,5	42,1	57,9
Hotels and Restaurants	1,6	1,0	56,9	43,1
Transport and communication	2,0	7,9	17,3	82,7
Financial activities	0,9	0,9	47,0	43,0
Real estate, renting and business activities	1,0	2,0	29,0	71,0

Public administration	4,0	7,7	30,4	69,6
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Source: NSS of RA www.armstat.am Publications: "Social Situation of RA 2008" (in Armenian) page 107.