



HUMAN POVERTY AND PRO-POOR POLICIES *in* ARMENIA

YEREVAN 2005

The “Human Poverty and Pro-poor Policies in Armenia” report has been prepared by a team of national experts within the framework of the UNDP and Government of Armenia joint project on “Strengthening national capacities on poverty impact assessment and pro-poor policy development within the framework of PRSP implementation”. The NHDS (National Human Development Survey) data served as a basis of this report. The findings, interpretations as well as recommendations and conclusions expressed in the document are those of the authors and do not necessarily represent the views of UNDP as well as of the Government of Armenia.

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FOREWORD

The report “Human poverty and pro-poor policies in Armenia” was prepared by a number of national experts within the framework of the “Strengthening national capacities on poverty impact assessment and pro-poor policy development within the framework of PRSP implementation” project document drafted jointly by the UNDP and the Government of Armenia¹. The report is based on the results of the National human development survey (NHDS) incorporating the findings of interviews with 6000 households selected from all marzes of Armenia in spring 2003, as well as summary of the information collected from 170 rural and 45 small and medium sized towns.

The NHDS methodology, including the sampling and principles for developing questionnaires, was presented in detail in the July 2004 issue of Armenia Social Trends (AST) informational-analytical bulletin devoted to human poverty in Armenia’s marzes². Analyses of the urban communities survey of the NHDS and specific features of rural communities have also been presented in the mentioned bulletin’s October 2003 issue “Small and medium sized towns in Armenia’s marzes and November 2004 issue “Rural poverty in Armenia’s marzes”³.

Numerous discussions around the results of the NHDS⁴ revealed the need to complement the set of Poverty Reduction Strategy Paper⁵ (PRSP) measures with human development policy based recommendations. Moreover, the mentioned recommendations need to be developed on the basis of not only the analytical materials already presented in the AST, but also the secondary, i.e. policy-oriented analysis, of the NHDS data.

Thus, the idea of drafting policy recommendations anchored in the primary results of the NHDS and the secondary analysis of data was born. In order to realize the idea, there was also a need to outline the conceptual framework for developing the recommendations. It was beyond doubt that the UNDP human development doctrine, which was at the basis

¹ The mentioned project document was approved by the Government of Armenia on 29 January 2004 by its Order No. 51-A and implemented by the UNDP and the Government of Armenia joint project “Creating a social monitoring and analysis system”.

² See: <http://www.undp.am/?page=publications> or www.gov.am/armversion/programms_9/ahrc_mshtakan_gorc.htm

³ See Ibid.

⁴ In 2003-2004, within the framework of the “Creating a social monitoring and analysis system”, more than 10 seminars, round-tables and workshops were organized all around the country, where the methodology and the analytical materials of the NHDS were presented to and discussed with representatives from the government, non-governmental organizations and donor organizations.

⁵ Approved by the Government of Armenia in August 2003, see www.prsp.am.

FOREWORD

of the NHDS, should guide the policy development efforts. Considering, however, the specific features of human development inherited from the period of socialism in Central and Eastern European (CEE) and CIS countries⁶, including Armenia, and basing ourselves on the poverty reduction strategy adopted by the country, it was deemed appropriate to combine the strategic issues of Human Development and Poverty Reduction.

Certain relevant approaches were already developed by the Bureau of Development Policies (BDP) of UNDP Headquarters. These approaches are summarized under the title “pro-poor policies”⁷ and are not essentially different from the fundamental principles of human development. They are, however, primarily applied to the efforts in support of poorer groups of population and/or mitigation of poverty generating factors. The pro-poor policies doctrine was proposed by BDP advisors, as the ideological basis for developing an interrelated and mutually complementary set of policies for achieving Millennium Development Goals (MDGs). This set of policies, nevertheless, should undoubtedly be developed through national efforts, based on local conditions and needs, strategic priorities, specific features of individual sectors and the available socio-economic potential.

Hence, the rich data bases created and the methodological and analytical knowledge accumulated in the area of social monitoring with the support of the UNDP Armenia, together with the valuable guidance incorporated in the conceptual approaches to pro-poor policies drafted by UNDP Headquarters, were the two key pillars upon which this Report was assembled.

⁶ By “specific features” we mean the circumstance that compared to other developing countries, the CEE and CIS countries, including Armenia, with such high levels of poverty, have fairly developed educational, health and water supply systems, which is not characteristic to the third world countries. Accordingly, human poverty indicators are significantly lower than those for income poverty, which results in certain specific features with regard to poverty manifestations and directions for its eradication. See Chapter 1 and Boxes 1, 2 and 5 of this report.

⁷ See *Jan Vandemoortele*, “The MDGs and pro-poor policies: related but not synonymous”, UNDP, International Poverty Center, Working Paper No.3, November, 2004.

Jan Vandemoortele, “The MDGs and pro-poor policies: can external partners make a difference?”, UNDP New York, December 2003;

Terry McKinley, “Pro-Poor Growth: the Role of Inequality—The Implications for UNDP Policies”. Summary of the Roundtable Discussion, October, UNDP, New York, 2000;

Terry McKinley, “UNDP Policy Guidance Note: The Role of Economic Policies in Poverty Reduction”, UNDP New York, 2002.

The preparation work for the Report took almost one year; it has passed through public discussions and expert assessment phases⁸; it was also complemented by the results of a rapid survey for identifying pro-poor policy recommendations for the health sector⁹; it has been disseminated in both Armenian and English languages for comprehensive discussions within the framework of the PRSP Open Forum; it has been finalized and edited with the inclusion of the viewpoints of all stakeholders.

Today, after a long process of discussions and adjustments, the “Human poverty and pro-poor policies in Armenia” report is available to the public in English and Armenian languages¹⁰. Activities for development of pro-poor policies within the framework of the PRSP do not end with the publication of this report; those activities continue in other areas of social policy, relevant policies are further elaborated through vulnerability studies and, hopefully, will contribute to the PRSP review process.

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Chief Editor of the Report

⁸ Individual chapters of the report and its draft outline were discussed in 7 seminars, with the participation of all PRSP stakeholders.

⁹ Here we are referring to the rapid survey conducted in order to determine the applicability of two Orders of the Government of Armenia on ensuring access to healthcare services; the details and the results of the survey are presented in Annex 2 of this Report.

¹⁰ The Armenian and English versions of the report can be found at www.undp.am.

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Conceptual aspects of human poverty and pro-poor policies

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Pro-poor policy is defined as a strategy developed and implemented based on the concept of human development, which mainly aims to expand the human capital and opportunities of poorer segments of the population through the implementation of the principle of social solidarity.

Authors

Introduction

At the early stages of transition to market economy, Armenia like other former socialist countries of the Soviet Union and Eastern Europe, went through serious shocks with regard to not only physical aspects, but also reproduction of human resources and social development. Years of unchecked economic decline resulted in rapidly spreading mass poverty and was accompanied by significant social losses, which could not be quantified only by indicators characterising the worsening economic conditions and overall drop in living standards.

The social costs of transformation increased sharply due to phenomena, such as increase in income distribution inequality, deepening stratification of assets' ownership, poverty taking roots as a way of life, and finally ***the deepening of social injustice***. Even in countries where former production volumes are re-established, and Armenia, due to its economic growth, is close to becoming one of those countries, the heavy burden of the social costs of transformation is on the shoulders of the vulnerable groups of population, which constitute a fairly large proportion of the society.

All types of manifestations of social injustice, even in conditions of economic growth, create preconditions for a deep social and moral crisis

in the country. This is reflected, first of all, in country's demographics, including emigration, as well as reproduction of human capital and extremely unfavourable shifts in society's value system, which might reach intolerable proportions in a given country. Specific manifestations of social injustice, by the virtue of their own consequences, develop into serious obstacles to human development. In these conditions, soon or later it becomes clear that *social justice is the necessary ideological basis, without which it would be impossible to devise a human development strategy*.

The virtuous and humanitarian concept of "social justice", however, is often perceived by policy-makers as abstract and declarative, as long as conditions and plausible mechanisms for its implementation are clarified.

In a democratic society with market economy, ***a necessary precondition for establishing social justice is the enactment of a socio-economic policy based on social solidarity***. The role of the state in these processes is undeniable, especially with regard to ensuring the pro-poor orientation of the mentioned policy, which is founded on the Poverty Reduction Strategy Paper (PRSP) approved by the Government of Armenia in August 2003.

This paper drafted against the mentioned background aims to:

- define the conceptual framework of poverty reduction in the light of the global approaches of the new world order and based on the fundamental principle of social solidarity;
- subsequently define the essence and objectives of the pro-poor policy, based on the conceptual approaches of poverty reduction, and
- outline the priorities of pro-poor policy and its target directions, based on the objectives of human development and establishing social justice.

Beneath we present the clarification of the mentioned issues, various viewpoints and relevant recommendations.

1. Poverty reduction within the conceptual framework of the New World Order

In the present interrelated world, poverty reduction in individual countries, is seriously impacted by global economic and political factors. A complicated system of **New World Order** is formed as a result of those global interrelationships, within the context of which developing countries heavily dependent on external assistance, including transition countries, should anchor the development and implementation of their socio-economic policy on the phrase "**Think global, act local**". Within this context, it is extremely important to identify the approaches forming the basis of that policy within the conceptual framework characterizing the current global dynamics.

The New World Order is an extremely wide and inclusive system consisting of the entire complex of most important political, economic,

including commercial, environmental, social and human rights, issues. Here we will discuss only the key approaches directly linked to poverty reduction and at least not contradicting the principle of social solidarity, which in our opinion, should guide the development of the pro-poor policy in our country.

Hence:

Approach one:

From survival to development

The modern conceptual framework for poverty reduction has already adopted a principle approach: ***it is an issue of development¹, rather than survival***. The mentioned approach is applicable to all countries, but, understandably, has a higher priority for former socialist countries, which are currently in their transition period.

Thus, it is logical that the PRSP for Armenia, which is also developed within the conceptual framework of socio-economic and human development, ***has prioritized poverty elimination, an not just its reduction***. This means that the entire set of passive policies enacted by the state, consisting of social assistance, family benefits, social protection and other measures, are valued less than the set of measures devoted to human development.

Approach two:

From economic globalization to human development

Current world developments are characterized by two trends, which contradict each other to some extent. ***The first trend*** is the kind of approach toward development, which results in further consolidation of the global hegemony of international financial capital. The consequence is the establishment of the rule of global financial capital, i.e. capital established on the basis of capital itself, which ensures ***the practically unrestrained world domination by money***.

¹ We would like to mention as clarification that "development" is understood as process of strengthening, consolidating, improving, enhancing and expanding the level, as well as transition from one situation to another more advanced situation. See "Dictionary of philosophical terms", edited by M. M. Rosenthal, Yerevan Armenia, 1975, page 126. Ожегов С.И., Словарь русского языка. М.: Русский язык, 1983, ст. 572.

Some analysts even try to justify that the further deepening of environmental, social, interstate and other conflicts in the 21st century resulting from the mentioned developments, will inevitably result in the self-destruction of capitalism, and probably even mankind².

*The second trend, which is the inevitable result of global interactions, is **human development, or economic growth with a so called "human face**, when the entire world becomes engaged in a "human revolution". The main outcome of this process is the dominance of "human qualities" over all other*

values prevalent in the society.

The scientific-methodological justification for this direction of development is provided by the UNDP. Its well-known "World Human Development Reports" are founded on the idea that the real wealth of any country is its people. Hence, any national development objective should be the creation of conditions for a long, healthy and productive life. UNDP ideologists argue that **human values should not be ignored in the race for acquisition of material and financial gains** (see Box 1).

Some experts studying the negative impacts

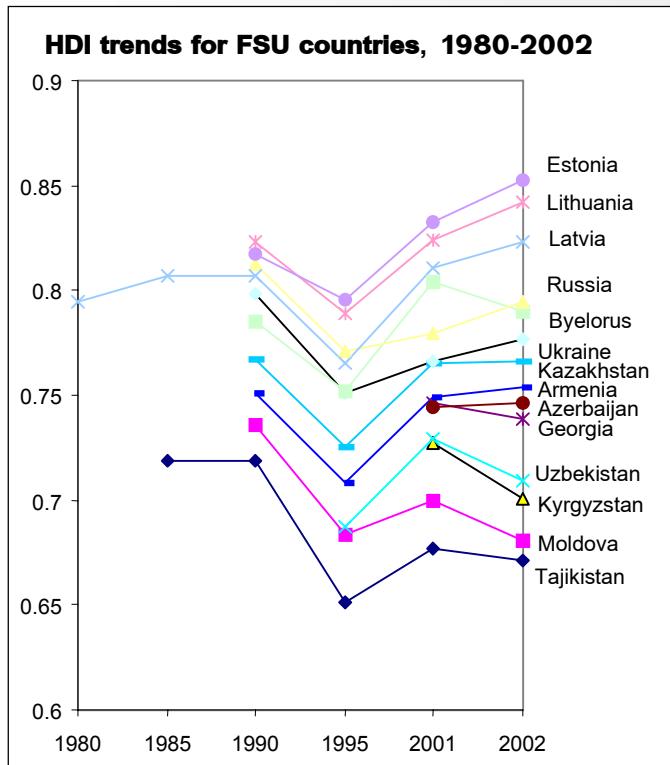
BOX 1

Human development trends in Armenia

The concept of human development adopted by UNDP is defined as long and decent life for human beings, certain level of education and expansion of opportunities for ensuring certain level of material well-being. Based

on the principles of human development concept, the UN has developed the methodology for calculation of the Human Development Index (HDI), which allows for drawing comparisons between countries by their level of human development. The Human Development Index is the weighted average of the accessibility of the three mentioned components: life expectancy, level of education and GDP per capita. Fifteen countries of the former Soviet Union (FSU), currently in a transition to market economy, according to UN classification, are in the group of countries with average human development. In 2002, Armenia by the value of its HDI was ranked 82 among 177 countries, and thus included in the group of countries with average human development. Among FSU countries, our country has an average level of human development and was in the 8th place in 2002.

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² See for example: А.Н.Субетто. Диллемма глобализации: капиталистическая гибель человечества или прорыв к ноосфере, духовному социализму. В книге "Экономическая теория на пороге XXI века". М.: Юрист, 2003, стр. 123-135:

of economic globalization are pessimistically inclined to overrate the influence of the approach one. And although such concerns are not totally baseless, nevertheless, historical experience has repeatedly shown that **societies based on social injustice and authoritarianism cannot survive for long, let alone develop.** Accordingly, many countries and international organizations are currently reviewing (also under the influence of the globalization processes) stereotypes formed with regard to development and aim to rethink the value system of the global society. It is becoming ever more clear that the future of mankind is primarily linked to the spread, support and further strengthening of approach two.

Approach three: From human development to social progress

In recent years, especially in the light of the Millennium Development Declaration, the tendency toward the expansion of the human development concept and making it more comprehensive is noticed³. In other words, **the human development concept is gradually changing into a concept of social progress**, where the focus is on the need to improve the qualitative aspects of social life, as a general precondition for developing human potential and expanding people's opportunities.

The concept of social progress will define objectives and specific indicators, directly linked to and intertwined with human development indicators and indexes, for measuring the progress toward those objectives. Clear indication of the actuality and practical significance of the concept of social progress is the set of issues included in Millennium Development Goals approved by UN General Assembly in 2000, where part of indicators defined aim to measures

the level of social progress.

The issue of poverty reduction should be subjected to certain rethinking on the basis of the above-mentioned approaches of the New World Order, which should be further reflected in the PRSP review process.

2. National approaches to the concept of poverty reduction

Recognizing the approaches of the New World Order ("think global") is a necessary, but not adequate precondition for overcoming poverty in the country. Each country needs to localize those ("act local"), based on its socio-economic situation, and specific national and regional features. Based on studies of the mentioned aspects, the following approaches to the concept of poverty reduction, pertinent to our country's situation, were distinguished.

1. Policies included in the PRSP should be primarily directed toward the prevention of poverty as a multidimensional phenomenon, its prevention and elimination of its root causes, and not only ensuring subsistence for the poor. In other words, the preference should be given to policies for the development of human capital, rather than those for social benefits and monetary assistance. Moreover, the latter should also include certain elements for development of human capital (for example "benefit for work", public works for restoration of social infrastructures, etc.). This approach is also in line with the principle of social solidarity, since the redistribution function of the state aims to ensure the availability of educated and healthy labor in the market. Thus, in such conditions, the term "poverty eradication" is more appropriate than "reducing the number of poor people"⁴. This

³ Эченикэ В.Х. Человеческое развитие в современных условиях. В кн.: "Человеческое и социальное развитие". М.: ТЕИС, 2003, стр. 28.

⁴ With the introduction of the family benefit system (on 1 January 1999), the proportion of extremely poor population in Armenia declined sharply, since the poverty food line was so low that a number of benefit-receiving families, with only US\$13-15 of benefit per month, were "squeezed out" from the ranks of the extremely poor population. However, no serious positive changes were noted in social development, including job creation, especially in regions of the country. Moreover, the sex-age and regional incongruity in manifestation of poverty deepened even further.

means that ***active interventions of the state for eradicating human poverty acquire a higher priority, compared to policies for eradicating income poverty.***

Within this context, it must be noted that *income poverty eradication* programs in various countries might essentially include a similar range of issues and propose similar recommendations for their solution. Various PRSPs basically underline those issues, by using almost similar indicators for measuring different target values. At the same time, *human poverty eradication* has specific features in each country and is directed toward achieving not only quantitative, but also qualitative goals. As a result, the country achieves lasting, long-term and sustainable social values (see Box 2). Eradication of income poverty, per se, is also undoubtedly very important, but the social values it establishes

might undergo changes depending on the degree and duration of political and economic stability in the country. In addition, considering the rules of market economy, the role of the state in this sphere is limited.

The fact that the transitional Armenia, with its high level of income poverty (42-43 percent in 2003), is just slightly behind economically developed countries⁵ by non-income components of its human poverty index, is an indication of the relative sustainability of the accumulated human development values. The mentioned fact has a substantial impact on the picture of poverty in our country, and other transition countries equally, distinguishing it from the "face" of poverty in a number of countries of Africa, South Asia and Latin America.

The summary conclusion are as follows:

The primary objective of poverty eradication policy in Armenia should be the sustainable development and regeneration of human capital in the country.

BOX 2

Preservation of human capital in Armenia

High level of poverty and inequality in Armenia, outdated social infrastructures, under-financing and weakening of formal institutions during systemic reforms can introduce, with certain time-lag, significant negative changes in human development trends, if relevant policies for channeling the economic growth to human development are not enacted. **Thus, in Armenia, as well as other FSU countries, preservation, development and regeneration of human capital are high on the agenda.** In order to assess the current situation of human development and its future trends in those countries, it would be more appropriate to follow the dynamics of state expenditures on health and education.

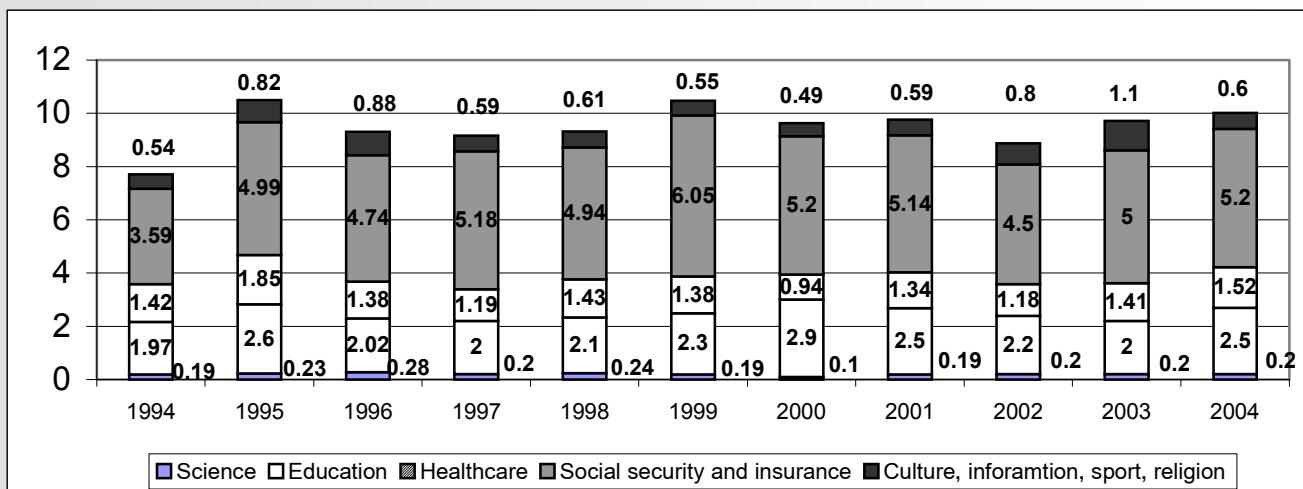
⁵ The level of poverty in Armenia calculated based on the national poverty line is almost equal to the average values of the same indicator calculated for 1987-2000 for Ethiopia (44 percent), Burkina Faso (45.3 percent), Tanzania (41.6 percent). By its human development index (HDI) ranking, however, Armenia (ranked 82 in 2004) has a twice higher position than the mentioned countries, which are correspondingly ranked 169, 173 and 160. At the same time, by its quantitative indicators for education, Armenia almost equals the level of Western European and North American countries.

The mentioned expenditures have not increased much in the last 11 years in Armenia, despite the uninterrupted and, in recent years, the unprecedented economic growth. And comparisons of countries reveal that in 2004 the proportion of GDP allocated to expenditures on education were nearly 2 times and the proportion allocated to healthcare expenditures were by 4 times smaller compared to averages for CEE and CIS countries (see Table), and together constituted 4 percent of the GDP.

| | Armenia | | | | | | | | | | | Averages for CEE and CIS countries, 2000-2001 |
|---|---------|------|------|------|------|-------|------|------|------|------|------|---|
| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | |
| Economic growth, % | 5.4 | 6.9 | 5.9 | 3.3 | 7.3 | 3.3 | 5.9 | 9.6 | 13.2 | 13.9 | 10.1 | ... |
| Poverty, % | ... | ... | 54.7 | ... | ... | 55.05 | ... | 50.9 | 49.7 | 42.9 | ... | ... |
| Gini coefficient (by current incomes) | ... | ... | 0.60 | ... | ... | 0.59 | ... | 0.53 | 0.45 | 0.44 | ... | 0.32 |
| GDP, 1989=100 | 46.7 | 49.9 | 52.8 | 54.6 | 58.6 | 60.5 | 64.0 | 70.2 | 79.4 | 90.5 | 99.6 | ... |
| State budget expenditures, % of GDP | | | | | | | | | | | | |
| Education | 1.9 | 2.6 | 2.0 | 2.0 | 2.1 | 2.3 | 2.9 | 2.5 | 2.2 | 2.0 | 2.5 | 5.3 |
| Healthcare | 1.42 | 1.85 | 1.38 | 1.19 | 1.43 | 1.38 | 0.95 | 1.34 | 1.18 | 1.41 | 1.52 | 5.7 |
| Standardized state budget expenditures, % of GDP changes base=1989 | | | | | | | | | | | | |
| Education | 0.92 | 1.30 | 1.07 | 1.21 | 1.38 | 1.51 | 1.92 | 1.89 | 1.73 | 1.81 | 2.49 | ... |
| Healthcare | 0.67 | 0.93 | 0.73 | 0.65 | 0.84 | 0.84 | 0.61 | 0.95 | 0.88 | 1.28 | 1.52 | ... |

Socio-cultural expenditures by the state from the **consolidated budget varied between 7.7-10 percent of the GDP in the last ten years**, consisting primarily (around 50%) of social insurance and security expenditures (see Figure).

Figure. Socio-cultural expenditures from the consolidated budget, % of GDP



At the same time, no changes were recorded in the dynamics of proportions allocated to education, healthcare, science and culture has not been recorded in the composition of expenditures. It must be noted however that, in the mentioned period, state expenditures decreased (around 1.4 times), while social expenditures grew by around 30 percent. This growth, from the structural point of view, has taken place due to

increase in social insurance and social security expenditures (the latter increased by 44.8 percent in 1994-2004, while education expenditures increased by 26.9 and healthcare expenditures by 7 percent). Based on the structure of social expenditures, it can be concluded that ***the economic growth has not been directly channeled to human development via improvement of the quality and accessibility of basic social services.***

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UNDP Consultant

2. Poverty eradication in transition countries, including Armenia, has totally different economic premises and origins, which should be taken into account in the concept of poverty eradication.

Poverty in post-socialist transition countries, regardless of its levels, has a *transformative nature*. In this regard, if it is not possible to avoid the transformative decline during the radical economic reforms for establishing a market system, then it is also impossible, to varying degrees, to avoid the transformative poverty. The differing scales of transformative decline in transition countries are reflected to varying extents in the worsening dynamics of macroeconomic indicators, while ***transformative poverty, particularly as manifested in gradually deepening human poverty, is a much more multi-faceted and multidimensional phenomenon.***

Transformative poverty is sudden by its nature. It is usually unexpected and has unfortunate consequences for people who expect quick success. One of those peoples are Armenians, who, having high consideration for their own entrepreneurial capabilities and individuality, were convinced that the transition to market economy is the shortest path to ensuring country's socio-economic prosperity and people well-being in the shortest possible time.

Transformative poverty in transition countries basically has a compulsory nature. In countries with developed economies, the poor are

represented by groups of population, who are mainly jobless, homeless, beggars, expelled from the society and others who have voluntarily chosen or inherited their social status, while the poor in post-socialist countries were forced into their current economic and social status under the pressure of the requirements of the new economic and social order established.

As a result, in former socialist and currently *transition countries, the poorer groups of population are essentially formed by people, who would otherwise form the middle class in developed countries (see Box 3).* Thus, the poor in countries with transition economies instead of being uneducated and unskilled, on the contrary, have higher education and professional skills. In these conditions, the fact that "poor people are deeply disappointed by the absence of demand for their knowledge, practical skills, formal and actual qualifications" becomes perfectly understandable (see Box 1). They lose their sense of belonging to the society; they assume that "no one needs them any more"⁶. Naturally, poverty has not been a way of life for these people, and this circumstance creates huge difficulties in addressing their day-to-day subsistence needs. In conditions of continuous forced poverty, motivations for economic activity will gradually fade away and poverty will become the usual way of life.

This means that another specific feature of

⁶ "Обратить реформы на благо всех и каждого. Бедность и неравенство в странах Европы и Центральной Азии". Всемирный Банк. Вашингтон, 2001, стр. 2.

poverty eradication in transition countries is that the process should take place within the lifetime of one generation, so that the poor coming from

a whole range of diverse social origins would not turn into a self-regenerating homogenous group.

This leads to the next important conclusion:

The time frame for eradication of transformative poverty should be short and correspond to its sudden emergence, so that poverty would not be able to tighten its grasp in the country.

BOX 3

Specific aspects of human development in Armenia

In the early stages of market transformations, the Human Development Index (HDI) of Armenia suffered a sharp decline (see Figures in Box 1). But it started to climb from 1995, and in 2002 reached nearly the pre-transformation level. In essence, such human development trends in our country, as well as other countries of the Former Soviet Union (FSU), are conditioned by the sharp economic decline in early stages of transformation and the current gradual restoration of economy. *Thus, in FSU countries, including Armenia, the human development rankings are achieved due to the high level of human capital*, since material well-being (GDP per capita) indicators, as the constituent part of the HDI, are relatively low. In Central and Eastern Europe (CEE) countries the average GDP per capita in 2002 was around US\$11 thousand (PPP adjusted), while the same indicator for FSU countries amounted to only US\$5000, and the indicator for Armenia was even lower at US\$3120. At the same time, other components of HDI reflecting the human capital, are fairly high for this group of countries and are not very different from those of CEE and even economically developed countries (see Table). In addition, for 177 countries, which have their HDIs calculated, there is a strong correlation between economic growth and human development characteristics, while for FSU countries their correlation is basically weak, or statistically insignificant.

| HDI and its components for various groups of countries | Armenia | FSU countries, average | CEE countries, average | CEE and CIS countries, average | Developed countries, average |
|--|--------------|------------------------|------------------------|--------------------------------|------------------------------|
| 2002 HDI | 0.754 | 0.753 | 0.830 | 0.787 | 0.880 |
| HDI components | | | | | |
| 1. Life expectancy index | 0.79 | 0.74 | 0.81 | 0.75 | 0.85 |
| 1.1. Life expectancy at birth, years | 72.3 | 69.8 | 73.3 | 71.2 | 76.2 |
| 2. Educational level index | 0.90 | 0.92 | 0.91 | 0.92 | 0.92 |
| 2.1. Adult literacy, % | 99.4 | 99.1 | 98.1 | 98.7 | 94.8 |
| 2.2. Enrolment in primary, secondary and tertiary levels of education, % | 72.0 | 79.8 | 76.9 | 78.6 | 86.9 |
| 3. HDI index | 0.57 | 0.61 | 0.77 | 0.72 | 0.87 |
| 3.1. GDP per capita (PPP, US\$) | 3120 | 4994 | 10749 | 7192 | 24806 |

This is explained by the fact that Armenia entered the transition period with a developed network of social services and infrastructures and strong human capital formed already in the Soviet period. HDI components

characterizing human capital change very slowly in time, if the country does not experience any shocks. ***HDI indicators characterizing the human capital in Armenia, in effect, primarily reflect investments in human capital made by the soviet society.***

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3. For the newly independent countries, even more so for the Republic of Armenia, ***the most painful problem is the low effectiveness of the public administration system.*** Deprived from statehood for centuries, and constituting a small link in the administrative-command system of a powerful union for the last 70 years, the country lost its culture of statehood, the system of national values was disrupted, was isolated from the global historical experience of democracy, communism and social solidarity, has not accumulated experience relevant to state's regulatory role in a market economy. Thus it is only natural that the level of professionalism is not adequate in governmental bodies and all levels of government, transparency and the culture of cooperating with the public is nearly non-existent, the principle of accountability to the public has not taken root, etc. *All this creates favourable conditions for the spread of corruption in the country.*

At the same time, the high level of concentration of economy inherited from the Soviet period, serious shortcomings in the privatization of production facilities⁷ and the

unacceptably low level of economic management result in *further deepening of the economic monopoly*. It is well known that Armenia is distinguished by its high level of property inequality and the overpowering position of firmly established informal institutions in the economic life. As a result, economic oligarchs often oversee the political system and simply ignore the interests of the poor, i.e. the most populous group of country's population, restricting the social inclusion of economic development.

The effectiveness of governance is interlinked to *the low level of implementation of human rights*. It is well known that civil societies in transition countries are at their initial stages of formation, consequently social institutions, including non-governmental organizations, are not operating properly. It is also known that governance cannot be effective, as well as "pro-human" and even more so "pro-poor", without the participation of the wide public and active influence of civil society in political life.

The rethinking of the above-mentioned issues, within the context of the principle of social solidarity, allows us to conclude that:

In transition countries, such as Armenia, improvement of public administration should be considered as the key to poverty eradication, specifically:

- ***In social-political area: anticorruption strategy;***
- ***In economic area: anti-monopoly policy; and***
- ***In civic-legal area: full realization of human rights.***

⁷ It must be noted that the medium and large privatization still takes place through the creation of favorable conditions for "initial accumulation of capital" by certain groups (clans).

3. The priority directions of pro-poor policies

The most central and fundamental principle in the conceptual framework of pro-poor policy is the following: ***it should stem from the interests of the poorer segments of the population, contribute to improvement of their lives and activities, create the corresponding preconditions for eradication of poverty as a social phenomenon.***

Based on the essence of pro-poor policies, as well as NHDS results (see Boxes 4 and 5), the

following priority directions are proposed for a pro-poor policy in Armenia:

1. Increased quality of and access to social services, especially healthcare and educational services, and improved social security and insurance mechanisms.
2. Ensuring the transparency and accountability of public, including social, services, and reducing shadow transactions.
3. Enhancing the awareness of all groups of population, the poor and vulnerable groups in particular, on social policies, and ensuring participation in decision making.

BOX 4

Rural population's Deprivation Index (DI)

The Deprivation Index (DI) for the rural population was calculated based on the principle that human poverty is the deprivation from material and social opportunities, which ensure long, healthy and prosperous life, i.e. life free from human and material poverty. The DI quantifies the proportion of rural population (i) deprived from adequate material possibilities to avoid poverty; (ii) with highest risk of poverty due to inadequate human resources; and (iii) living in human poverty. In this regard DI is a multi-dimensional indicator for describing deprivation, and is the weighted sum of three indexes: material deprivation, vulnerability and human poverty¹. The Deprivation Index was calculated based on the formula proposed by Atkinson² (see Table).

Table. Rural population's Deprivation Index (DI), %

| | Material deprivation index, % | Vulnerability index, % | Human Poverty Index, % | Deprivation from opportunities index, % |
|------------------------|-------------------------------|------------------------|------------------------|---|
| | I | V | HP | $\left\{ \frac{1}{3} (I^3 + V^3 + HP^3) \right\}^{1/3}$ |
| Aragatzotn | 20.19 | 16.16 | 22.03 | 19.76 |
| Kotayk | 19.42 | 14.00 | 16.00 | 16.78 |
| Gegharkunik | 19.73 | 17.79 | 18.10 | 18.58 |
| Tavush | 18.70 | 15.80 | 21.73 | 19.05 |
| Lori | 18.15 | 16.08 | 21.93 | 19.03 |
| Shirak | 12.75 | 14.25 | 11.57 | 12.95 |
| Ararat | 15.56 | 13.62 | 17.59 | 15.76 |
| Armavir | 7.73 | 15.10 | 17.42 | 14.53 |
| Syunik | 18.32 | 22.56 | 14.58 | 19.04 |
| Vayots Dzor | 13.12 | 13.42 | 15.14 | 13.95 |
| Total rural population | 16.00 | 15.47 | 17.52 | 16.37 |

¹ For details of the calculation methodology see: N. Jrbashyan "Rural population's deprivation index", Armenia's Social Trends, #6, pp. 3-8.

² Atkinson A.B. "Measuring social exclusion, Poverty and Unemployment" LSE, 1-20, Case 4, 1998.

Analyses of DI within the context of overall developments in the country allow for the following main conclusions to be drawn:

- (i) The material deprivation index for country's rural population is 16 percent. Comparison of this indicator with the material poverty indicator for the rural population (47.5 percent³) allows us to conclude that a large proportion of poor rural residents (around 30 percent), not being deprived from material possibilities for avoiding poverty, cannot use those possibilities in order to ensure a non-poor living standard corresponding to the national average.
- (ii) The composition of DI points to the larger influence of human poverty component among the rural population. At the same time, weights of indexes included in the DI do not vary much - only by 1.5-2 percentage points, which indicates the equal importance of both material and social components of deprivation in rural areas.
- (iii) Considering that material and human poverty are interrelated and interdependent, the high level of human poverty in rural areas (17.52 percent) and the vulnerability of rural population are obstacles for poverty reduction in rural areas. Even if not deprived from material possibilities, a significant proportion of the rural population, not having social opportunities, is forced to pay for large transaction costs, in order to be able to realize its potential and avoid poverty. Thus, the nearly unchanged level of rural poverty in recent years (1996-2003) is explained also by population's social deprivation, i.e. human poverty and vulnerability. This means that in order to ensure the reduction of rural poverty, it is not enough only to implement programs for target groups and/or sectoral pro-poor policies. From the viewpoint of poverty reduction, it is more appropriate to develop and implement comprehensive programs for rural development.

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³ "Food security and poverty", NSS, Yerevan, 2004 January-June.

The proposed priority directions are based also on the results of other studies. Summarization of data from the human and income poverty surveys allows us to draw the following conclusion: ***over the long run, certain balance is formed between material and human poverty.*** In 1996-1998, the level of material poverty in Armenia was very high (at 55 percent), while the level of human poverty was very low (see Box 5). Due to the continuous economic growth recorded in recent years, the level of material poverty reduced by more than 12 percentage points. Human poverty, however, with a number of its manifestations, not only did not reduce, but, with regard to some aspects, even diffused among nearly all groups of population and introduced certain changes in qualitative aspects of poverty.

The spread of human poverty in Armenia is manifested in the existence of a "limited" state

(see Box 6) and "powerful" shadow operations. From the viewpoint of human poverty, a large cause for concern is the fact that the "shadow", i.e. informal, unregulated, non-transparent, often criminally prosecutable relationships and agreements, has taken roots in nearly all spheres of human activity, various levels of public administration, inside and between social groups. Shadow operations have also infiltrated the public service sector, accompanied by the inactivity of social infrastructures inherited from the former economic system and underdeveloped situation of relevant private institutions.

The spread of shadow relationships in the society has an unfavorable impact not only on the behavior of individuals, but also the national consciousness. It is logical that although the level of income poverty in Armenia is on the decline, the reduction of the scale of poverty, however, is

BOX 5**Modified Human Poverty Index**

Based on data from NHDS, in order to obtain the summary picture of human poverty in Armenia's marzes, the Human Poverty Index¹, adjusted to Armenia's realities, was calculated. Considering that human poverty is the lack of access to basic needs necessary for a decent life, the proposed Modified Human Poverty Index (MHPI) was calculated as the mean value of indicators for lack of access to education, healthcare, safe drinking water and permanent dwelling. And the mentioned components have equal weights in the MHPI, and have been ascribed with equal importance. Indicators forming each component, however, have been ascribed varying weights depending on their importance in the concept of human poverty. The MHPI was calculated by the following formula:

$$HP_i = 1/3 (E_i + H_i + LC_i), \quad i = 1 \dots 11$$

where: **E** - lack of access to educational services,
H - lack of access to healthcare services,
LC - Lack of access to safe drinking water and permanent dwelling.

Table. Modified Human Poverty Indexes In Armenia's marzes and their classification by human poverty

| Classification of marzes from the lowest MHPI to the highest | Marzes | MHPI | Lack of access to educational services component | Lack of access to healthcare services component | Lack of access to safe drinking water and permanent dwelling component |
|--|-------------|---------------------|--|---|--|
| | | $1/3(E_i+H_i+LC_i)$ | $1/3E_i$ | $1/3H_i$ | $1/3LC_i$ |
| 1 | Yerevan | 16.5 | 3.8 | 12.3 | 0.4 |
| 2 | Syunik | 19.8 | 4.2 | 12.0 | 3.5 |
| 3 | Kotayk | 24.5 | 3.3 | 14.3 | 6.7 |
| 4 | Vayots Dzor | 24.6 | 5.4 | 14.1 | 4.9 |
| 5 | Armavir | 34.6 | 5.0 | 11.5 | 18.1 |
| 6 | Shirak | 34.8 | 3.7 | 13.9 | 17.2 |
| 7 | Lori | 35.7 | 7.1 | 13.6 | 15.1 |
| 8 | Tavush | 37.8 | 6.7 | 14.4 | 19.5 |
| 9 | Ararat | 38.7 | 7.1 | 15.4 | 16.3 |
| 10 | Gegharkunik | 39.4 | 8.0 | 13.2 | 18.2 |
| 11 | Aragatzotn | 49.6 | 8.6 | 15.4 | 25.6 |
| Average | | 32.4 | 5.7 | 13.6 | 13.1 |

The Table presented MHPIs and their components in Armenia marzes and the entire country. According to the results of calculation, from the viewpoint of human poverty, the most unfavorable situation has been recorded in Aragatzotn marz, followed by Gegharkunik, Ararat and Tavush marzes, and the most favorable conditions were recorded in Yerevan, Syunik and Kotayk marzes. In general, the level of human poverty is at its highest mainly in marzes with predominantly rural residents. **Thus, from the viewpoint of human poverty, contrary to income poverty, the rural population is the most vulnerable.** The other conclusion stems from the analysis of MHPI components in marzes, i.e. **the most influential factor of human poverty in Armenia's marzes is the lack of access to healthcare services.**

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¹ For details of the calculation methodology see: N. Jrbashyan "Human poverty and MDG indicators in Armenia's marzes", Armenia's Social Trends, #5, pp. 8-18.

BOX 6**Who pays for the cost of human capital preservation in Armenia**

The fairly low level of state budget expenditures in Armenia on education and healthcare was presented in Box 2. Such budgetary policy, in time, with the change of generations, might result in the decline of human capital indicators in the country, which, in its turn, might become the cause of sluggish economic growth rates. Of course, this will happen in the case, where private expenditures in the mentioned sectors will not be able to cover the deficits. Considering that institutions making private expenditures in healthcare and education sectors have not yet been formed (or are still in the process of being established), the burden of these expenditures is on the shoulders of households. Households' expenditures in the education sector can be evaluated through household surveys.

Analysis of data reveals that households have a significantly larger burden of expenditures per student on education from school to university level, compared to the state. Expenditures per student by households exceed state expenditures by 2.7 times for school education, by 8.5 times for secondary vocational education and by 11.2 times for university education (see Table).

Table. Monthly per student expenditures by households and from the state budget

| | Monthly household expenditure per student, thousand AMD ¹ | Monthly state budget expenditures per student (for the same period), thousand AMD |
|--|--|---|
| Monthly expenditures* per school student | 7.0** | 2.6 |
| Monthly expenditures per secondary vocational school student | 25.7 | 3.0 |
| Monthly expenditures per university student | 46.9 | 4.2 |

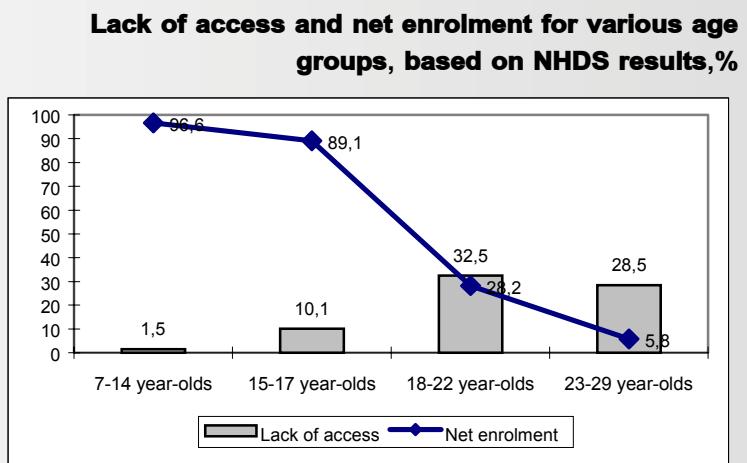
* All types of costs, including additional official and unofficial lessons, school supplies and textbooks, transportation, needs of the educational institution, etc.

** Without expenditures on special courses for university admittance exams.

¹ For 2001, source: Education, Poverty and Economic Activity in Armenia, situational analysis, Yerevan 2002, page 49.

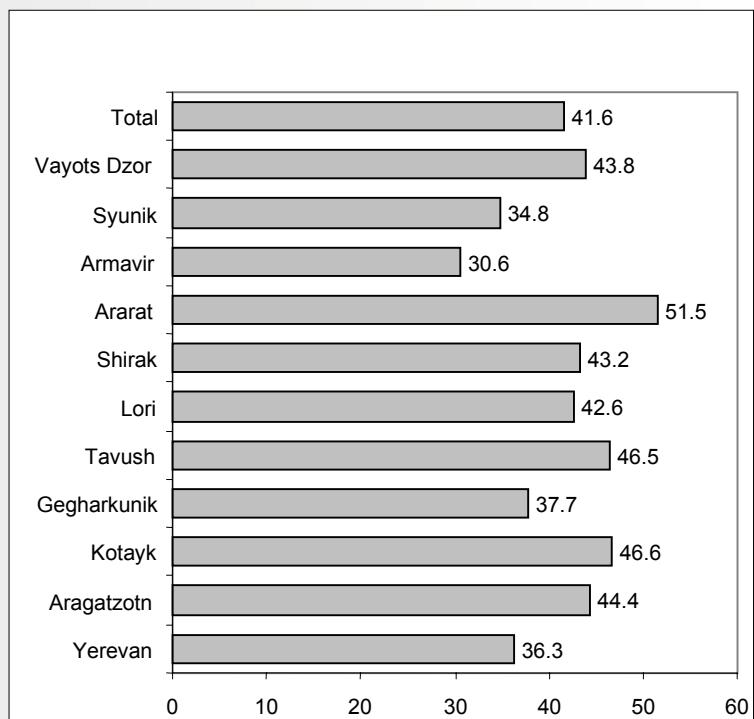
In conditions of high level of poverty and especially inequality in the country, putting the burden of expenditures on human capital development, preservation and regeneration is on the shoulders of the population will result in lack of access to the relevant basic services for a large part of the population (see Figure), i.e. human poverty.

Naturally, poor families with low living standards are the first ones to suffer in the mentioned situation. There is a negative impact, however, also for the newly formed middle class, which is no less dangerous from the viewpoint of development. And also

Figure 1.

the incapability of households to cover the costs of education results in the low quality of the secondary education received and its inadequacy from the viewpoint of university standards. This finally results in lower level of competition in the labor market. In case of healthcare, it results in the loss of health can incapability for maintaining good health conditions. Both result in human poverty.

An economic model, where the burden of human development is mainly on the shoulders of the population, should be accompanied by high living standards and the availability of the corresponding institutions. In our country, the high level of poverty and inequality and the incomplete institutional framework, in conditions of inadequate attention by the state, might even contribute to poverty regeneration and increase in human poverty. This means that it is necessary to adjust the policies for the social sector, particularly in the sphere of educational and healthcare services. *On the one hand, it is necessary to increase state's attention to these sectors at least up to a certain standard. On the other hand, it is necessary to form and maintain an efficient and reliable system of institutions (for example credit provision for education, health insurance), which will ensure access to basic social services for all groups of population.*

Figure 2.**Lack of access to healthcare services, %**

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not acknowledged in the public's and individual's perception:

- lack of public, especially its poorer groups, trust in public administration;
- alienation of the majority of the public,

including the poor, from political decisions, not least due to lack of awareness and social isolation.

The situation described is important warning for policy makers, since

If public investments in the social services sector (see Priority 1) are not accompanied by persistent efforts in making those services more transparent, accountable and formal (see Priority 2) and involving the wide public in the development and implementation of those efforts (see Priority 3), then the mentioned investments eventually become ineffective and turn into mere social indulgence.

Features of pro-poor health policy

Movses Aristakesyan

A pro-poor health policy should aim to create universal, equal and accessible conditions for ensuring population's health and reproduction of a healthy generation.

Author

Introduction

Protection of health is one of the most important and fundamental components of human poverty reduction, sustainable human development and ensuring people's well-being. Hence, three of the eight Millennium Development Declaration goals in their entirety, and another three partially refer to protection of health. The priorities they underline are as follows:

- **Ensure a healthy generation**, i.e. improve maternal and child health;
- **Prevention and treatment of diseases posing serious threat to the public**, i.e. HIV/AIDS, tuberculosis and malaria;
- **Ensure a healthy physical environment**.

A healthy person with his creative and productive work, is the most important source of wealth for himself (consequently his family) and society (and consequently the state). The rate of return on investments in human capital could be manifold, if an **effective and targeted health policy** is enacted. Considering the national Poverty Reduction Strategy Paper (PRSP), the targets should aim to reduce poverty and/or prevent the threat of poverty. Thus, in this paper we will mainly discuss the **pro-poor** aspects of health policies in two most important aspects:

1. How pro-poor are the policies currently

enacted in the sector, taking into account the specific features of healthcare as a public good?

2. What is proposed for ensuring the pro-poor direction of those policies, based on the mentioned definition?

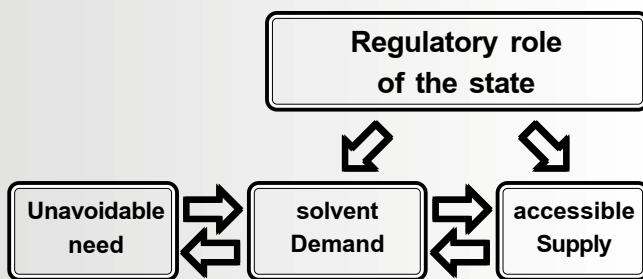
Enactment of any health policy in conditions of liberal market economy conditions should be based upon the acknowledgement of the following concepts:

- Healthcare is one of the most important components of national security for any state;
- Healthcare is a social (public) good;
- Healthcare is an expensive commodity (service).

This is the reason that in nearly all developed countries, economic relationships in the healthcare sector are regulated by the rules of "quasi-market", which result from the combination of the constitutional right of people to accessible healthcare services and the right of service providers to free entrepreneurship¹, and are essentially different from the usual objective rules of free market relationships.

Healthcare has always been considered as an "expensive service/commodity", which can be inaccessible for not only the poor and socially vulnerable groups of population, but also the majority of the population. As shown by the experience of countries with advanced healthcare systems, healthcare service providers have

¹ M. Aristakesyan, "Some issues of the reform of healthcare financing system in Armenia", "Drugs Agency" CJSC of the Ministry of Health, "Drugs and medical care" informational bulletin, pages 21-29, Yerevan 2002.

Free market rules**Quasi-market rules**

always felt government's support in meeting the ever growing demand for healthcare services in its entirety, provided with proper quality and to the proper level. This is manifested in various ways: There are stable sources of funding for healthcare, mainly the state budget or compulsory medical insurance, healthcare facilities operate basically with the status of non-commercial organization, they have various tax exemptions, etc.

Attaching importance to population's health as one of the main objectives of social development, The World Health Organization (WHO) in its policy document "Health for all in the 21 century"² stipulates, among others, the following principles:

- Universality, equality, solidarity and accessibility of medical care and services;
- Protection and reinforcement of people's health thought their life;
- Sustainability of healthcare development strategies.

This paper is drafted taking into account the priority

attached to the mentioned fundamental principles within the context of the national PRSP.

1. Main PRSP policies in the health sector

The PRSP for Armenia has successfully incorporated strategies and the corresponding pro-poor policies, which are essentially in line with the mentioned principles, are universal in nature and are mainly aimed to protect the health of the entire population. A number of programs for socially vulnerable groups are also envisaged. It must be noted also that Millennium Development Goals are incorporated into the corresponding sections of the PRSP, which allows us to conclude that PRSP health policies and programs include strategies for achieving MDGs, to the extent that they are relevant to country's realities.

Funding for PRSP health policies is secured, since they are included in the medium term expenditure framework of the Government of Armenia. Moreover, annual increases of their funding are also planned (see Table 1).

In the entire programmatic period, the increase in state expenditure in health sector will exceed the increase in total budget expenditures, resulting in a larger proportion of allocations to

Table 1. Programmatic indicators of state budget expenditures in the health sector

| | 2006 | 2009 | 2012 | 2015 |
|--|------|------|------|-------|
| Total, AMD billion | 35.5 | 52.7 | 73.3 | 101.1 |
| including: | | | | |
| Current expenditures, % of total | 92.0 | 92.0 | 94.0 | 94.0 |
| Capital expenditures, % of total | 8.0 | 6.0 | 6.0 | 6.0 |
| Total expenditures, % of GDP | 1.9 | 2.1 | 2.3 | 2.5 |
| Total expenditures, % of budget expenditures | 9.2 | 10.2 | 10.9 | 11.9 |
| Changes compared to previous year | 15.4 | 12.4 | 11.5 | 11.2 |

Source: PRSP, Yerevan 2003.

² "Health for all in the 21st Century", WHO, May, 1998.

healthcare in the structure of state budget. It is planned to increase the proportion of healthcare in the structure of state budget expenditures to 10 percent by 2008, 11 percent by 2012 and around 12 percent by the end of the programmatic period.

An stable increase of the ratio of state expenditures in health sector to the GDP is also planned. In 2006-2015, State expenditures in health sector will increase by 0.6 percentage point of the GDP, ensuring the target indicator of 2.5 percent of GDP in 2015.

Priorities within the health sector for state expenditures are primary, i.e. ambulatory-polyclinic, healthcare services, mother and child care and combating diseases posing serious threat to the public. It is planned to increase the proportion of primary healthcare in the total expenditures in the health sector to 40 percent by 2006, 45 percent by 2008 and 50 percent by 2015.

2. Specific features and key issues of healthcare

The multi-factorial analysis of data on healthcare conducted within the framework of the National Human Development Survey (NHDS) allows us to state unequivocally that the most alarming and key issue of healthcare, from the viewpoint of poverty reduction strategy, is ***the lack of access to healthcare services: medical care and drugs*** (see Box 5 and Annex 1).

2.1. Specific manifestation of lack of access to healthcare in Armenia

NHDS data and main results reveal a number of phenomena, which characterize the specific features of the lack of access to medical care in the country, the study and understanding of which is extremely important for developing pro-poor policies for the sector. Every third member (34.3 percent) of the 6,000 households surveyed in all marzes of the country, in the 12 months preceding the survey, were taken ill and needed

medical care, but 42.8 percent, including 41.6 percent of urban residents and 44.2 percent of rural residents, 43.7 percent women and 41.0 percent men, did not see a doctor.

Analysis of the reasons for not seeking professional medical care revealed that ***97 percent of those who needed medical care, but did not see a doctor, did not do so due to lack of access to healthcare services. The overall level of lack of access to healthcare services among respondents amounted to 41.6 percent*** (see Table 2). This means that pro-poor policies developed for the health sector should focus on ensuring access to healthcare services.

NHDS data was summarized in most clear, understandable and applicable manner in order to indicate the policy development priorities for resolving the mentioned issues. This will allow for discovering all the important features of the lack of access to healthcare services within the sector, and at regional and vulnerable groups levels.

The study of the reasons behind population's morbidity, not seeking medical care and lack of access, by gender-age groups and urban-rural categories (Table 2) reveals the following important feature of population's healthcare related behavior: ***the indicator for not seeing a doctor while needing medical care is significantly lower for children***, since:

- According to national traditions, parents try to protect the health of their children at any price;
- Protection of the health of children aged 0-7 years has a special place in public paid medical care programs.

Analysis of the causes of lack of access to healthcare by marzes against poverty level indicators for the country (Table 3) reveals yet a few other features of lack of access to healthcare:

- Lack of access to healthcare in Armenia is primarily linked with the lack of financial access, i.e. ***inability to afford seeing a doctor***;

Table 2. Population's morbidity, not seeking medical care and lack of access to healthcare, %

| Population groups | Population's morbidity* | Proportion of those who did not seek medical care in the total number of people with sickness | Of which the proportion of those who did not seek medical care due to lack of access** | Proportion of those who were sick but did not seek medical care in the total number of people with sickness |
|----------------------------------|-------------------------|---|--|---|
| Total population surveyed | 34.3 | 42.8 | 97.1 | 41.6 |
| urban | 35.4 | 41.6 | 96.8 | 40.2 |
| rural | 33.2 | 44.2 | 97.6 | 43.2 |
| women | 36.6 | 43.7 | 97.2 | 42.5 |
| men | 31.6 | 41.0 | 97.0 | 40.3 |
| Age 0-7 | 20.0 | 18.9 | 97.0 | 18.4 |
| Age 8-15 | 13.6 | 36.9 | 98.9 | 36.6 |
| Age 16-64 | 35.4 | 45.7 | 98.8 | 44.4 |
| 65+ | 66.9 | 42.6 | 97.1 | 41.4 |

Source: NHDS data base, 2003.

* Population's morbidity is calculated as the ratio of the number of people who in the 12 months preceding the survey suffered from a disease which limited their ability to the total number of respondents.

** For NHDS purposes, the lack of access to medical care is defined as the combination of three components: a) material lack of access, or inability to pay for the cost of medical care; b) physical lack of access, or difficulties in reaching a doctor and/or healthcare facility; c) lack of time needed for seeing a doctor.

- Healthcare services are **financially inaccessible for the majority of country's population**, regardless of gender, place of residence and level of poverty in the given marz.

Data in Table 3 allow us to assume that

problems of remoteness are basically solved in the country: **cases of not seeing a doctor due to the remoteness of healthcare facility or the doctor amount to only 1.2 percent**. This is also a result of the specific features of country's healthcare system:

Table 3. Poverty and lack of access to healthcare services, %

| Level poverty* | Level poverty* | Lack of access to healthcare services for those who were sick but did not see a doctor | | | |
|----------------|----------------|--|-------------------------------|------------|--------------|
| | | Total | Inability to afford the costs | Remoteness | Lack of time |
| Yerevan | 29.6 | 97.0 | 92.0 | 1.0 | 4.0 |
| Aragatzotn | 57.0 | 98.4 | 92.1 | 0.8 | 5.5 |
| Ararat | 42.8 | 97.2 | 95.6 | 0.4 | 1.2 |
| Armavir | 48.3 | 95.7 | 92.4 | 1.1 | 2.2 |
| Gegharkunik | 59.9 | 97.1 | 89.8 | 3.3 | 4.0 |
| Lori | 34.0 | 95.5 | 91.1 | 0.8 | 3.6 |
| Kotayk | 52.5 | 100.0 | 98.4 | 0.0 | 1.6 |
| Shirak | 72.2 | 94.5 | 89.8 | 1.8 | 2.9 |
| Syunik | 34.6 | 96.2 | 87.5 | 2.3 | 6.4 |
| Vayots Dzor | 42.9 | 98.5 | 93.6 | 1.3 | 3.6 |
| Tavush | 30.7 | 97.2 | 92.6 | 1.3 | 3.3 |

Source: NHDS data base, 2003.

* NSS calculation for 2003.

- **The well-developed physical network** of facilities inherited from the Soviet period, **including a large number of medical staff;**
- Active support of donor organizations to **restoration of primary healthcare facilities**, especially in rural areas.

Lack of time is another physical limitation behind the inaccessibility of medical care and services. **3.5 percent of all respondents did not see a doctor due to lack of time.**

Disaggregation of this indicator by rural-urban categories reveals that this specific cause is 1.6 times more prevalent among the rural population, compared to urban residents. This leads to *yet another two important features:*

- **Lack of time is a 3 times more influential factor in inaccessibility of healthcare services**, compared to remoteness;
- Despite the abundance of healthcare facilities in towns, **medical care is more inaccessible to urban residents due to lack of time, compared to the rural population**, notwithstanding the fact of remoteness of the nearest healthcare facilities in many rural settlements.

Considering the higher rates of poverty reduction in urban communities and the mentioned features of lack of access to healthcare, we can conclude that parallel to the improvement of people's material affluence, the "financial" nature of causes behind lack of access to healthcare will change into a "time-related" one.

2.2. Specific features of lack of access to drugs in Armenia

One of the main components of lack of

access to healthcare services is **the lack of access to drugs**. Due to the importance of the issue, MDGs also include a specific target, i.e. *provide access to affordable essential drugs in developing countries*, and "Proportion of population with access to affordable essential drugs on a sustainable basis" has been proposed as the indicator for monitoring the progress. Consequently, special importance is attached to both physical and financial access to drugs within the context of MDG.

Nearly 90 percent of the 170 rural communities surveyed within the framework of the NHDS, **either did not have pharmacies or had pharmacies which were non-operational**. And around 77 percent of residents of those communities purchase drugs from pharmacies at a 6 km or longer distance from the community. As revealed by the survey implemented by OXFAM in four marzes of the country in 2003-2004³, the absence of pharmacies in rural communities forces **around two-thirds of residents to purchase drugs from marz's towns, while 10-25 percent are forced to visit pharmacies of the capital city** (Table 4).

Naturally, the physical lack of access to drugs is not limited only to the availability of pharmacies (see Box 7). Compilation of the results of a number of surveys reveals that, even in the few pharmacies operating in rural communities, it is impossible to purchase not only prescription drugs, but also the majority of drugs included on the "List of essential drugs"⁴ which do not require doctor's prescription. Moreover, as reported by OXFAM experts, **rural pharmacies, compared to those in regional towns and capital city, offer correspondingly 1.4 and 4 times less expensive drug**

³ "Monitoring and assessment of primary healthcare and irrigation water in Shirak, Vayots Dzor and Syunik marzes", Prac 6 "Mass survey" OXFAM, Yerevan 2004.

⁴ "The list of essential drugs" is prepared by the Ministry of Health since 1992, based on the most widespread diseases in Armenia and drugs needed for prevention and treatment of health risks. Drugs included on the list are generic, with consideration for their effectiveness, safety, quality and price. The list is usually reviewed once every two years. The list currently used includes 297 drugs and is approved by the Instruction of the Minister of Health No. 1325-N dated 28 December 2004 and registered by the Ministry of Justice.

Table 4. Locations, where rural residents purchase drugs, % of all responses

| Location where the purchase takes place | Syunik | Tavush | Vayots Dzor | Shirak |
|---|--------|--------|-------------|--------|
| Rural communities | 12.1 | 19.1 | 11.4 | 12.4 |
| Marz's towns | 82.0 | 75.9 | 73.8 | 79.1 |
| Yerevan | 13.4 | 20.5 | 25.8 | 10.0 |
| Other | 1.3 | 3.2 | 0.7 | 1.6 |

Source: OXFAM, Yerevan 2004.

assortments, which, as a rule, do not cover the entire list of essential drugs⁵.

Thus, one of the specific features of the country is ***the lack of physical access to drugs in rural areas and to some extent also in small and medium sized towns, due to the total absence of pharmacies or their poor drug assortment.***

In addition, numerous studies reveal that due to the significantly high prices of drugs in the country and the absence of any regulation whatsoever (see Box 8), ***the financial lack of access, more than the physical lack of access, has become a serious limitation for using healthcare services.*** Within the general context of access to healthcare services, the specific aspect of financial lack of access is that

even within the framework of public funded healthcare programs:

- ***The majority of drugs required for hospitalized treatment are purchased by the patient;***
- During ambulatory-polyclinic medical care, ***the necessary drugs are basically purchased by patients from pharmacies;***
- ***Order of the Government of Armenia No. 396 dated 8 June 1999*** “Lists of social groups and diseases covered by the right to obtain drugs free of charge or with privileged conditions” ***is virtually not enacted*** (see Annex 2).

Lack of physical and financial access to drugs further deepens ***the psychological barrier to seek medical care***, since one of the main reasons for not seeing a doctor when sick is that

BOX 7

PILOT

Drugs revolving funds - DRF

With the support of OXFAM drugs revolving funds have been established in a number of communities of Syunik, Vayots Dzor and Tavush marzes. Each resident pays AMD500 and can obtain drugs prescribed by doctors free of charge and use certain primary healthcare services. Studies revealed that family participation in DRF increases visits to community healthcare facilities by 10 percent. At the same time, visits to regional hospitals decrease by 6 percent, i.e. more frequent visits to primary healthcare facilities have reduced residents' needs for the relatively more costly hospital care.

The pilot DRF has improved the access of community residents to not only drugs, but also medical care offered at primary healthcare level.

Source: “Monitoring and assessment of primary healthcare and irrigation water in Shirak, Vayots Dzor and Syunik marzes”, Prac. 6, “Mass survey” OXFAM, Yerevan 2004.

⁵ “Monitoring and assessment of primary healthcare and irrigation water in Shirak, Vayots Dzor and Syunik marzes”, Prac 6 “Mass survey” OXFAM, Yerevan 2004.

Table 5. The level of fulfillment of households' healthcare needs, %

| | To what extent is the household able to meet the healthcare needs of its members | | | | | |
|----------------|--|-------------|-------------|---------------|-----------------|--------------------------|
| | Fully | Basically | Partially | Almost unable | Entirely unable | There are not such needs |
| Yerevan | 3.2 | 14.9 | 46.7 | 27.6 | 6.9 | 0.7 |
| Aragatzotn | 1.8 | 12.6 | 50.8 | 30.2 | 4.4 | 0.2 |
| Kotayk | 0.8 | 21.4 | 52.6 | 23.4 | 1.8 | 0.0 |
| Gegharkunik | 1.0 | 13.4 | 47.6 | 31.6 | 6.4 | 0.0 |
| Tavush | 0.8 | 14.8 | 43.0 | 36.6 | 3.6 | 1.2 |
| Lori | 2.6 | 11.4 | 34.1 | 34.3 | 16.2 | 1.4 |
| Shirak | 4.2 | 27.5 | 45.5 | 16.4 | 1.4 | 5.0 |
| Ararat | 1.0 | 13.6 | 34.6 | 38.2 | 12.0 | 0.6 |
| Armavir | 4.8 | 19.0 | 47.2 | 22.2 | 6.8 | 0.0 |
| Syunik | 1.6 | 14.6 | 54.6 | 23.6 | 5.4 | 0.2 |
| Vayots Dzor | 1.2 | 12.8 | 48.2 | 30.6 | 6.4 | 0.8 |
| Average | 2.2 | 15.9 | 46.0 | 28.5 | 6.5 | 0.9 |

Source: NHDS data base, 2003.

the treatment will necessarily require certain drugs, which patients cannot afford. In these conditions, many prefer the ostrich method: *Better not to know about our disease, rather than knowing about it and not being able to treat it because of lack of access to drugs.*

2.3. Indirect indicators of lack of access to healthcare services

Using the NHDS data base, we were able to identify a number of indirect indicators characterizing the lack of access to healthcare, which give us a general idea of the importance

and scale of the problem among all groups of the population, regardless of them having been sick in the year subjected to survey, or not.

Subjective assessments made by households of the extent to which their healthcare needs are met are undoubtedly among key indirect indicators (see Table 5).

More than 1/3 (35 percent) of all respondent households are "almost" or "entirely" unable to meet the healthcare needs of their members. Lowest levels of meeting healthcare needs are recorded in Lori (50.5 percent) and Ararat (50.2 percent) marzes.

Table 6. Priority of spending additional revenues on healthcare

| | If the household would spend its additional (unexpected) revenue on healthcare, what would be the priorities, % | | |
|----------------|---|-----------------|----------------|
| | First priority | Second priority | Third priority |
| Yerevan | 31.4 | 55.4 | 13.2 |
| Aragatzotn | 38.7 | 40.1 | 21.2 |
| Kotayk | 33.7 | 46.9 | 19.4 |
| Gegharkunik | 41.1 | 42.5 | 16.3 |
| Tavush | 40.2 | 44.6 | 15.2 |
| Lori | 37.9 | 44.0 | 18.1 |
| Shirak | 33.9 | 50.2 | 16.0 |
| Ararat | 45.5 | 34.4 | 20.1 |
| Armavir | 34.9 | 47.4 | 17.7 |
| Syunik | 44.3 | 36.1 | 19.6 |
| Vayots Dzor | 34.2 | 42.8 | 23.1 |
| Average | 37.4 | 44.8 | 17.8 |

Source: NHDS data base, 2003.

BOX 8**Specific features of the drugs market in Armenia**

According to the results of a survey conducted by "Drugs Agency" CJSC of the Ministry of Health, the removal of the VAT exemption privilege for sales of drugs, enacted on 1 January 2001, resulted in higher drug prices. In 1997-2000, a gradual decrease in prices of drugs included on "The list of basic drugs" was recorded (on average prices were nearly 20 percent lower in July 2000, compared to December 1997), while only in January 2001 prices of the basic drugs observed increased by 12 percent compared to the previous month, and prices of some drugs not included on the mentioned list increased even by 30-40 percent.

A couple of months after the introduction of VAT for drug sales, profit margins set by vendors increased significantly, and in March 2001 already constituted 51-52 percent in wholesale and 41 percent in retail trade. As a result, prices of drugs increase by more than 2.1 times from the customs border to the consumer, compared to 1.85 times in 2000. For comparison, it must be noted that the profit margin for wholesale in Western European countries is on average 8 percent, and 25 percent for retail, form Eastern European countries in Czech Republic correspondingly 9-12 percent and 24-26 percent and in Bulgaria 18 percent and 28 percent.

High profit margins in wholesale and retail resulted in higher prices of drugs in the internal market compared to international prices (for some generic drugs a number of times higher). The high prices formed in the drugs market of the country and the low level of population's affordability are somewhat counterbalanced by the expansion of the shadow market for drugs, as well as increased sales of fake drugs and those not corresponding to quality standards.

No regulatory mechanisms for regulating drug prices are currently enacted in the country and prices are regulated by the whim of a flawed competition in the free market.

Sources: M. Aristakesyan, "Drugs and poverty", Informational-Analytical Center of the Government of Armenia "Hayatsk Tntesutyan" periodical No. 11 (23), Yerevan, September 2002.
 M. Aristagesyan, "Observation of drug prices and sales volumes in Armenia", "Drugs and Medical Technolgies Agency" CJSC of the Ministry of Health, "Drugs and medical care" informational bulletin No. 3, pages 29-31, Yerevan 2001.
 M.A.Aristakesyan, "Drug pricing survey: Some results from Armenia", World Health Organization; "ESSENTIAL DRUGS MONITOR", Issue No. 32, page 6, 2003.

In the mentioned situation, policy-makers should be interested in the intention of households to spend possible additional (unexpected) revenues on healthcare. According to data from NHDS, health is in the first place in the summed distribution of all priorities, amounting to more than 70 percent of the sum of responses (see Annex 1). And the distribution of households intending to use the mentioned amounts for healthcare needs by the priority attached to meeting those needs is as follows (Table 6).

According to data in Table 6, **4 (or even more) out of 5 surveyed households, who were ready to spend their additional revenues on healthcare, attach first and second priority**

to spending those amounts on healthcare.

The question here is where these additional amounts, which will allow people "banished" from healthcare services due to lack of access to meet their healthcare needs at least "partially".

3. Causal links of lack of access to healthcare

As a result of studies conducted by specialists and independent experts in the field of healthcare, a justified opinion has been formed that the main causes of financial lack of access to healthcare services stem from the following important issues:

- Extremely low level of state funding of the sector;

- Low level of public administration and state regulation of the sector;
- Radical changes of concept of healthcare in public life.

The analysis below reveals and clarifies, to the extent possible, the causal links of lack of access to healthcare.

3.1. Financing of the healthcare system

The lack of financial access to healthcare services primarily means the absence or inadequacy of financial resources to pay for otherwise physically accessible services. The sources can be both public funds (state or community budgets) and private payments (direct payments, subsidies, insurance, etc.).

Adequate and sustainable financing of healthcare needs from all relevant sources is very important from the viewpoint of pro-poor policies.

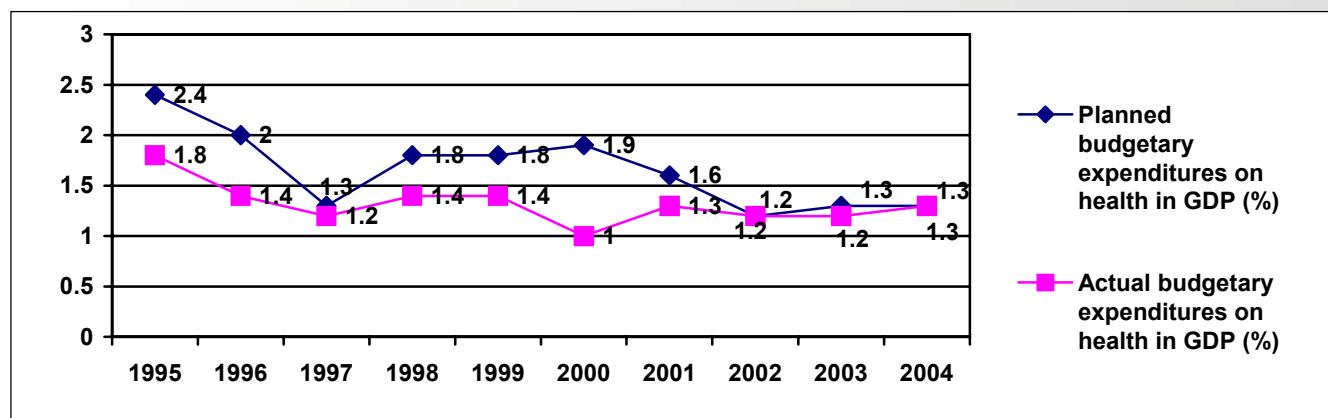
According to a number of expert assessments, the total affordable healthcare needs of Armenia's population is estimated at

around US\$120-150 million⁶, and some other estimates are even higher at US\$150-200 million⁷. For some years in a row, the Ministry of Health requests nearly US\$150 million for its budget, but until 2002, it was eventually allocated only 25-30 percent of that request from the state budget. And even the allocated amounts were often underfinanced. It must be noted that the volume of financing has increased in the last two years (see Box 2): In 2003-2004, the sector received actual funding far exceeding the volumes in previous years and in accordance with the planned volumes, as opposed to the practice of "under-funding" of healthcare, which was commonplace for years (see Figure 1).

Characteristically, at the same time, local self governing bodies (LSGB) have, in effect, no participation in the financing of healthcare. LSGBs allocated only AMD1.0 million to healthcare expenditures in 2000, AMD1.2 million in 2001 and AMD2.3 million in 2003⁸, i.e. the total expenditures of all LSGBs of the country on healthcare are not more than US\$5000 per year.

As a result of inadequate funding of healthcare

Figure 1. Budgetary expenditures on healthcare as a percentage of GDP (%)



Source: NSS, Ministry of Finance and Economy.

⁶ Public Expenditure Review (PER) for Armenia, World Bank, Report No. 2434-AM, 27 June, 2002, Washington D.C., USA.

⁷ Assessment of the author is based on official data from NSS and Ministry of Finance and Economy and a number of surveys.

⁸ "Statistical Yearbook, 2002", NSS, 2003, page 396.

from state and community budgets, ***the prices of medical care and services included on the list of public paid basic healthcare services are set 3-3.5 times lower than their real price.***

And the low prices set for services paid by the state, in particular, result from low salaries of medical and support staffs. In 2004, for the purposes of budgeting the public paid

healthcare⁹, the average salary of senior medical staff is set at AMD32,000 (around US\$57), that of mid-level medical staff at AMD20,000 (US\$36), junior support staff AMD15,000 (US\$27). It must also be noted that expenditures on food for patients, whose treatment at hospitals is paid from the state budget, are not envisaged at all in the list of basic services.

Other than salaries of the medical staff, amounts from the very limited budgetary resources are also allocated to the operational costs of healthcare facilities, while the latter, on average, operate only at 30 percent of their capacity¹⁰. Naturally, operational costs, including water supply, electricity, garbage disposal, heating, etc. cannot be paid for by only one-third.

It turns out that the state, with its scarce resources, maintains healthcare facilities, i.e. hospitals and polyclinics, which are empty by two-thirds, as well as staffs of those facilities by paying them wages, which are only one, two or three times higher than the minimum wage¹¹. And caring for the health of patients, regardless of their social conditions, *de facto*, becomes a secondary concern and is frequently taken care of by patients themselves in the form of so called “paid services”.

3.2. Paid services and their “shadow” in the healthcare system

Paid services, as a concept, were officially

introduced in the country in 1997. They are applied to medical care and services provided outside the framework of healthcare programs financed from the state budget. In addition, starting in October 2003, subsidies are provided to patients treated in Yerevan hospitals for a limited number of diseases, the list of which is approved by the Ministry of Health.

Provision of paid services and their prices, in essence, are not adequately regulated yet. Prices of paid services are set by healthcare providers. ***Prices of paid medical care are frequently set at the level of, or lower than, prices defined for similar public paid treatments financed from the state budget.*** This means that prices of both public paid and private healthcare services are a few times lower than the real prices. As a result, healthcare facilities and medical staffs again “turn their eyes” to patients’ pockets: anticipating additional (in addition to the price list) informal payments from the socially vulnerable, and downright demanding those from the rest (see Box 9). In these conditions, even many representatives of socially vulnerable groups, whose treatment costs are covered by the state, under the pressure of unavoidable additional payments often refuse to use the free of charge medical care services guaranteed by the state.

Skewed market relationships in the healthcare sector, with regard to poorly targeted public funds allocations, unrealistic prices at the basis of those allocation, as well as “paid services” not corresponding to the logic of free markets, further limit the possibilities of the population, especially the socially vulnerable, for receiving medical care. Thus, ***we should look for the roots of lack of access to healthcare not only and not as much in the financial capacities of the***

⁹ “The law of the Republic of Armenia on state budget of 2004” No. HO-2048-N, 25 December 2003.

¹⁰ S. Khachatryan “Improvement of access to healthcare services in Armenia”, Analytical-informational center for economic reforms of the Government of Armenia: “Hayatsk Tntesutyan” bulletin, No. 14 (26), 25 November 2004.

¹¹ According to the decision of the National Assembly of Armenia dated 17 December 2003, the minimum wage was defined at AMD13,000, which entered into force on 1 January 2004.

BOX 9

Payments for healthcare services

Data from the pilot survey conducted by OXFAM UK Armenian office in 2003-2004 in rural communities of Syunik, Tavush, Vayots Dzor and Shirak marzes reveal that payments for medical care differ widely by types of healthcare facilities and increase by the extent of severity of the illness and the hierarchical level of the healthcare facility (see Table). As presented in the Table, the majority of healthcare related payments by rural residents are made in regional hospitals.

**Average payments made by rural residents in various healthcare facilities
(excluding payments for drugs) in the surveyed marzes (AMD)**

| Type of facility | Syunik | Tavush | Vayots Dzor | Shirak |
|-------------------------------|--------|--------|-------------|--------|
| Community healthcare facility | 3017 | 5550 | 1998 | 4222 |
| Polyclinic | 6075 | 6579 | 4250 | 1000 |
| Regional hospital | 42775 | 131615 | 36233 | 30905 |
| Hospital in Yerevan | 84200 | 199681 | 293549 | 142417 |
| Other | 1905 | 7000 | 4000 | - |

The survey also revealed that around 2/3 of healthcare related payments made by rural residents are informal. And ***the majority of informal payments are made in hospitals of regional towns.*** The latter amounts to 40 percent of all payments and 60 percent of all informal payments.

Source: “Monitoring and assessment of primary healthcare and irrigation water in Shirak, Vayots Dzor and Syunik marzes”, Prac. 6, “Mass survey” OXFAM, Yerevan 2004.

population and the phenomenon of poverty, but rather in the systemic problems of the public health system.

The widely spread shadow healthcare, the relative size of which is nearly twice larger than the estimated volume of the entire shadow economy in the country is the logical result of the flawed legal-organizational structure of the system, poor management and inadequate market specific, particularly price, regulations.

The shadow zone of the healthcare system is mainly formed by informal (under the table) payments and unrecorded medicine provisions, the volumes of which are estimated differently by different experts. According to those estimates, the proportion of shadow payments for medical services and/or drugs in the total expenditures of

the healthcare system is between 60 and 80 percent. Results of the survey conducted in 2002 by the National Statistical Service¹², however, are more comprehensive and reliable. Based on the results of the survey we can conclude that:

- Volumes of households' consumption of healthcare services are 4.48 times larger than the total volume of services provided to the population declared by organizations and individuals operating in the sector;
- The volume of drugs purchased by households is 5.65 times larger than the sales volumes of medicine declared by retailers.

Based on the mentioned conclusion, ***the proportion of shadow transactions in the medical care and services sector of the***

¹² Report of the sampling survey of expenditures on healthcare services made by healthcare facilities and drugstores and households”, NSS, Yerevan 2002.

country is estimated at 65-70 percent, and the volume of shadow transactions for medicine procurement at 73-75 percent.

Summarizing the analysis of the financing of the healthcare system, it must be noted that by both volumes, and targeting and fair distribution and sustainability of financial resources, the operational and redistribution relationships within the sector are totally incompatible with the conceptual framework of pro-poor policies. The lucid data in Table 7 are clear and concise proofs of the mentioned conclusion.

The Government of Armenia obviously tries to improve the situation to some extent within the framework of the PRSP, through maximum possible support to the poor and target social groups in receiving medical care and drugs free of charge. But in an "unsystematic" system, such as healthcare in transition countries, "order and system" should be introduced at all points and levels for all strata and groups of population, based on the principle of universal and equal

access to healthcare. Otherwise, programs focusing only on the poor and vulnerable social groups, in conditions of 65 to 70 percent of shadow operations in the healthcare system, will face the serious threat of petering out and not serving their objective.

3.3. "Transformed" concept of health protection in public life

Within the context of pro-poor policies, importance is attached to health protection issues directly impacting the accessibility of healthcare services, the basis of which is the given society's concept of health.

The health concept has a significantly wider scope than "health protection", "healthcare", or even more so "medical care". The role of the healthcare system as such is mainly to prevent and treat diseases, and reestablish health, which together, according to various expert assessments, constitute around 15 percent of all the factors of health protection.

Table 7. Main indicators characterizing the financing of healthcare system

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|--|-------|------|------|------|------|------|------|------|------|
| Proportion of healthcare expenditures in GDP, % | 4,6 | 4,9 | 5,7 | 5,8 | 6,3 | 4,6 | 6,9 | 5,6 | 5,9 |
| Proportion of actual expenditures from the state budget in total healthcare expenditures, % | 40,0 | 28,1 | 20,7 | 24,7 | 22,0 | 20,7 | 19,5 | 20,9 | 21,7 |
| Proportion of private expenditures in total healthcare expenditures, % | 60,0 | 71,9 | 79,3 | 75,3 | 78,0 | 79,3 | 80,5 | 79,1 | 78,3 |
| Proportion of total healthcare expenditures in actual state budget expenditures, % | 4,2 | 5,1 | 4,8 | 5,7 | 4,8 | 3,8 | 5,5 | 5,3 | 6,2 |
| Proportion of population's direct and shadow payments in the total private expenditures on healthcare, % | 100,0 | 91,4 | 90,4 | 89,5 | 78,0 | 79,5 | 75,1 | 83,5 | 83,7 |
| Proportion of external sources of healthcare financing in total healthcare expenditures, % | 4,6 | 3,4 | 11,1 | 11,0 | 11,5 | 17,0 | 11,3 | 14,5 | 12,8 |
| Total per capita expenditures on healthcare, US\$ | 18 | 24 | 29 | 34 | 37 | 28 | 47 | 43 | 51 |
| Total actual per capita expenditures on healthcare from the state budget, US\$ | 7 | 7 | 6 | 9 | 8 | 6 | 9 | 9 | 11 |

Sources: The World Health report 2003, Shaping the future, WHO, Geneva, 2004,
expert estimations of the author.

The health protection concept is mainly formed by factors outside the healthcare system, which are nevertheless very closely linked to healthcare as such (see Annex 3). Those factors are environmental protection and the level of environmental pollution, level of education, conditions of work, living and recreation, spread of hereditary diseases conditioned by the specific genetic features of the nation.

In the last decade, a radical transformation of the health concept at both individual and societal levels has been noted. In the Soviet period, in conditions of free healthcare services, people linked the concept of "disease" to any feeling of physical distress. The society, in its turn, "operated the entire technological cycle" of the institution of healthcare, from prophylactic examinations to restoration of patients' health in health resorts and special guest houses.

From 1989, the attitude of the public and individuals with regard to health started to change gradually. The disastrous earthquake, the armed conflict and the "paralysis" of the healthcare system, especially in 1992-1994, also had an undeniable impact on the process of transformation. People's attitude finally changed as a result of the impoverishment of a large number of people due to the economic crisis and the parallel commercialization of healthcare services (introduction of paid services). ***Health became a matter of livelihood (ability to survive), and the concept of "illness" was linked to individual's extremely agonizing physical conditions and being bedridden¹³.***

The high level of lack of financial access to healthcare and its unacceptable level of shadow operations, in their turn, have a constant negative impact on the concept of health. As described in detail in previous sections, people have real concerns with regard to using healthcare services at any level, due to the worry that they will never be able to "free themselves" from the system, which is closely linked to the "continuity"

of financial expenditures. This means that ***the lack of access to healthcare services, with all its manifestations, has also created a psychological barrier among the population, as a result of which they do not give serious consideration to their health and try, to the extent possible, not to use services provided by the healthcare system.***

Numerous surveys on healthcare, households, people's living standards and quality of life prove the mentioned conclusions. Data from the NHDS also testify to population's attitude toward health, especially in the light of the lack of access to medical care.

Figure 2 presents the results of the NHDS regarding the proportion of residents who underwent prophylactic medical checkups in the 12 months preceding the survey, by all marzes of the country.

The picture presented is very simple and indicative: ***only 7.9 percent of the entire population of the country undergoes annual prophylactic medical checkups.*** This proportion reduces to 6.9 percent for the rural population, due to lack of physical access, and is twice lower than the average, or 3.5 percent, for children aged 7-15 years, who are more confident in their health.

Thus, ***the primary healthcare level, which is responsible for the protection of health through prophylactic measures, currently has the lowest workload,*** which is a result of the mentioned financial, psychological and conceptual factors.

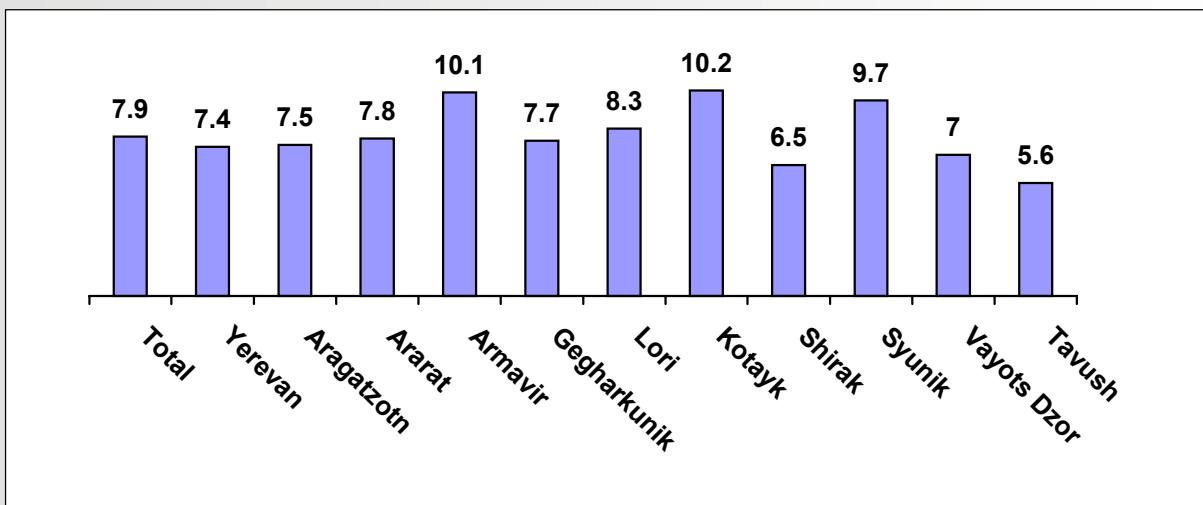
Characteristically, the comparison of morbidity of residents by marzes and proportions of those who had prophylactic medical checkups reveals a significant correlation. According to calculations the correlation coefficient of the two factors constitutes "-0.3". This means that the enhanced role of prophylactic health protection measures will reduce the level of population's morbidity.

It is beyond doubt that expenditures (by

¹³ See also "Social Indicators of Poverty: Education, Health, Households, Pensioners", UNDP and NSS, Yerevan 1998.

Figure 2.

Proportion of residents in Armenia's marzes who underwent prophylactic medical checkups, %



Source: NHDS data base, 2003.

households, state and community budgets) on prophylactic examinations are significantly less compared to other levels of the healthcare system (see Box 9). This means that ***the activation of the primary healthcare level will directly result in better financial access to healthcare services***, which is fully in line with priorities of the pro-poor policy.

Similar, i.e. reverse, link is noticed also between population's morbidity and living conditions. NHDS data reveal that morbidity rates increase significantly, by 1.4 to 2 times, as a result of lack of heating (see Table 8). In these conditions, the population needs to make additional expenditures, not only for heating their dwellings, but also acquiring drugs for preventing diseases and treating diseases that have already occurred. Consequently, complementing pro-poor policies with programs for provision of heating to

dwellings, will specifically and in parallel resolve problems of lack of access to healthcare as well.

4. Priorities of pro-poor policies

The mentioned analyses, NHDS data and healthcare statistics have been discussed on numerous occasions and in detail by experts in the field, healthcare practitioners, experts from donor organizations, as well as representatives from civil society: NGOs, communities, mass media, in a number of seminars and workshops¹⁴.

Moreover, in order to inform and involve the wide public in the development of pro-poor health policies, a special issue of "Hayatsk Tntesutyan" informational bulletin devoted to the realization of the right to health, access to healthcare and

¹⁴ The priorities of pro-poor health policy proposed by the author were discussed with: a) senior officials and experts of the sector, representatives of the government, independent experts participated in 5 seminars organized in Yerevan in June-November 2004; b) medical staffs of Shirak marz polyclinics participated in a round-table organized in December 2004; c) senior officials responsible for the social sector in Kotayk marz and Hrazdan municipality participated in a seminar organized in December 2004 and representatives, especially Yezidis, of rural communities in Aragatzotn marz participated in a round-table organized in Aruj village in December 2004.

Table 8. Population's morbidity relating to heating of dwellings

| Main form of heating | Morbidity among people using the given form of heating (or not having heating at all), % | | | | | | | | | | |
|----------------------|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Yerevan | Aragatzotn | Kotayk | Gegharkunik | Tavush | Lori | Shirak | Ararat | Armavir | Syunik | Vayots Dzor |
| Centralized heating | 23.6 | - | 24.8 | - | - | - | 50.4 | - | - | - | - |
| Natural gas | 32.1 | 35.7 | 22.1 | 33.9 | 36.9 | 35.7 | 31 | 44.9 | 24.4 | 78.6 | 39.2 |
| Electricity | 32.8 | 32.0 | 30.1 | 49.1 | 16.7 | 43.8 | 40.7 | 42.3 | 32.7 | 49.0 | 22.9 |
| Liquid fuel | 45.7 | - | 33.3 | 25.0 | - | 21.4 | 20.0 | 55.5 | -* | 30.0 | - |
| Coal | -* | - | - | - | - | - | 33.3 | - | 40.0 | - | 36.4 |
| Firewood | 35.4 | 40.1 | 22.0 | 28.0 | 32.9 | 41.8 | 31.4 | 40.1 | 28.5 | 37.9 | 37.7 |
| Manure | -* | 31.1 | 25.9 | 29.6 | - | 35.4 | 25.2 | 39.6 | 26.7 | 33.3 | 44.7 |
| Other | 23.5 | 45.5 | 30.1 | 21.4 | - | 75.0 | 33.8 | 41.7 | 31.6 | 50.0 | 75.0 |
| No heating | 49.2 | 70.5 | 46.3 | 52.7 | 70.0 | 58.6 | 52.3 | 55.1 | 34.9 | 35.3 | 54.4 |
| TOTAL | 34.0 | 34.6 | 24.9 | 29.6 | 33.1 | 41.3 | 32.2 | 41.4 | 28.5 | 38.2 | 40.2 |

-* data are not highly representational

Source: NHDS data base, 2003.

current problems of management of the sector, was prepared and published with the support of the UNDP¹⁵. A number of discussions on issues of recommendations put forward in the informational bulletin were organized in central ("Dzeragir" program of Public TV 1) and regional (Gyumri "Tsayg", live roundtable discussions broadcast by Hrazdan and Gavar local TV stations), as well as in regional press "Kumayri", "Hrazdan", "Ashtarak" weeklies.

Recommendations summarized below are developed on a participatory basis, with regard to the participation of not only civil society, but also all stakeholder ministries, marz governments and local self-governing bodies, in discussions around issues and formulation of recommendations.

Based on the definition of pro-poor health policy presented in the first page of this paper,

recommendations were summarized in the following directions:

- **in order to determine national priorities** importance was attached to the principle of **universality** of access to healthcare services;
- **in order to determine sectoral priorities** importance was attached to the creation of **equal** health protection conditions for all groups of population;
- **in order to determine regional priorities** importance was attached to ensuring **physical access** to medical care and drugs in rural communities.

The identified key issues of operations of the national healthcare system and access to healthcare services and the analysis of their causal links formed the basis for the following recommendations on the pro-poor policy.

¹⁵ "Hayatsk Tntesutyun" bulletin, No. 14 (25), 25 November 2004, Analytical-Informational Center for Economic Reforms of the Government of Armenia, Yerevan.

PRIORITY 1

Regulating prices of medical care and services, reducing volumes of shadow transactions.

As presented in Part 3 of this paper, the main barrier to the solution of the problems of access to healthcare is the widespread shadow payments in the sector. Studies also revealed that the main cause of shadow operations is the unrealistic prices of healthcare services, which, incidentally, is a result of the use of prices a few times lower than the real ones in calculations of expenditures on medical care from the state budget (see Section 3.1). As a result, prices of three levels are applied in the healthcare services market: a) *realistic*, i.e. prices, which reflect the real value of medical services in the market; b) *theoretical*, i.e. prices, which form the basis for programming and financing "public paid" healthcare services; c) *actual*, i.e. prices, which are formed as a result of bargaining between healthcare facilities and visitors and are actually paid for services. As a rule, ***actual prices paid for healthcare services by the poor and socially vulnerable groups are between realistic and theoretical prices.***

Since prices are not regulated, efforts of governmental bodies for providing free medical services to vulnerable or special groups of population become useless (see Annex 2). Thus, on average only 30 percent of those in privileged social groups who need medical care receive the mentioned support. Moreover, due to the "three tier" price formation of healthcare services, programs for free of charge medical care for

target groups¹⁶ of population subsidized by the state, financed only to 20-30 percent are immediately discredited to the extent of the under-financing (70-80 percent). This means that *making decisions within the framework of pro-poor policies, the government, de jure, follows its "obligations", but de facto does not ensure the enactment mechanisms, as a result of which a large part of the cost volume of free healthcare services is transferred directly to "shadow" transactions.*

Consequently, as the first and most important priority in the set of pro-poor health policies, it is proposed: ***to resolve the problem of price regulation and reduction of shadow operations in healthcare services and medical care sectors.***

PRIORITY 2

Ensuring free-of-charge primary healthcare for everyone.

Regulation of the prices of healthcare services will undoubtedly result in a smaller volume of medical care programs for vulnerable groups financed from the state budget. Considering the flawed "public financing" mechanisms currently used in the sector and their inadequate supervision, as well as the extremely low representation of social groups included in those programs, it is appropriate not to peter out the already limited public resources and direct them toward ***ensuring that primary healthcare is completely free of charge.***

Discussing the issues of lack of access to healthcare with various groups of population, it was often mentioned that government's decisions

¹⁶ See Government Order No. 318-N dated 4 March 2004 "Free of charge medical care and services guaranteed by the state" and No. 396-N dated 8 June 1999 "Approving lists of socially vulnerable groups and diseases entitled to drugs free of charge or with privileged conditions".

in that regard are often “half-baked”, which, to some extent, contributes to the increase in the volume of shadow operations in the sector¹⁷. Participants of seminars and round-tables proposed that the state should consider focusing on one sphere, trying to ensure full access to the given sphere for all groups of population. Discussions of healthcare experts on the mentioned proposal, results of the analysis presented in subsection 3.3 of Box 3, as well as assessment of priority directions of pro-poor policies on the basis of NHDS data¹⁸, reminds us that primary healthcare, i.e. ambulatory-polyclinic services and the institution of family doctors, is a priority direction.

Within the context of the proposed priority, ***the provision of free polyclinic services for urban residents should be accompanied by measures for advancement and strengthening of the family doctor institution for the population, especially rural residents.***

The institution of family doctors should be strengthened in rural areas through re-qualification, training of medical staff available as a result of the streamlining of healthcare facilities and, with the provision of the corresponding social guarantees, stationing them in rural communities. Strengthening of the family doctor institution in some communities will allow for resolving the primary healthcare problems of residents in neighboring communities as well.

In urban communities, it is necessary to implement a serious investment policy for updating the technical capacities of polyclinics and provisioning them with modern equipments.

PRIORITY 3

Better access to drugs

Lack of access to drugs is no less important and urgent than the lack of access to medical care and services. Results of the studies presented in Section 3 of this paper and Boxes 7, 8 and 9 indicate the mentioned fact.

Polyclinic services are still free of charge for 42 percent of population above 7 years of age in social groups with medical care guaranteed by the state, while only 32.1 percent of the mentioned group of population has medicine privileges (see Annex 2). From this point of view, the use of state budget resources for increasing access to drugs among vulnerable groups of population is more effective. 31.3 percent of people on privilege lists, however, have paid for “free of charge” drugs, and another 5.8 percent have not even tried to use the privilege, as they were convinced that they have to pay in any case.

Meetings with the population reveal yet another important circumstance: ***few drugstores enlisted for provision of free of charge drugs, which are either physically inaccessible, or many do not know their exact list and addresses.*** In these conditions, we are of the opinion that, from the viewpoint of both awareness building and ensuring full access, it would be appropriate to delegate the responsibility for provisioning the mentioned drugs only to drugstores located in polyclinics and/or drugstores and family doctors with the corresponding formalized agreement with polyclinics. Family doctors, particularly in rural

¹⁷ See “Hayatsk Tntesutyan” bulletin No. 14 (26), 25 November 2004, “Kumayri” weekly No. 45 (18.566), 16-22 December 2004, “Ashtarak” newspaper, No. 20 (20), December 2004.

¹⁸ See N. Jrashyan, S. Manukyan “Guidelines for developing pro-poor social policies”, reference booklet, Yerevan, December 2004.

areas, are the only licensed medical workers, who, considering the widespread absence of drugstores in rural areas (the objective reasons behind this are presented in detail in section 2.2 of the paper), should be put in charge of distributing not only drugs provided free of charge and with privileged conditions, but also the predetermined quantity of drugs needed for emergency medical care.

With the implementation of the mentioned priority the effectiveness of the use of public funds in ensuring access to drugs for socially vulnerable groups and the state control over those funds will improve.

The exemption of the sales of drugs from VAT, which is levied since 2001, can have an important and crucial impact on better financial access to drugs. The effective implementation of the mentioned measure will require regulation of the profit margin applied to the sales of drugs. The problem here is that in conditions of the total absence of competition in the drugs market, exemption from VAT might not result in the reduced drug prices at all. Thus, the state has an extremely important regulatory role in enhancing financial access to drugs for the population at large. The introduction and further consolidation of the practice of state registration of the prices of drugs included on “The list of essential drugs” might also be very effective in enhancing financial access to drugs.

PRIORITY 4

More powers and financial responsibility for local self-governing bodies in ensuring healthcare for community residents.

Local self-governing bodies also have a very important role in ensuring access to healthcare services. Community authorities, however, are basically unaware of the healthcare needs of residents, and, at the same time, do not

comprehend the direct link between poor health and poverty.

Data from the NHDS reveal that 81 heads of communities from among the surveyed 170 rural communities do not at all consider the lack of access to healthcare services as a factor of poverty generation. Only 32 heads of communities, or 18.8 percent of the surveyed communities, mentioned the lack of access to healthcare services among the 5 most important factors of poverty in their communities. And only one of them considered that factor as the most important one.

In the mentioned conditions, the attitude of heads of communities toward the implementation of healthcare programs is logical. ***Only 10 communities from among the 170 rural communities surveyed within the framework of the NHDS had included healthcare related measures in their three-year community development plans (2003-2005).***

Considering the above-mentioned recommendations on enhancing and strengthening the role of family doctors in rural areas, including the provisioning of equipment, special consideration should be given to enhancing the role of local self-governing bodies in ensuring the health of community residents. The mentioned recommendation can be implemented in particular through delegating mandatory authorities to local self-governing bodies in the healthcare sector and envisaging the corresponding financial resources by amending the legislation on local self-government. In this case, the local self-governing body will have to provide particular support to healthcare facilities within its administrative borders and family doctors' offices operating under its supervision, and thus finance their operational and maintenance costs, provide them with basic medical supplies, drugs, equipment, etc. The financial-moral support of local self-governing bodies is especially important in rural communities, where the family doctor is not a local person.

PRIORITY 5

Introduction of mandatory medical insurance, starting from Inpatient care.

Enhancing the diversity of financial resources for healthcare is extremely important for improving access to healthcare services. One of those sources, undoubtedly, can be ensured through the implementation of the priority of increasing the financial responsibilities of local self-governing bodies recommended above. It must be noted, however, that it is appropriately recommended to direct both state and community budgetary resources mainly to primary healthcare. In this case, naturally, ensuring access to hospital healthcare becomes an urgent issue. ***Medical insurance in the country, including the introduction and development of compulsory medical insurance in the country as quickly as possible, and purging of the unrealistic volumes of “declarative” package of basic medical services (PBMS) guaranteed by the state, will have a significant and decisive role*** in the solution of the mentioned issue.

“The conceptual framework for introduction of medical insurance in Armenia”¹⁹ already justifies the necessity and appropriateness of introducing compulsory medical insurance. The documents also mention that it will allow forming and consolidating a system of healthcare financing based on the principle of social solidarity, in which **“the healthy pays for the sick, the rich for the poor, the young for the elderly and workers for the unemployed”**²⁰.

The introduction of a system of compulsory medical insurance will allow for:

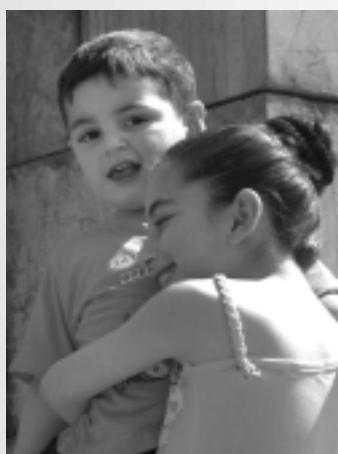
- formalizing the “shadow” medical costs paid directly by the people, and consequently increasing the effectiveness of their use;
- collecting additional financial means for protecting population’s health;
- ensuring targeted medical care for the population within the framework of basic compulsory medical insurance programs;
- enhancing the level of protection of citizens in cases of unforeseeable sickness;
- overcoming the barrier of the fairly widespread disposition of the population regarding not seeking medical help.

Considering the spread of poverty in the country, as well as the small number of people with relatively high salaries, it is recommended to form the insurance sums for socially vulnerable groups of the population temporarily through funding from the state budget, using the surplus resources envisaged for the family benefit system. At the same time, considering the limited possibilities of the state budget, a phased introduction of compulsory medical insurance system is recommended, starting from insurance for certain illnesses treated at hospitals, considering it as a certain form of insurance against financial risks related to unforeseeable health problems.

At the same time, it is necessary to stipulate the foundations of compulsory corporative medical insurance in Armenia’s legislation (starting, for example, from the 300 large employers), which will bring a significant contribution to the lightening of the healthcare burden of both the state and the population.

¹⁹ “Conceptual framework of the introduction of medical insurance in Armenia” protocol decision of the Government of Armenia No. 33 dated 10 August 2000.

²⁰ See footnote 19.



Features of pro-poor policy for educational development

Ashot Khurshudyan

Pro-poor policy in the education sector should be directed toward ensuring access to quality education, especially for poorer segments of the population.

Author

Introduction

The education sector and its development have a special place in Armenia's political agenda, as "sector under special care" of the state¹. Declaring education as a priority development direction for the country is a precondition for taking education out of its crisis situation and ensuring the comprehensive development of education.

The current bases for education were established almost 8 years ago, when the Government of Armenia decided to initiate a pilot project for educational reform in 1998. The law on "State program for development of education in Armenia in 2001-2005" stipulated the future prospects for development of the sector, and the National Assembly decision dated 20 June 2003 endorsed the program of the Government of Armenia, and agreed also with the identified urgent problems of the education sector and the proposed directions for their solution. In particular, the mentioned document distinguishes two urgent issues relating to the sector:

- effective use of the staff and material-technical provisions in the education sector, as well as the heavy workload and low salaries of teachers; and
- limited allocations from the state budget to the education sector.

Giving special consideration to the secondary

education system, the Government of Armenia has envisaged a number of measures for periodical increase in teachers salaries, phased optimization of the formal basic education system, expansion of self-management of educational institutions, ensuring the effective use of state resources allocated to education, etc.

Government's program does not specifically mention the need for and importance of improving the quality of education, while the PRSP also refers to this issue and underlines "...further development of the formal basic education sector with regard to the quality and effective of services provided"².

Further detailed study of the policy of education proposed in the Paper, however, reveals that even the PRSP does not identify the enter set of measures necessary for improving the quality of education. It can be stated, with some reservations, that the education section of the PRSP has rather reproduced the strategic directions of the previously developed policy for the education sector, without referring to the assessment of their impact on poverty reduction.

Within the mentioned context, importance should be attached to the need to define development priorities in education within the conceptual framework of pro-poor policies, especially in the context of MDG localization and PRSP review requirements.

¹ Program of Actions of the Government of Armenia, Yerevan 2003.

² See "Poverty reduction strategy paper", Yerevan, 2003. point 331, page 121.

1. MDG and education policy In Armenia

Millennium Development Goals (MDG), in essence, are the leverage which has been put in action in order to overcome poverty by 2015, as its long-term target year. It is well known that the MDG has set the target: ***Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.*** For this Target the MDG has defined the following most important three indicators:

1. Net enrolment ratio in primary education;
2. Proportion of pupils starting grade 1 who reach grade 5;
3. Literacy rate of 15-24 year-olds.

In the Soviet period, Armenia succeeded in solving its primary education problem, ensuring a literacy rate of 99.4 percent (see Box 3), and primary school enrolment ratio of nearly 100 percent. The suddenly emerging poverty, however,

which accompanied the country from the first years of its independence, left its mark on primary education, which admittedly was one of the best organized sub-sectors. Data presented in Table 1 reveal an alarming picture of the urgent problem of primary school, i.e. reduced enrolment rate of 7-9 year-olds.

Compared to many countries, Armenia with a fairly good ranking with regard to this MDG indicator, has nevertheless experienced unfavorable trends in recent years. These trends are especially notable in Armenia's marzes, particularly in rural areas, where the values of indicators are 2 to 10 percentage points lower than the capital city. In particular, the enrolment rate is significantly low on the entire territory of Ararat marz and in towns of Lori marz³.

A declining trend of enrolment rate in primary school has unfortunately been recorded not only in Armenia, but also in the European part of the

Table 1. Net enrolment of 7-9 year-olds in primary school (grades 1-3) by marzes, %

| Marzes | Total net enrolment | including: | | | |
|-------------|---------------------|------------|------|-------|-------|
| | | girls | boys | urban | rural |
| Yerevan | 98.4 | 98.4 | 98.4 | 98.4 | - |
| Aragatzotn | 91.0 | 93.1 | 88.7 | 92.0 | 90.7 |
| Kotayk | 93.4 | 88.9 | 98.1 | 92.5 | 93.9 |
| Gegharkunik | 94.6 | 93.2 | 96.0 | 100.0 | 93.1 |
| Tavush | 95.6 | 100.0 | 93.2 | 96.4 | 95.2 |
| Lori | 88.6 | 86.4 | 91.4 | 86.7 | 94.7 |
| Shirak | 94.4 | 95.0 | 94.0 | 94.7 | 93.9 |
| Ararat | 88.5 | 87.5 | 89.3 | 88.5 | 88.5 |
| Armavir | 97.1 | 96.1 | 98.0 | 97.2 | 97.0 |
| Syunik | 95.6 | 95.9 | 95.1 | 95.9 | 95.1 |
| Vayots Dzor | 92.1 | 91.7 | 92.6 | 92.1 | 92.1 |

Source: "Human poverty in the marzes of Armenia", AST'05, Yerevan, June 2004.

³ The low enrolment rate of rural children in primary school can be explained to some extent, while, in our opinion, the unprecedented low enrolment rate of urban children in Ararat and Lori marzes needs additional studies.

CIS⁴. This fact points to two important phenomena in those countries: first, ***the low demand in transition economies for level of education, and second the low quality of educational services offered.*** As a result, education is gradually retreating in the value system of the society. Undoubtedly, this is also supported by the rapid impoverishment of the population in the CIS countries, which forces children's educational issues out of families' "list of urgent issues".

At the same time, despite the negative trends noted, it must be noted that the policy currently enacted in the education sector in Armenia is much more diverse and is not at all limited to primary education. Such approach is undoubtedly supported by the Armenian population, since it incorporates the idea of all-encompassing development of the sector, which is not limited only to MDG education targets. Moreover, it underlines the absolute necessity for localizing the education component of the MDG and defining national priorities.

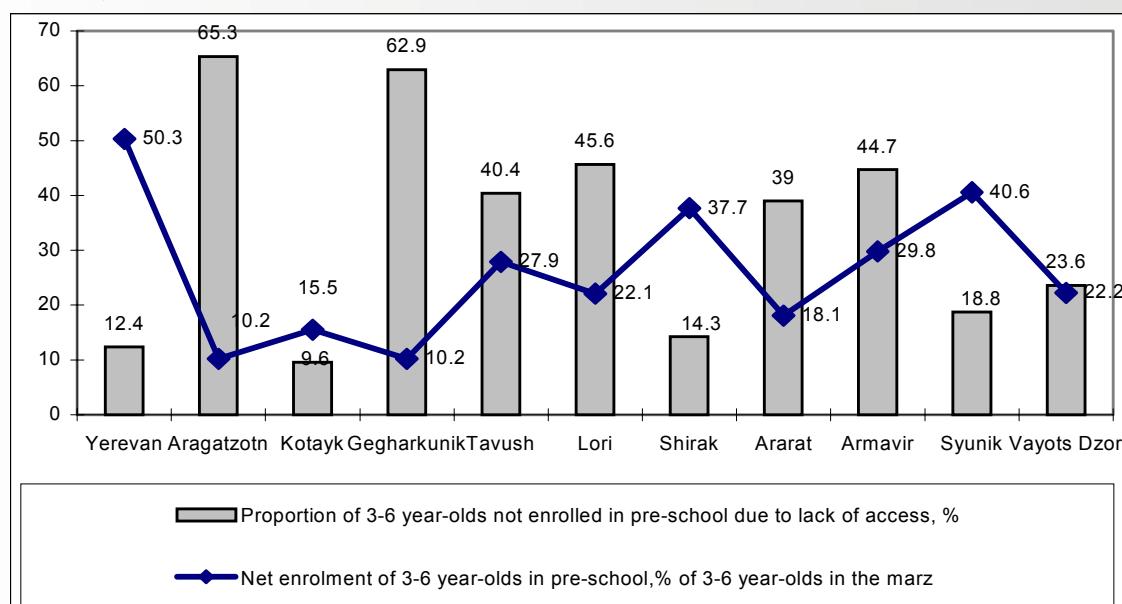
2. National priorities in education within the context of MDG and PRSP

2.1. MDG national target; pre-school education instead of primary education.

The indicator for enrolment at any level of the educational system cannot provide adequate information on problems of the sector and particularly the quality of education. To some extent, however, it guides researchers in the identification of "the weak points" of the sector.

For example, NHDS data reveal that the lowest level of enrolment in Armenia has been recorded in pre-school institutions (PSI). ***Pre-school education*** suffered the most under the mass impoverishment of the population. First, these institutions were the first ones deprived from state's care, as most of them were under the management of governmental agencies and institutions. The bankruptcy of state factories and organizations cut those educational institutions from their sources of funding. Second, the high unemployment rate among women further strengthened their traditional role of taking care of

Figure 1. Net enrolment in PSI and lack of access to pre-school education in marzes, %



Source: N. Jrbashyan, "Human poverty and MDG indicators in the marzes of Armenia", AST'05, Yerevan, 2004.

⁴ Millennium Development Goals: Progress Report produced by the UN Department of Economic and Social Affairs and UN Department of Public Information, DPV2363, 27 October, 2004.

children and doing the housework. Third, as already mentioned, the impoverishment of families results in pre-school education being considered as an additional financial burden for the family. As a result, the pre-school education became both inaccessible and useless. Consequently, enrolment indicators declined rapidly in all marzes without exception, especially in Yerevan, Kotayk and Shirak (see Figure 1).

From the viewpoint of poverty reduction, the low enrolment rate in PSIs, in our opinion, has the most serious and negative impact compared to other sub-sectors of education. The fact of the matter is that due to lack of access to PSIs, children of poor families basically do not attend kindergartens. In conditions of social isolation of poor families, the only opportunity for social contacts for those children is their relationship with family members. In effect, staying home and deprived from various contacts with children from other groups of society, ***children, at the age (3-6 years of age) when individuality is formed, are forced to deal with heavy difficulties of families suffering under the burden of poverty and trying to fend it off day after day.*** Experts would agree that already for a number of years, a peculiar and totally unacceptable socialization of children is taking place, which creates serious difficulties for properly organizing the education process, firstly at the primary level, but later also at higher levels of education. In these conditions, it is not very reasonable to expect improvements of indicators of education quality, or even stopping their decline.

Referring to the PRSP, we would like to note that radical improvement of the quality of education has been considered as one of the most important directions in the education sector, which, in the long-run, will create opportunities for poor families to come out of the "whirlpool" of poverty.

PRIORITY 1

Ensure access to pre-school education and increase enrolment rates.

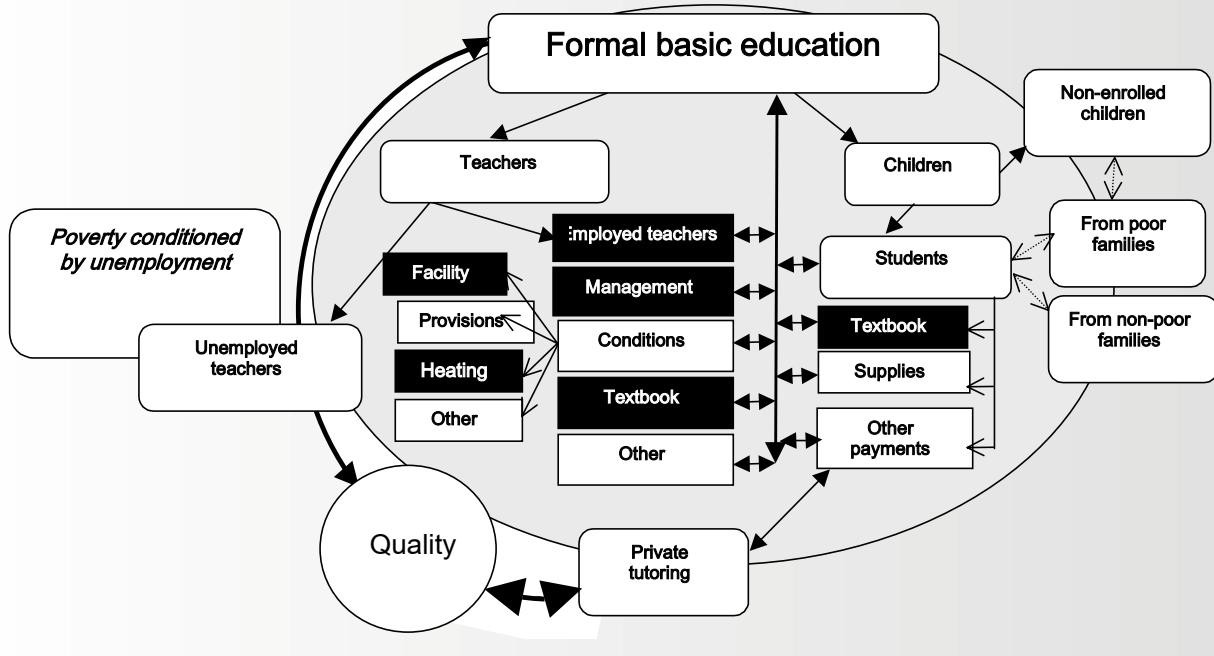
Based on the above-mentioned and the conceptual approaches of pro-poor policies, ***solution to the problem of access to and enrolment in pre-school should be considered as the priority direction in Armenia, within the framework of the education section of the MDG.***

Current problems of this level of the educational system of the country require the development and implementation of new initiatives of cooperation of the Government of Armenia and communities: technical-methodological support to kindergartens, introduction of standards for pre-school education, clear definition of sources of financing, formation of a favorable legal framework, etc. Otherwise, the next levels of the educational system, and especially the formal basic education, will face problem, which would be much more difficult to resolve, i.e. ***mitigate (if not eliminate) the serious social and psychological consequences of the already formed new generation of the poor, and as a result compromise the quality of knowledge.***

2.2. Teachers in general and not only employed teachers as a PRSP target group.

It is surprising, but in discussions on pro-poor policies for the education sector, in effect, the very first issue mentioned is the salaries of teachers. ***Salaries of teachers is considered as the main key issue relating to poverty in the education sector.*** Truly, especially teachers of the public education system are still among the poorer groups of Armenian workers, due to unacceptably low level of their salaries. Thus, the issue of their living standard should undoubtedly be included in country's strategic framework for poverty reduction.

However, a question arises here: is teachers' salaries the only subject relating to poverty in the

Figure 1. Components of formal basic education from the viewpoint of pro-poor policy

education sector; aren't poverty issues in this most important social sector more diverse and wide-ranging?

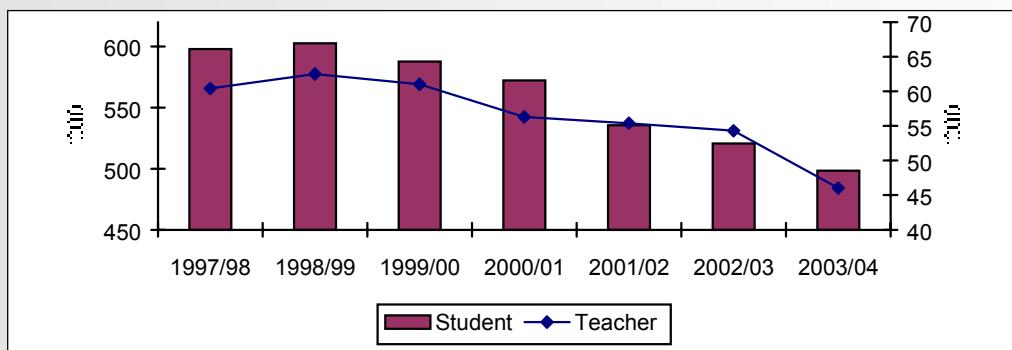
The pro-poor policy in the education sector should principally be systemic, necessarily taking into account all the subjective and objective factors having and impact on the development of the sector. Figure 1 presents, the main components of the formal basic education system: black cells represent the current PRSP targets, i.e. teachers training and their salaries, repairs of school buildings, heating, provision of textbooks, management reforms issues. However, as clearly seen in the Figure, a number of important issues have been left out of the PRSP, which, in our opinion, reduces the pro-poor orientation of the policy enacted in the education sector. Moreover, transformation of education administration, taking place in our country in accordance with Western models and, in essence, based on the principle of competition for financing, are virtually not directed toward increased access and ensuring equality in the education sector, as indicated by a number of international experts⁵. This means that there is no

sense in discussing the pro-poor orientation of those transformations.

The majority of experts on the education sector indicate that there is a direct link between teachers' salaries and quality of education. Accordingly, by increasing teachers' salaries and consequently ensuring the proper quality of education, the PRSP policy on education can be considered as "doubly" pro-poor. At first sight, this assumption seems to be logical, since remuneration is in the first place in the list of motivations for improving the quality of any work. On the other hand, in a situation, where education is being transformed into a market-based sector, significant increases of teachers' salaries will naturally result in massive cuts in teaching positions. A question arises here: **wouldn't teachers dismissed from the system add to the number of the poor, and consequently increase the level of poverty in the country?** And accordingly, **can the mentioned policy in the education sector be considered pro-poor?**

The economic causes of reductions in numbers

⁵ See for example Martin Carnoy, "Globalization and Educational Reform: What Planners Need to Know", UNESCO, International Institute for Educational Planning, Paris, 1999.

Figure 2. Numbers of students and teachers, thousand people

Source: "Statistical Yearbook of Armenia", NSS, 2002, 2004.

of teachers are much deeper than the mere streamlining of sector's management. First of all, they are conditioned by the unfavorable demographic situation in the country. The number of students in the formal basic education system dropped sharply due to the impoverishment of the population, declining birth rates and mass emigration (see Figure 2).

In 2004, the number of school students in the country had declined by more than 25 percent compared to 1997. On the other hand, the number of teachers declines at a much slower rate⁶. **Teachers lose their jobs not as much due to the rationalization of the educational system, but rather due to demographic disproportions, partially resulting from emigration.** This aspect of the issue has, of course, been ignored by the state.

The mentioned fact brings us to an interesting conclusion: **cuts in the number of teachers, seemingly, do not have much impact on improving the quality of education.** Nevertheless, attempts are made to link the "professional fate" of teachers to the very important requirement of pro-poor orientation, i.e. quality of education, which, in its turn, is unjustifiably measured by indicators for teachers workload and teacher-student ratio.

PRIORITY 2

Special social policy for all teachers (employed and unemployed).

As a result of the education policy formed on fairly precarious grounds from the viewpoint of pro-poor orientation, according to our estimations, in 2003-2008, around 20,000 teachers will be laid off, or a reduction of 35 percent in the total number of teachers⁷. Within this context, the issue of better living standards for teachers transforms into an issue of social security for all teachers (employed or unemployed). Considering the role of teachers in edifying and educating future generations, and consequently in the socio-economic development of the country, we attach great importance to the development and enactment of a special, mainly active, social policy for teachers. Some of the options discussed are the introduction of a separate or private pension fund for teachers; the use of the potential of jobless teachers in extracurricular programs; etc.

2.3. "Pro-student" and not only "pro-teacher" policy as a direction of PRSP.

Problems of students in schools start with the accessibility of textbooks. The state policy in this

⁶ Here a large role is also played by fact that teaching is not a profession with large demand and opportunities in other than the native country, where education naturally takes place in other native languages.

⁷ Source: "State policy of Armenia for rationalization of formal basic education system", Ashot Khurshudyan, ICHD, Yerevan, 21 October 2003.

area has been enacted in the following directions. First, ***primary school textbooks are entirely provided by the state.*** But textbooks for grades beyond primary are purchased by students (meaning their families) themselves. ***A textbook revolving fund*** operated within the framework of educational programs, and is financed by “rental” fees for textbooks. The rental fees are periodically paid by students in secondary schools, including children of poor families, and are used for replenishing and restoring the fund and purchase of new textbooks. The Government of Armenia contributes only by 10 percent to the fund to cover the needs of socially vulnerable families. Moreover, the mechanism for distribution of the amount is not regulated and eventually does not ensure any link with poverty.

Textbooks are an important but not the only cost element of education. School supplies, school uniform, students nutrition and transport costs, amounts commonly collected for a growing number of different funds and events, private tutoring, and in addition to all this the corruption costs, multiply the already numerous problems of poor families with children attending school (see Box 4). According to the results of the statistical survey, the average monthly school costs for each student amounts to AMD2500⁸, or AMD10 billion annually (without the costs of private tutoring).

PRIORITY 3

Ensure access to formal basic education for children from poor families.

Aside from the small “privileges” in textbook rentals, all the mentioned costs are equally shared by poor and non-poor families. But for the first group, the impact of those costs is similar to that of regressive taxes and is a larger burden on poor families. Thus it can be concluded that

formal basic education is not equally accessible for poor families, and consequently the most important norm of the public educational system in Armenia is violated, i.e. “formal basic education is implemented based on the principle of unified education and edification, maintains its secular nature, is free from discrimination and limitations and is **equally accessible** to everyone regardless of ethnicity, race, gender, language, religion, political and other dispositions, social origin, material possessions or other circumstances”.

From the viewpoint of pro-poor policy, expenditures on students and lack of access to education are no less important than the low salaries of teachers. In this regard, in our opinion, *the education policy in Armenia also has to become “pro-student”, and focus to the extent possible on meeting the priority educational needs of poor families with school-aged children.*⁹

“**Pro-student**” policy measures might include: a) allocation of additional points in the family benefit system to families with school-aged children; and b) provision of textbooks paid by the state budget to the formal basic education system.

3. National values relating to education in the conceptual framework of pro-poor policy

3.1. Quality of education as an important national value.

By the ratio of “level of importance” to “level of being studied” the quality of education is arguably in the first place. On the one hand, the study of the quality of education inside the educational system requires a whole set of indicators. On the other hand, the real level of the quality of education is determined only in the labor market, i.e. outside the educational system, when the application of knowledge produces results for **the individual who received education and the society which provided educational services.**

⁸ See “Armenia’s social panorama and poverty”, statistical-analytical report, NSS, Yerevan, 2003.

⁹ “Those who live and grow up in unfavorable families, are later more prone to suffer from joblessness, low salaries and poor health and transfer those “characteristics” of poverty to their own children”. See Koen Vleminckx and Timothy Smeeding, eds. “Child Well-Being, Child Poverty, and Child Policy in Modern Nations: What Do We Know?” Bristol, 2001.

Thus, attempts to assess the quality of education through enrolment, access, students' grades and other quantitative indicators are inadequate. Moreover, ***all the mentioned indicators for education should be re-weighted by certain coefficients characterizing the quality of education.***

It is beyond doubt that the quality education, especially formal basic education, in contemporary Armenia is inadequate and does not satisfy the students, teachers, or parents. Discussions on the inadequate quality of education are currently on the social agenda in Armenia. Thus, it can be evaluated by any coefficient smaller than 1. Applying the latter to the re-calculation of qualitative indicators of education, we obtain a more reliable and accurate picture of both student enrolment and the other indicators of education¹⁰.

Although the proposed measure is based solely on a series of logical assumptions and conclusions, and needs further serious justification, but nevertheless, at first sight, it seems to be fairly veracious. The large volume of private tutoring, recorded by national statistics, is a vivid proof of the mentioned fact¹¹.

PRIORITY 4

Improve quality of education through introduction of innovative education.

One of the important guarantees for ensuring the proper quality of education is, undoubtedly, the necessary level of investments in the sector. It is well known that education continues to consume the inherited social and physical capital created by investments made in the Soviet period. ***And what inheritance will the current***

educational system leave for the coming generation? It is time to consider the introduction of innovative education.

Computer classes and classrooms in many schools and universities simply have an artificial nature. Firstly, they are not physically accessible to students, since they are, as a rule, behind closed doors. Secondly, computers often become a type of school property, which serves as a "display of credibility" for the principal, rather than a key element of the education process for the children. Thirdly, even if permission is granted, many children cannot use the computers due to lack of the corresponding skills.

3.2. Value of education for families.

For the majority of the poor population in Armenia, education is their only capital. Thus, to value education would mean to consider it a "profitable" or "income-generating" capital. From this point of view, the NHDS provided interesting surprises with regard to responses to the question: "If your household had additional (unexpected) amounts, what would be the first priority for spending it?" (see Annex 1). Responses of 6000 respondent households in all marzes of Armenia to this question are summarized in Figure 3.

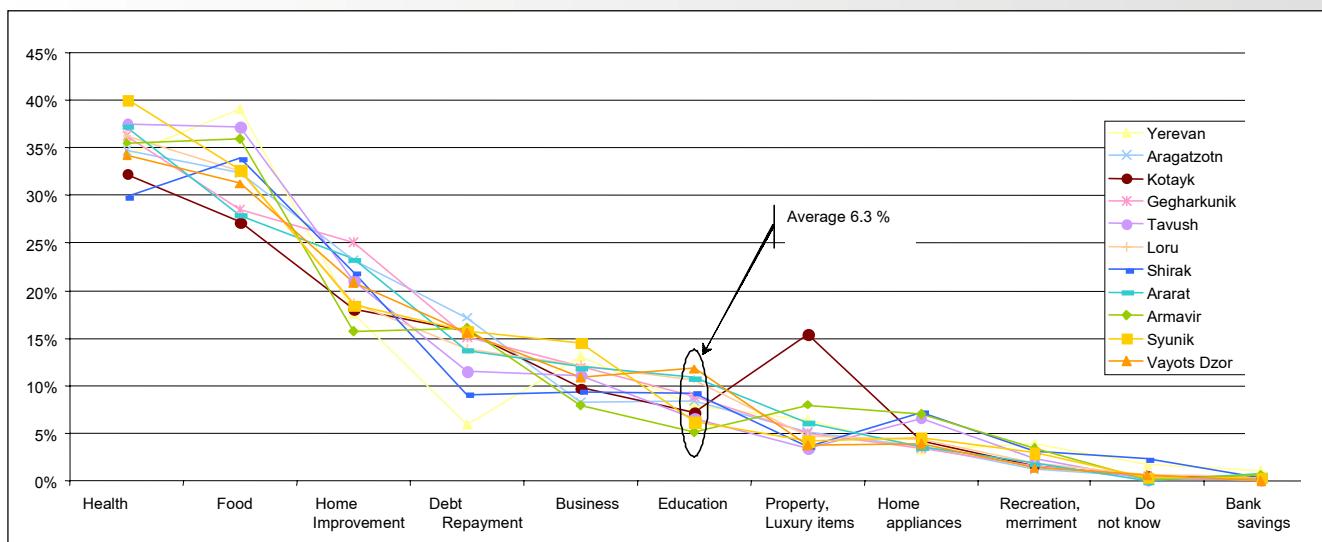
PRIORITY 5

Enhance the social value of education, through targeted state programs on education.

Figure 3 shows that priorities of households for spending additional amounts on improving healthcare, food and dwelling are a few times

¹⁰ This means that if we assume that the quality of education is half the desirable level and consequently the coefficient of the quality of education is 0.5, then multiplying the latter with the indicator of enrolment in formal basic education system, the result will be the adjusted enrolment indicator of around 45-48 percent. This means that less than half of children enrolled in the educational system in Armenia receive proper education. Another approach can be proposed for adjusting the rate of enrolment in specialization schools. For example, the real rate of unemployment of young people with specializations can be used as an adjustment coefficient.

¹¹ According to annual reports of NSS "Social conditions in Armenia", more than 60 percent of those who apply for entrance to universities attend additional paid courses; another 20-25 percent receive additional knowledge through free of charge lessons with acquaintances and relatives. Paid private tutoring is twice more widespread in Yerevan compared to marzes.

Figure 3. Priorities for spending additional amounts

higher than other directions of spending, including education. This phenomenon has its specific reasons. First, needs of households for restoration of health, quality nutrition and comfortable dwelling are not yet satisfied, and consequently have ended up in the list of priority needs¹². Second, education was valued less, that repayment of debts and starting businesses, since a) formal basic education services are mainly provided by the state and additional expenditures in that direction are not considered as priorities for households; and b) short-term and medium-term investments, for example starting a business, are preferable to long-term investments in education, the payback timetables and volumes of which are very questionable due to the current situation in the labor market.

Regardless of the accuracy of the mentioned reasons, it is completely notable that the NHDS has recorded the extremely alarming fact of devaluation of education in the society. Obviously, in conditions of inadequately met priorities of households with regard to health, food and dwelling, ***education will continue to lose its value and importance for families***. And accordingly, the state has a larger role to play in the described situation. In particular, there is a need to develop and enact a targeted state policy

for inducing a new quality in the educational system, enhancing the value of education in the perception of the population, as well as putting it under the special care of the state, as a sector guaranteeing the future development of Armenia (see Box 3).

3.3. Value of education for the state.

Considering the conclusion of the analysis presented in the previous point regarding the urgent need to implement special and targeted state programs in the education sector, let us attempt to determine the value of education for the state. First it must be noted that experts do not have a unified opinion on this issue. Some of them are convinced that the current state policy attaches a fairly high value to education. Some experts justify the opposite point of view.

Without getting deeply involved in expert disputes, in our opinion, within the framework of the PRSP, is it more important to assess the state policy for the education sector from the aspect of its pro-poor orientation. In this regard, the analysis will be conducted through the description of the phenomenon of “education poverty”, its assessment by absolute and relative indicators and definition of priorities.

¹² Health, food and dwelling are the basic needs of human beings.

PRIORITY 6

Significant increase in expenditures on education as a proportion of GDP.

The current state policy in the education sector is characterized by the motto "**we cannot refuse to maintain and develop education**". Probably no one, be it a political figure, expert or simple citizen, would argue against the fact of the ever growing resources allocated by the government to the education sector. But the question is: **are the state resources allocated to education capable of ensuring the maximum possible level of development for the sector and its accessibility?** From the viewpoint of the conceptual framework of pro-poor policies, the pro-poor orientation of education assumes the maximum expansion of opportunities for poor people to receive quality education (see the definition provided by the author in the beginning of the article).

Let us take a look at the statistics of the country in recent years. Macro-indicators reveal the "unprecedented" economic growth recorded in the country in 2001-2004¹³. At the same time, statistics point to the disproportionate growth of resources allocated to education in comparison with the economic growth, and in 2003, this proportion even showed a downward trend¹⁴. The latter can be explained by a number of factors:

- differences between the development scenario forming the basis for planning calculations of the state budget and the real economic growth accomplished;
- the conservative method of state budget planning, where the accurate assessment of the link between the economic growth and budget revenues, i.e. tax collection, is not reflected;
- the absence or lack of flexibility of mechanisms

for correcting and adjusting budget expenditures in conditions of "unplanned" economic growth.

Nonetheless, together with the mentioned objective factors, we should also mention the inadequate value attached to education by the state, the direct consequence of which is the absence of the political will for including the state financing of the sector in the list of priorities.

In this regard, the year 2005 can be considered as the first step toward the expression of the mentioned political will: according to the preliminary data for Armenia's state budget for 2005 presented by the government, the growth rate of resources planned for education finally corresponds to the planned rate of economic growth. In other words, in previous years education "was trying to catch up" with the economic growth rate, while in 2005 it can "take a leap" and reach the latter. But even in this case, the state still "owes" to education for the damages done to the sector in the last ten years, mistakes made, and restoration of the consequences of inadequate financing and ignorance.

We must also add that although by absolute indicators, the year 2005 can be considered as year of progress for the education sector, however **by relative indicators, it cannot yet be classified among the non-poor sectors**. In Armenia, where **education had played an identity-preserving role**, and where education has always been highly valued, and where the level of population's education continues to be comparable to that of developed countries, there is still a lot to be done for a radical increase of the share of GDP allocated to education (see Box 2). Against this background, in our opinion, education poverty in our country should be characterized, first of all, by the proportion of GDP allocated to expenditures on education, and its deviation from the averages for developed CIS and European countries should be adopted as one of the most important target indicators.

¹³ "According to official statistics, the picture of economic growth in Armenia in 2001-2004 is characterized by the following data: 9.6% in 2001, 13.2% in 2002, 13.9% in 2003 and 10.1% in 2004. See "Social and economic policy implementation progress in 2002-2004", Government of Armenia, Yerevan, 2005, page 6.

¹⁴ Actual consolidated budget expenditures on education in 2003 amounted to 2.2 percent of GDP, whereas the target planned by the PRSP was 2.4 percent. See "PRSP implementation progress report", Yerevan, September 2004, page 24.

The need to implement an active pro-poor policy in the social security system

Suren Poghosyan

The pro-poor social security policy should ensure better targeting for the poverty benefit system, and meet the specific needs of people vulnerable to human poverty.

Author

Introduction

Armenia's social security system is still in its formation phase. The need to move from the paternalistic¹ system of the Soviet period to a targeted social security system corresponding to the nature of market economies is being gradually acknowledged by the government and civil society and is reflected to varying degrees in documents relating to the national social policy.

The current phase of conceptual elaborations of the social security policy is distinguished by a number of directions stemming from the PRSP, with the following main objectives:

- **strengthen links, mutual justifications and mutual targeting between social security programs and programs implemented in other social areas.**

Here we are referring to, in particular, the harmonization, integrated programming and performance budgeting of social sector policies (education, healthcare, labor and social security, utility services and public transportation, etc.) developed by central and local authorities.

- **Increase the targeting, social impact and economic effectiveness of the social security policy.**

This direction basically requires a justified targeting of poor and vulnerable groups of

population, differentiation and classification of social needs based on their specific aspects, proper compilation of passive and active social policies, with the highest possible preference for the latter.

- **Maximum use of standards and factors relating to eradication of human poverty and development of human capital in the social security system.**

The recommendation is based on the need to improve the flexibility of the social security system, considering the inclusion of additional mechanisms in the social security system, including the family poverty benefit scheme, for ensuring equal opportunities and human development for certain vulnerable groups (disabled, children, refugees, the unemployed, physically isolated communities, etc.).

- **Ensure the continuous development of the family poverty benefit system.**

This direction has become particularly actual after the approval of the PRSP and is also conditioned by the fact that according to PRSP target indicators, the resource base of the family benefit system will increase annually and consequently there will be a need (and in 2005 there is already a need) to address the effective distribution of additional amounts through development and use of additional tools.

¹ "Paternalism" means overall social care by the state.

Our comments and recommendations on priority directions mentioned above, which are described in the conceptual framework of pro-poor policy, are presented below:

1. Strategic issues of pro-poor policy in social security sector

Armenia, as a transition country, builds its new system of social security based on the key principle of "***transition from social equality to social justice***". The process of reforming the system based on the mentioned principle brought up the issue of institutional organization of the social security management system, which in its turn required the clarification and/or definition of:

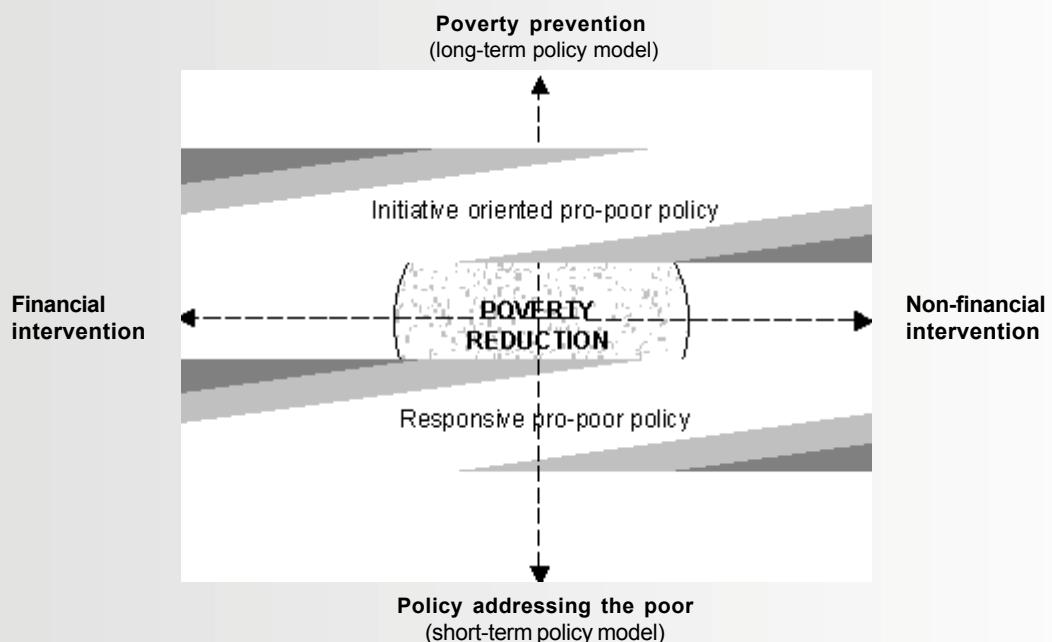
- overall objectives and priority directions of country's social policy;
- informational, legal and methodological framework necessary for ensuring the proper targeting of social security;
- functions, responsibilities and interrelationships of governmental bodies operating in the social security sector;
- the model for implementation of social security policy, with regard to the principles

of state intervention, its tools and forms, etc.

Institutional transformations of the social security system were conditioned also by the need to adapt other areas of governance, such as tax and budget, social budgeting and administration to the requirements related to the effective operation of the new system. In particular, principles for financing the implementation of social policies, priorities of the transition period, methodological basis for medium-term projection of absolute and relative levels of state interventions for development of the social sector, supervision mechanisms for economic and social effectiveness, etc. were defined.

The implementation of the mentioned transformations has not yet been completed in Armenia, which is indicated by the large number of diverse questions raised by both governmental bodies and a wide range of civil society actors during the drafting of the PRSP (2002-2003). Discussions around the mentioned questions revealed the need to further develop the system (see Box 10). Studying the results of discussions (which have not yet lost their actuality), we can

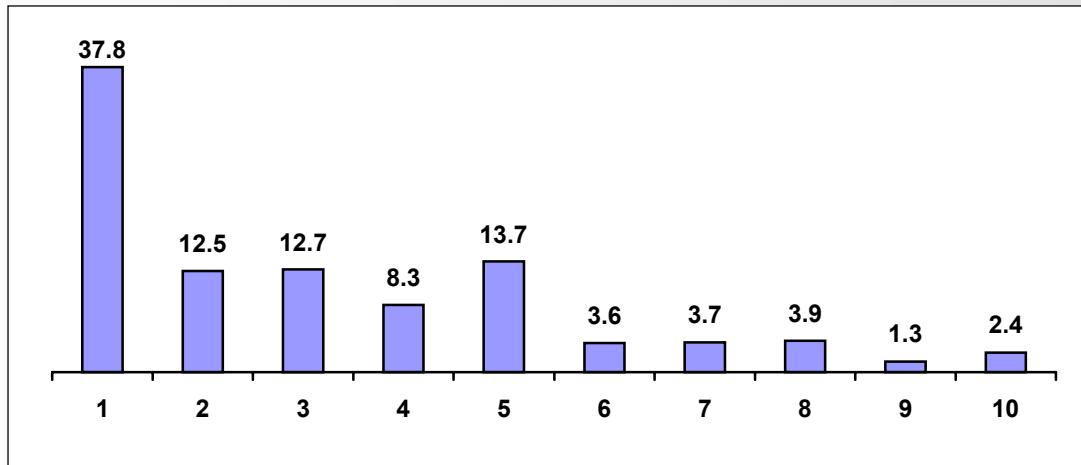
Scheme 1. Levels of pro-poor policy interventions



BOX 10

Evaluation of the level of protection of the right to social security in Armenia on a 1-10 scale

(1 “not protected at all”, 10 “always protected”)



Source: “Opinions, knowledge and attitudes with regard to human rights in Armenia” report, lead by Lucig Danielyan, Yerevan, 2005.

UNDP “Promotion of human rights in Armenia and enhancing public awareness on the Human Rights Ombudsman institution” project

conclude that they are mainly related to **determining the proportion of the two main types of state intervention in the social security sector, i.e. response oriented and initiative driven interventions**. Heated discussions took place also on **whether the social security system should operate only on financial level or also should refer to non-financial aspects as well**.

Summarizing discussions around the social security policy, we have attempted to present them in a schematic manner from the viewpoint of pro-poor policies (see Scheme 1). Based on the logic presented in the scheme, it must be mentioned that the current social security policy focuses mainly on various types of financial assistance to the poor and other target groups, i.e. on the implementation of a response oriented policy. Nonetheless, the PRSP has also indicated the need for measures aimed at reducing human poverty (non-income), as well as preventing the phenomenon of poverty.

The adoption of a response oriented social security policy by the state is completely logical, considering the high level of poverty and limited state resources of the country. In addition, the objectives, aims and results of the response oriented policy are more easily understandable for the poorer segments of the population, since they are “visible” and “tangible” (see Box 11).

We need to take two other important aspects into account as well: first *the sudden emergence of poverty* see the first chapter of this paper). During the economic transition period, the social security system should primarily respond to unfavorable social consequences of economic and structural transformations, through regulating the prices of certain goods and services in conditions of price liberalization and thousand-fold increase of consumer prices, providing humanitarian assistance to the population rapidly becoming poor, indexing of the devalued amounts received by pensioners and social benefit receivers and other response measures.

Naturally, long-term measures for poverty prevention were left out of the scope state social security policy.

Second, *reduced financing of the system of social security*. It is well known that the soviet system of social security was financed from three fairly powerful sources: *the state budget, social funds of enterprises and financial means of trade unions*. In conditions of the total absence of the last two, the main burden of social security in transition Armenia is on the state resources, i.e. the state budget and the state social insurance fund. And considering the limited resources of the state budget, especially in the first years of transition², it is only natural that the state had extremely limited possibilities for implementing long-term social security programs.

Thus, it can be concluded that ***for transition countries, such as Armenia, the specific feature of state's pro-poor policy for social security is the preference for a short-term response policy, rather than a long-term preventive policy.*** Data in Table 1 support the above-mentioned, according to which a major part, or more than 80 percent, of amounts allocated from the state budget to social security in order to mitigate poverty, covers responsive-financial (see Scheme 1) policy measures.

It must be noted that in the medium term (2005-2007) the ratio of responsive to preventive policies shifted slightly in favor of the latter, but nonetheless the overall policy continues to remain basically responsive.

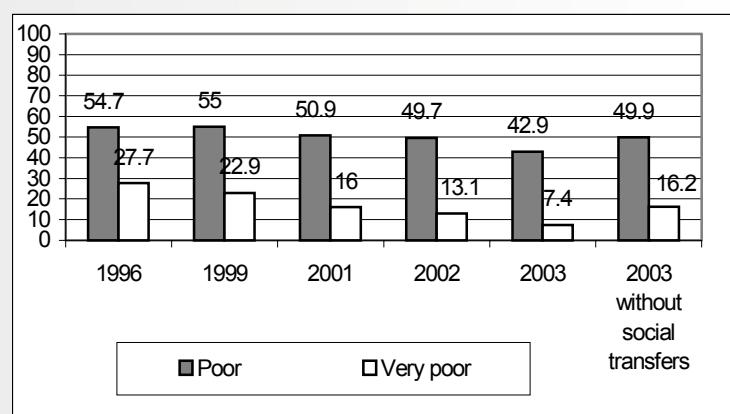
BOX 11

The main factor of income poverty reduction in Armenia

According to PRSP evaluations¹, the 1 percent economic growth in 1999-2001 resulted in 0.47 percentage point reduction in poverty. This means that 58.1 percent of increase in incomes of the poorer groups of population resulted from the economic growth. At the same time, according to the results of a living standard survey in 2003², social insurance and social security expenditures ensure a significant part of poverty reduction in our country. If the total value of social transfers (all types of state benefits, including family benefit, compensations for privileges, pensions and old-age pensions) are not taken into account, then the level of poverty will increase by 16.3 percent, and the level of extreme poverty will rise to 18.9 percent, reaching levels of poverty in 2001 (49.9 percent and

Diagram.

Poverty in Armenia, 1996-2003



Source: Armenia's Social Snapshot and Poverty, NSS, Yerevan 2004.

¹ See Poverty Reduction Strategy Paper, Yerevan 2003, page 32.

² See Social Snapshot and Poverty in Armenia, NSS, Yerevan 2004, page 62.

² NSS data reveal that in 1992-1996, budget expenditures allocated to the social sector in the total expenditures of the budget reduced from 36.2 percent (in 1992) to 20.3 percent (in 1996), i.e. by 1.9 times. In the same period, the proportion of social expenditures in GDP reduced by 3.4 times, from 13.9 percent (in 1992) to 4.1 percent (in 1996).

16.2 percent correspondingly; see Figure). **Of course, such analyses reveal the effectiveness and proper targeting of the social transfers system.** Nevertheless, the comparison between poor and the non-poor deciles of the population (see Table) indicates that employment (waged employment, self-employment and agricultural production) is the main source of income for both groups. It constitutes 60.8 percent of incomes for poorer deciles, and 71.8 percent of incomes for non-poor deciles. The proportion of incomes from employment, however, in poorer deciles is less than 18 percent. On the other hand, despite the increase in incomes from employment in poorer deciles in 1999-2003 (by 2-3 times), on average they are still three times smaller (AMD3,134 compared to AMD15,423 for non-poor population). **Consequently, the poorer groups of population have a significantly smaller participation in active economic life and GDP generation, and hence they can benefit from economic growth only through its redistribution, rather than distribution.**

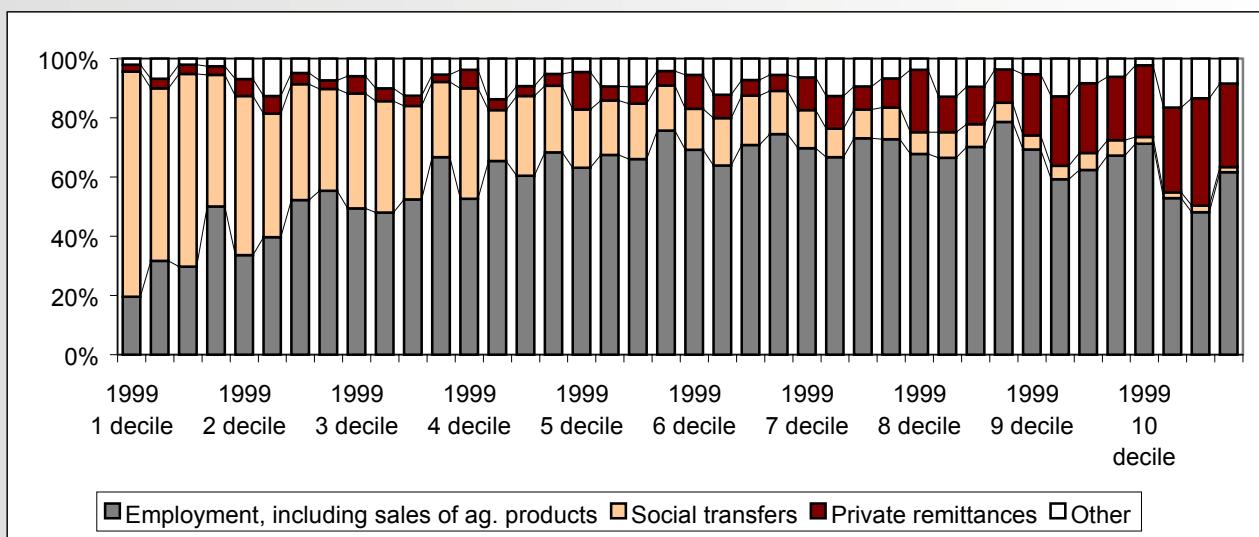
Table. Composition of monthly incomes of poor and non-poor households, per household member

| | | Average for first four deciles (poor) | Average for the last six deciles (non-poor) |
|--|---|---------------------------------------|---|
| Incomes from employment (waged and self-employment) | Proportion in the composition of monetary monthly incomes per one household member, % Monthly incomes per one member of household, AMD | 40.4 2308 | 59.6 12625 |
| Social transfers | Proportion in the composition of monetary monthly incomes per one household member, % Monthly incomes per one member of household, AMD | 31.8 1391 | 8.9 1336 |
| Incomes from own production | Proportion in the composition of monetary monthly incomes per one household member, % Monthly incomes per one member of household, AMD | 19.7 826 | 12.2 2798 |
| Private remittances | Proportion in the composition of monetary monthly incomes per one household member, % Monthly incomes per one member of household, AMD | 3.0 158 | 13.5 4330 |
| Other | Proportion in the composition of monetary monthly incomes per one household member, % Monthly incomes per one member of household, AMD | 5.1 270 | 5.8 1497 |
| Total | Proportion in the composition of monetary monthly incomes per one household member, % Monthly incomes per one member of household, AMD | 100.0 4953 | 100.0 22586 |

Calculated based on data in "Social Snapshot and Poverty in Armenia", NSS, 2004.

The proportion of non-employment incomes (state and private transfers, other incomes) for non-poor deciles is formed primarily by private remittances (13.5 percent), and for poorer deciles by state social transfers (31.8 percent). **The average monthly per capita private remittances for non-poor groups of population is nearly equal to the per capita monthly income among poorer groups of population (correspondingly AMD4,330 and AMD4,953) and is around three times more than the average monthly social transfers received by the latter (AMD1,391).**

It must be noted that private remittances have a significant share in monthly per capita incomes, especially for the richest two deciles, where they amount to nearly 25 percent. They have a large impact on income inequality (see Figure). Thus, the average monthly per capita income of the richest 20 percent of the population is 6.6 times larger than that of the poorest 20 percent (data from household survey of 2003). Without private remittances this ratio drops to 4.9. And the incomes of the richest 20 percent of the population did not have a significant rise in 1999-2003, at the same time, the share of incomes from employment in the composition of their incomes did not increase, and on average constituted 62 percent.

Figure 2. Income compositions in 1-10 decile, 1999-2003,%

Source: Armenia's social snapshot and poverty, NSS, 2004.

Thus, the state tries to redistribute the economic growth through social transfer mechanisms and direct it toward poverty reduction, but this is not enough for creating preconditions for the development of the poor population. On the other hand, opportunities for well-being and development of non-poor groups of population depend on incomes not linked to economic activity, i.e. private remittances.

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Characteristically, the mentioned viewpoint is supported by the results of the national human development survey (NHDS) conducted by UNDP, according to which income poverty, especially problems of ensuring adequate food, are still extremely actual for a large number of people. Responding to the question "How would your family spend any additional amounts of money it might have?", 67.2 percent of respondent families mentioned that they would spend the money on better nutrition for the family, including 27.7 percent as the first priority, 23.7 percent as the second priority, and 15.8 percent as the third priority (see Annex 1).

Interestingly enough, according to some studies, only AMD18.4 billion (or US\$40 million) is needed to overcome extreme, i.e. food, poverty in Armenia, if the effectiveness and

targeting of the social security system is significantly improved, and AMD26 billion (or US\$56-58 million), if it continues to remain at current levels³. Comparing these calculations with the volumes of financing planned by 2005-2007 mid-term expenditure framework, we can conclude that we would overcome extreme poverty in Armenia already in 2006.

At the same time, it is characteristic that in the last 2-3 years a gradual increase in volumes of social services provided by the state with privileged conditions, including free of charge, to the poor and certain vulnerable groups is noted. Although indirectly, this nevertheless indicates the more active enactment of initiative oriented policy, i.e. policy for poverty prevention, with regard to certain social groups. Development and introduction of a number of programs, for

³ See Posarac A., «Armenia's experience with proxy means testing», ECSHD, World Bank, Washington, DC, November 2003, p. 18:

**Table 1. Amounts allocated to social security from the state budget in 2000-2004
(million AMD)**

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|----------|----------|----------|----------|----------|
| Total social security and insurance, including: | 29,209.9 | 28,118.5 | 27,029.9 | 30,822.9 | 36,452.5 |
| benefits | 19,738.8 | 17,659.4 | 15,762.7 | 13,629.1 | 17,010.4 |
| social pensions | 5,892 | 7,045 | 7,888.3 | 11,528.8 | 13,519.3 |
| benefits and social pension, as a % of total | 88% | 88% | 87% | 82% | 84% |

Source: *Laws of the Republic of Armenia on state budgets of 2000-2004*.

**Table 2. Amounts allocated to social security from the state budget in 2005-2007
(million AMD)**

| | 2005 | 2006 | 2007 |
|--|----------|----------|----------|
| Total social security and insurance | 45,729.7 | 53,506.6 | 57,915.8 |
| benefits | 23,222.9 | 28,053.9 | 29,954.3 |
| social pensions from the state budget | 15,859 | 16,753 | 17,648 |
| benefits and social pension, as a % of total | 85% | 84% | 82% |

Source: Medium term expenditure framework of the Republic of Armenia for 2005-2007.

example support to orphanage graduates, are direct indications of the gradual expansion of initiative oriented social security policies.

In conditions of economic growth and stabilization of tax and budgetary sphere, in our opinion, initiative oriented policies should have a relatively larger role in the social security sector, as one of the main directions for its development. Moreover, **it is appropriate to commission the implementation of certain packages of social programs to civil society institutions, through biddings for allocation of public funds.**

2. Assessment of the pro-poor orientation of the current social security policy

As already mentioned, a large part of directions regarding social security issues, proposed during the drafting of the RPSP, was reflected in the Poverty Reduction Strategy Paper

approved by the Government of Armenia in 2003. Here we would like to refer to only one direction, which, in our opinion, is extremely important, and its further development within the framework of the stat policy for social security is extremely urgent.

Expert assessment of state programs currently implemented in the social security sector reveals that pro-poor orientation was one of the fundamental principles pursued during their drafting. Moreover, the principle of being pro-poor is a mandatory basis for a number of state programs. An example of such programs, first of all, is the largest social programs of Armenia's state budget, i.e. the *"Family poverty benefit program"*. **In case of such programs, being more pro-poor should be directly understood as being able to induce the highest possible tangible reduction in poverty as a result of activities undertaken within the framework of the program.**

The state budget policy for medium term⁴

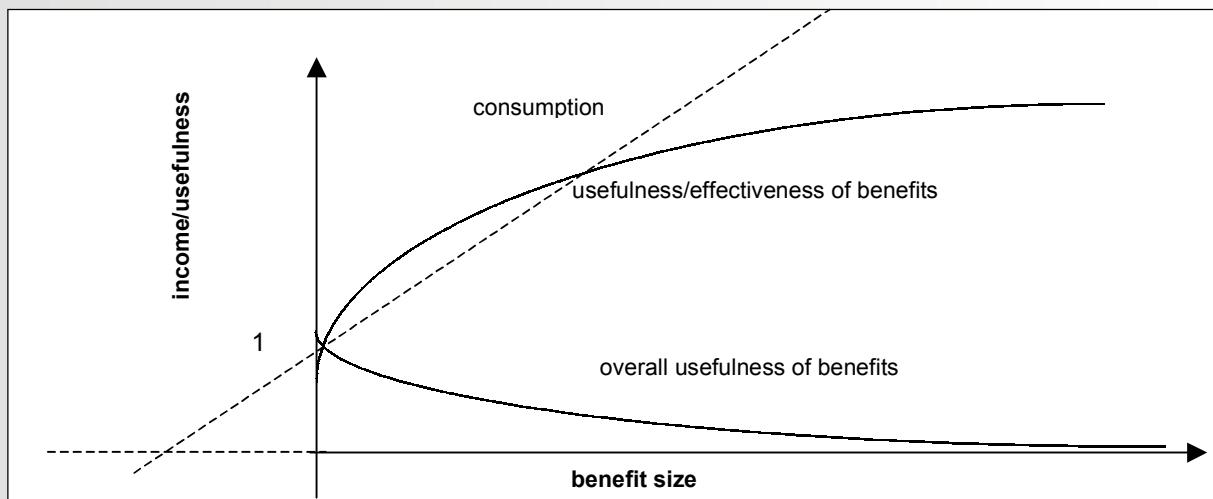
⁴ See "Medium term expenditure framework of the Republic of Armenia for 2005-2007", p. 123-124.

indicates a continuous increase in the financing of the “Family poverty benefit program”. If the current policy frameworks and its main components are not revised, then the additional amounts could result in the reduced effectiveness of the program, due to the reduced real impact of higher amounts of benefits (see Scheme 2).

The theoretical assumption is supported by data from the NHDS. Results of the mentioned survey reveal that parallel to improved standards of living in both rural and urban areas, the real

and that the selected strategy is justified. In addition, this conclusion is also supported by the results of the survey conducted in previous years, according to which the family benefit system enacted in the country is targeted, or according to the definition presented in the beginning of this paper, ***is pro-poor by 80 percent***⁵. As a result of policies adopted, the poorer benefit-receiving families receive a higher proportion of the total amount of benefits⁶. And when the PRSP distinguished not the poorest population, but the children of the poorest

Scheme 2. Usefulness of benefits by their size



usefulness of family benefit is visibly reduced, which was measured through a proxy indicator determining the perception of households with regard to family benefits being their most important source of income (see Table 3).

Calculations based on the results of the mentioned survey also reveal that, compared to all other sources, family benefits has the highest flexibility rate for moving from “very poor” to “higher than average” status. ***This indicates that the family benefits system is highly pro-poor***

families, a larger proportion of benefits was accordingly shifted to that age-group of the poor (compare data in Tables 5 and 6).

As revealed by data in Tables, family benefits, as a source of income for households, have been considered as more important by families with children. Based on this fact, ***in the current system, additional payments of family benefits are allocated only to the children of benefit-receiving families.***

With regard to other social groups, lone

⁵ See for example Posarac A., “Armenia’s experience with proxy means testing”, ECSHD, World Bank, Washington, DC, November 2003, p. 8.

⁶ See Tesliuc E., “Program implementation matters for targeting performance: Evidence and lessons from the ECA region”, HDNSP, 2004, p. 7.

Table 3. Perception of family benefit as the most important source of income

| Importance of benefits as a source of income by households' place of residence | Social status of respondent households according to their own assessment (coefficients), NHDS, 2003 | | | | |
|--|---|-------|--------------------|---------|---------------------|
| | very poor | poor | lower than average | average | higher than average |
| Rural areas | 0.647 | 0.437 | 0.279 | 0.115 | 0.064 |
| Urban areas | 0.773 | 0.832 | 0.416 | 0.237 | 0.135 |

Source: Calculations of the author based on the NHDS data base.

elderly, disabled and unemployed in particular, similar comparisons do not produce the same picture. For example studies of social pensions made by experts from the World Bank reveal that the system is not adequately targeted, i.e. pro-poor.

The second largest state social security policy with regard to funding, is the social pensions system. According to expert assessments the level of targeting of the mentioned system is 13 percentage points lower than the same indicator for the family benefit

system⁷. Compared to family benefits, the social pensions system has a lower level of effectiveness. Allocation of additional funds amounting to 1 percent of the GDP to the social pensions system is from 33 percent (for the poor) to 40 percent (for the very poor) less effective from the viewpoint of positive shifts in the poverty scale. In other words, the positive mobility of poverty is higher in case of larger family benefits than increased social pensions (see Table 7).

Table 5. Coefficient of the importance of family benefits as source of income for families without children

| Sources of income for households | Social status of respondent households according to their own assessment, NHDS, 2003 | | | | |
|--------------------------------------|--|-------|--------------------|---------|---------------------|
| | Very poor | poor | lower than average | average | higher than average |
| wages | 0.019 | 0.079 | 0.136 | 0.231 | 0.429 |
| non-farming self-employment | 0.000 | 0.028 | 0.040 | 0.103 | 0.143 |
| farming | 0.245 | 0.220 | 0.304 | 0.359 | 0.286 |
| property rented out | 0.038 | 0.006 | 0.032 | 0.026 | 0.000 |
| sales of property | 0.038 | 0.034 | 0.064 | 0.038 | 0.143 |
| pensions | 0.906 | 0.887 | 0.904 | 0.756 | 0.857 |
| stipendiums | 0.057 | 0.011 | 0.016 | 0.013 | 0.143 |
| family benefit | 0.887 | 0.932 | 0.904 | 0.833 | 0.857 |
| other state benefits | 0.038 | 0.056 | 0.048 | 0.179 | 0.000 |
| assistance from Armenian friends | 0.170 | 0.175 | 0.176 | 0.141 | 0.143 |
| assistance from non-Armenian friends | 0.000 | 0.040 | 0.080 | 0.115 | 0.286 |
| charities | 0.170 | 0.153 | 0.136 | 0.115 | 0.000 |
| use of savings | 0.000 | 0.006 | 0.016 | 0.000 | 0.286 |
| cerdits | 0.151 | 0.164 | 0.080 | 0.167 | 0.000 |

Source: Calculations of the author based on the NHDS data base.

⁷ See Posarac A., "Armenia's experience with proxy means testing", ECSHD, World Bank, Washington, DC, November 2003, p. 8.

Table 6. Coefficient of the importance of family benefits as source of income for families with children

| Sources of income for households | Social status of respondent households according to their own assessment (coefficients), NHDS, 2003 | | | | |
|--------------------------------------|---|-------|--------------------|---------|---------------------|
| | Very poor | poor | lower than average | average | higher than average |
| wages | 0.136 | 0.221 | 0.250 | 0.414 | 0.556 |
| non-farming self-employment | 0.045 | 0.090 | 0.089 | 0.079 | 0.222 |
| farming | 0.455 | 0.467 | 0.534 | 0.487 | 0.444 |
| property rented out | 0.000 | 0.005 | 0.008 | 0.007 | 0.000 |
| sales of property | 0.045 | 0.060 | 0.038 | 0.033 | 0.000 |
| pensions | 0.712 | 0.538 | 0.644 | 0.625 | 0.667 |
| stipendiums | 0.000 | 0.015 | 0.034 | 0.013 | 0.111 |
| family benefit | 0.970 | 0.960 | 0.958 | 0.914 | 0.889 |
| other state benefits | 0.091 | 0.141 | 0.144 | 0.151 | 0.111 |
| assistance from Armenian friends | 0.152 | 0.146 | 0.153 | 0.092 | 0.000 |
| assistance from non-Armenian friends | 0.076 | 0.060 | 0.110 | 0.151 | 0.222 |
| charities | 0.182 | 0.111 | 0.085 | 0.125 | 0.111 |
| use of savings | 0.015 | 0.010 | 0.017 | 0.013 | 0.000 |
| cerdits | 0.318 | 0.307 | 0.280 | 0.184 | 0.333 |

Source: Calculations of the author based on the NHDS data base.

Summarizing the above-mentioned, we can conclude that ***in order to ensure a pro-poor policy, inclusion of additional target social groups in the family benefit system is a more effective tool, compared to other types of social assistance, including pensions.*** Thus, the further development of state social security policy, in order to make it more pro-poor, should be directed toward the identification of and support for other target social groups. In order to implement the latter, primarily studies for identifying vulnerable groups at risk of poverty, assessing their special needs and determining social assistance formats should continue. This means that the necessary and adequate preconditions for the development of the family poverty benefit system are in place, which will be discussed in the next section.

3. Directions of development of the family poverty benefit system

As already mentioned, the state family benefit system is a fairly effective tool for implementing

responsive, i.e. short-term, poverty reduction policies in Armenia. In order to select the pro-poor model for state intervention in the social sector, it is still necessary to clearly decide ***whether the system should develop only in the direction of response to income poverty.***

With regard to this issue, the alternative path to further development of social security policy is proposed. In particular, from the viewpoint of being pro-poor we think it is appropriate to gradually transform the “family poverty benefit” system into a “poverty benefit” system, where together with income poverty issues, **human poverty** aspects will also be addressed. It must be noted that the parameters in the poverty evaluation scale for the family benefit system already to some extent include criteria relating to the limitation of opportunities, i.e. human poverty. But in general, the system, as a whole, does not have a human poverty reduction orientation.

It must be reminded that the social security system inherited from the former Soviet Union and operational until 1999 encompassed 26 social groups, with regard to which targeted and

Table 7. Proxy indicators for the effectiveness of social pensions and family benefits

| Poverty groups | Poverty, including extreme poverty, reducing impact of additional allocations of public funds amounting to 1 percent of GDP | | |
|----------------|---|-----------------|-----------------------------|
| | social pensions | family benefits | ratio of benefit to pension |
| Poor | 1.8 | 2.4 | 133% |
| Very poor | 2.2 | 3.1 | 140% |

Source: Posarac A., «Armenia's experience with proxy means testing», ECSHD, World Bank, Washington, DC, November 2003, table 6.6:

differentiated, i.e. stemming from the special needs of each specific group, social assistance programs were implemented. ***Considering the past experience, and based on the effectiveness of the family benefit system justified earlier in this article, it is necessary to gradually include human poverty indicators in the current social security system.***

In the medium term, we see the solution of the mentioned issue in *the application of a differentiated range scale for basic and additional payments* of poverty benefit. For example, the size of benefit, depending on the evaluated poverty points, can have 3 to 5 ranges, which will correspond to the existence of one or another human poverty aspect in the applicant family. ***Such families may receive a payment corresponding to the relevant minimum range of the benefit.*** This will ensure the needed intervention by the state for creating equal opportunities for family members, who despite their human poverty issues, are left outside the state social security programs. For example, a large number of disabled persons do not need to use prosthesis-orthopedic services provided within the framework of programs for "services to disabled persons" implemented by the Ministry of Labor and Social Security. At the same time, the points they collect is not adequate for inclusion in the family benefit system. It is not excluded that in case of fully meeting the drugs or special nutrition needs of the mentioned disabled persons, the family would end up in poverty. In

this and other similar cases, families are able to survive material-wise only at the expense of the "rapid loss" of human capital, which will later be restored with larger social, including state, costs, or is not restored at all.

Implementation of the proposed measures can be initiated within the framework of the current family benefit system. In order to ensure effectiveness, i.e. high level of targeting, the system needs to be modernized through adjustments, particularly with regard to target groups which potentially can receive the most benefit from allocations. The mentioned fact is important also in conditions of the planned continuous growth of budgetary means allocated to family benefits. The distribution of additional amounts is a problem in itself, which, if not today, will definitely need to be solved in the near future.

The continuous increase in the size of benefits provided to families, which are not poor with respect to human capacities, but are nonetheless categorized as benefit-receivers by system's criteria, might result in reduced incentive to work. Thus, ***complementing the criteria used in the family benefit system with indicators of human poverty, and differentiating families which collect the same points by unequal opportunities to come out of poverty, will further develop the idea of targeting, and will ensure better targeting of for system.*** This is the logic behind the proposal for the use of a differentiated scale for certain target groups, which do not have equal

opportunities for coming out of poverty. This directly stems from the conceptual provisions and principles of pro-poor policies.

The ***under-targeting*** of the social security system with regard to human poverty, eventually in the long run will result in the ***overload*** with various poverty problems, which of course is not justified. In this case, there would be a need to develop and implement relevant targeted programs in parallel.

4. Priority directions of pro-poor social security policy

The emphasis on the pro-poor nature of the social security system, as mentioned above, is directly linked to the identification of vulnerable groups, assessment of their needs and the inclusion of target groups in the poverty benefit, including family benefit, system. Through a secondary processing of the NHDS data, we can already conclude that there is a need for differentiating households by human poverty indicators. Based on data from the NHDS, it is appropriate to differentiate families, including those receiving benefits, based in the following priority directions:

- differentiation of technical methods for allocating family benefits in Yerevan and other marzes and determining their sizes. The need for the proposed direction is indicated by the differences revealed through studying the data from NHDS regarding the manner in which benefit-receiving families living in Yerevan and other marzes use their budgets and the sizes of family budgets. Such differences naturally create difference perceptions among residents in Yerevan and other marzes with regard to the usefulness and necessity of family benefits;
- expand social assistance for families living in mountainous, upland and near-border

areas, through adjusting methods for assessing the risk of poverty. The implementation of this direction assumes the preparation of the list of families receiving benefits and those who have applied for benefits in those settlements, and introduction of new or re-weighting of the existing criteria in order to include such families, as much as possible, in the poverty benefit, including the family benefit, system;

- introduce certain differentiations in the formula for calculation of family poverty benefits. The existing formula for evaluating poverty, with all its coefficients, is highly valued and considered to be adapted to the Armenian reality. Nonetheless, based on the conceptual approaches of pro-poor policies, in our opinion certain corrections with regard to the differentiation of age groups need to be made. For example, the points collected by families with children up to 2 years of age and those with children aged 2-18 years are not differentiated (in both cases families receive 2 points). While the existence of children of the mentioned ages in the family has a large impact on the "limitations of opportunities" (for example, mothers with children under 2 years of age have less opportunity to work, or the opportunities of children aged 16-18 years for working in the informal sector is undoubtedly much higher than opportunities for those under 16 years of age, etc.);
- defining vulnerability criteria and including them in the family poverty benefit system, through formation of differentiated ranges in the benefit scale. From the viewpoint of pro-poor policies, it is not acceptable that a lone pensioner and a disabled lone pensioner actually receive the same amount of benefit. This injustice can be eliminated through the introduction of

differentiated ranges in the benefit scale. In general, the introduction of ranges is also justified by a number of other circumstances, such as:

- ⇒ in some cases, thanks to benefits, benefit-receiving families not only come out of poverty groups, but even complement the group of families with relatively average incomes⁸. According to surveys, around 20 percent of benefit-receiving families receive benefits more than needed⁹.
- ⇒ only 1 point difference in the total points collected by families might result in ending up in opposite sides of the family poverty benefit system; one might be included in the system and receive a fair amount of monthly benefits, and the other one might be excluded and receive nothing¹⁰.

The mentioned arguments further support the idea that there is a need to revise:

- a) criteria currently use in the family benefit system, complementing them with

indicators for vulnerability and human poverty; and

- b) differentiate the monetary scale of benefits, through the introduction of 3-5 ranges for certain groups and the corresponding re-weighting of the size of benefits (the proposal is presented in Table 8 as a very early draft).

Further elaboration of the proposed ranges and weights need relevant calculations based on the data base of the family benefit system.

It can be assumed that families in the 1st and 2nd ranges might be dissatisfied, but nonetheless the following circumstances need to be taken into account:

1. currently, families with 30-34 points are not included in the family benefit system.
2. in conditions of the increased financing of the family benefit system planned by Armenia's mid-term expenditure framework, we can avoid a decrease in the nominal value of family benefits in the 2nd range. Thus, benefits for these families will not

Table 8. Option for poverty evaluation and benefit size ranges

| Ranges | Group ranking by collected points | Benefit's weight compared to the basic benefit, % |
|-----------------|-----------------------------------|---|
| 1 st | 30-34 | 50 |
| 2 nd | 35-40 | 75 |
| 3 rd | 41-50 | 100 |
| 4 th | 51-60 | 125 |
| 5 th | >61 | 150 |

⁸ From the viewpoint of ensuring the well-being of the family, such development are surely pleasing, but from the viewpoint of ensuring the pro-poor orientation of the social security system they are at least a cause for concern.

⁹ See Posarac A., "Armenia's experience with proxy means testing", ECSHD, World Bank, Washington, DC, November 2003, p. 18.

¹⁰ It must be noted that the current system of social protection provides certain privileges with regard to educational and healthcare services for families who collect points above a certain limit, which can be considered as indirect income. Of course, as some studies suggest (see Annex 2), a very limited number of families practically use those privileges. In the future, when it would be possible to compare the family benefit data bases with data on people who have used the mentioned privileges, we will be able to propose fundamental solutions for the issue.

increase, but will not decrease either.

3. the targeting of the system, i.e. the pro-poor orientation of the social security policy, will improve by the introduction of ranges, as the size of benefits for the poorer segments will increase¹¹.

The further development of the family poverty benefit system in the proposed directions based

on comprehensive studies of the social security sector is extremely important for consolidating pro-poor policies in Armenia. The proposed recommendations, with the main objective of improving the effectiveness of the existing system, can complement the recently adopted pro-child policy¹².

¹¹ Introduction of ranges, in conditions of the absence of calculations of poverty mobility, is indeed a very appropriate mechanism.

¹² In particular, additional amount for each child in benefit receiving families can be calculated through the application of the proposed ranges, or higher coefficients can be ascribed to children as a social group under special protection of the state, etc.

Pro-poor issues of public administration

Aghassi Tadevosyan

A pro-poor public administration implies the prioritization of transparency and accountability for ensuring a wider participation of the poorer segments of the population in policy development and implementation, as well as decision-making.

Author

Introduction

Discussions on poverty reduction issues increasingly indicate the decisive role of public administration in the entire set of causal links relating to poverty. Truly, from the viewpoint of human development (see Chapter one of this report), poverty is described as a situation, which is characterized by not only the inability to meet basic needs as a human being, ***but also the existing inequality between the opportunities of the poor and the non-poor.***

The causes of unequal opportunities mainly lie within the public administration sphere. These are mainly related to aspects of the public administration, such as transparency, accountability, information provision to the public, their involvement and exchange of opinions from the early stages of policy development, i.e. ensuring the process of public participation.

The study of the successful experience of some former socialist countries of Eastern Europe, such as the Czech Republic, Hungary and Poland, in overcoming poverty and inequalities reveals that the success of the process was largely conditioned by the rationalization of the governance system, democratization of the political system, and

persistent implementation of comprehensive measures for ensuring public participation¹. It is only logical that countries implementing PRSPs gradually need to attach more importance not only to policies simply for economic growth and fair distribution, but also for ***creation of opportunities for the poor to solve their problems by themselves***². This assumes the expansion of opportunities in developing the human capital of the poor, as well as ***promotion of the use of human capacities and their dynamic reproduction.***

The most important precondition for developing and effectively implementing pro-poor policies in the mentioned two directions in the public administration sector ***is the active, interested and targeted participation of the poor*** in those processes. Participatory governance is not an aim in itself. It aims to subject governance to the interests of various groups of population. In other words, the involvement of the poor in participatory processes serves as a means to ***make their problems heard by authorities and participate in decision-making processes relating to the solution of those problems.***

In order to ensure this, it is necessary to:

¹ Рынок труда и социальная политика в Центральной и Восточной Европе (под редакцией Николаса Барра), М., 1997.

² Jan Vandemoortele, Poverty Group Leader UNDP states: "...Only when people are given the means to become agents of their own development, rather than recipients of aid or handouts, will poverty reduction be rapid and sustainable...". See "The MDGs and Pro-Poor Policies: related but not synonymous", UNDP, International Poverty Center, Working Paper No.3, November, 2004.

- promote the transparency of the process of developing socio-economic policy, through public awareness, feedbacks, use of information provision and awareness building measures, which take into account the possibilities of the poorer segments of the population;
- contribute to enhanced socio-economic and public-political activity of the poor, through creation of a more accessible conditions and environment for them in the sphere of public administration.

The above-mentioned logical framework has formed the basis for the analysis of the current level of pro-poor orientation of the public administration policy, its urgent issues, identified weaknesses and impact factors, as well as formulation of the corresponding recommendations.

1. Current situation of public administration and its pro-poor priorities

After the declaration of independence in Armenia a new **three-tier system** of governance was established in the country, which includes the entire set of central and local governing bodies. Functions of Armenia's governance system are classified into five main categories:

1. development of policy and strategy;
2. provision of public services;
3. regulatory functions;
4. support and service functions;
5. coordination, monitoring and evaluation of the implementation of measures.

Ministries recently attach more importance to *policy and strategy development, coordination, monitoring and evaluation* functions, and delegation of the remaining functions to lower levels of governance and local self-governing bodies. Moreover, central authorities try to

gradually "unload" themselves from the implementation of certain socio-economic measures, transferring those to regional authorities, or commissioning part of them to non-governmental or private institutions through contracts³.

Decentralization of governance functions is an important precondition for establishing favorable conditions for transparency and participation, as well as involving poorer groups of population in governance.

Such trends are totally welcomed. Together with the mentioned achievements, however, there are also *unfortunate problems of corruption which hinder the reforms of the public administration and significantly constrain attempts to make them as pro-poor as possible*.

According to some studies, in Armenia **the majority of people consider the flawed and corrupted governance system as the main cause of poverty**. Corruption induces lack of trust toward all levels of authority and their staffs, especially officials, alienation and voluntary isolation of people from political and public life.

The most important priority of pro-poor public administration policy is the targeting of the interests of poorer groups within the framework of anti-corruption activities.

According to sociologists, the criteria of trust toward the public administration system and access to officials have already *divided the society into two groups: "the privileged" and the*

³ See E. Ordyan, "Local self-government in Armenia: civic education and public participation, players, necessity and perspectives", seminar materials, Tzaghkadzor, 10-12 June 2004.

“non-privileged”⁴. The latter group includes all those who do not have acquaintances, relatives and friends in central and local authorities and are practically deprived from the possibility to receive a positive response from public administration bodies with regard to their applications-demands. This “non-privileged” group actually consists of diverse and numerous groups of poor and vulnerable people⁵.

1.1. Public awareness as a powerful factor of pro-poor policy

Isolation and alienation of poor and vulnerable population from public administration, as a rule, starts from limited awareness. NHDS data indicate this fact, and unambiguously record the lower social status of the poor. The more limited possibilities of the poor in receiving information are conditioned mainly by subjective factors. First, they read newspapers less often, are less interested in public, economic, political, cultural events (see Table 1).

Analysis of data in the table reveals the link between poverty and awareness is reversely proportional. It is difficult to say which one predetermines the other, poverty the low level of

awareness, or visa versa. But undoubtedly, those two phenomena are interlinked.

Second, the low level of awareness among the poor also results from more limited possibilities for using means of information provision and telecommunication, such as TV, telephone and especially IT (see Figure 1).

Figure 1 shows that the indicator for availability of means of information provision and telecommunication in households decreases parallel to the drop in social status. It is beyond doubt that informational isolation of people severely limits their possibilities for conducting economic activities, use and protect their rights, be demanding vis-à-vis authorities, pose demands to public administration bodies based on public interests and evaluate the results of governance from the viewpoint of society's and individual's rights and interests.

The introduction of e-governance is a key aspect in PRSP measures for improving the transparency of public administration (see Box 12). In recent years, the Government of Armenia tries to ensure the transparency and accountability of decision-making and feedbacks through Internet sites. The governance system, however, needs to make serious improvements

Table 1. Indicators characterizing awareness among respondents by their social status, %

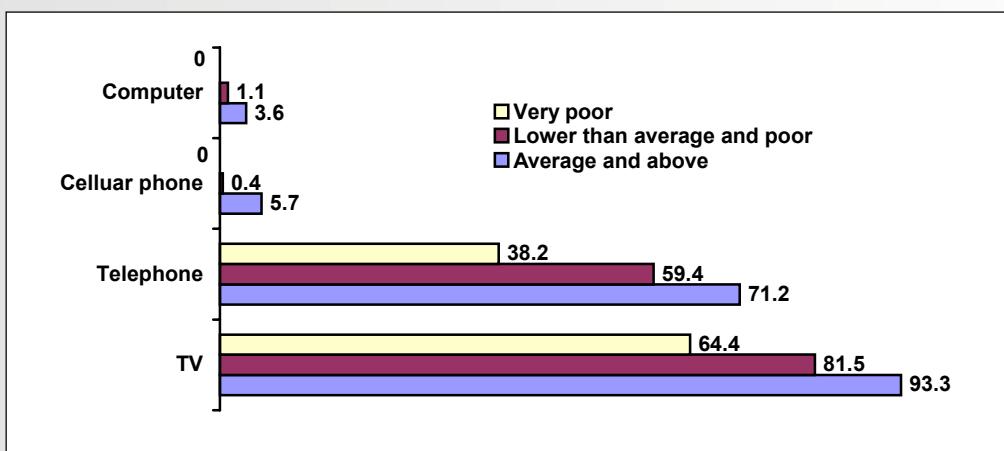
| Any member of the household within the 12 months preceding the survey: | average and higher than average | lower than average and poor | very poor | Total all groups |
|--|---------------------------------|-----------------------------|-----------|------------------|
| read newspapers or journals | 73.1 | 45.6 | 25.0 | 55.4 |
| read subject books | 42.8 | 22.4 | 10.1 | 29.9 |
| read fiction books | 64.1 | 45.9 | 32.8 | 52.4 |
| went to movie theater, theater or concert | 13.2 | 3.2 | 0.9 | 7.1 |
| visited museums or exhibitions | 6.6 | 2.3 | 0.3 | 3.9 |
| went to church | 60.9 | 52.1 | 41.1 | 55.0 |
| used the internet | 11.8 | 3.1 | 0.3 | 6.4 |

Source: NHDS, 2003.

⁴ See A. Tadevosyan, M. Gabrielyan, “Picture of poverty and survival: society stratification processes in Armenia”, Yerevan, 2003 p. 89-93.

⁵ Ibid.

Figure 1. Availability of means of information provision and telecommunication in respondent households by their social status, %



Source: NHDS, 2003.

in this regard. The results of an independent study⁶ in 2004 reveal that only 10 out of 16 ministries have Internet sites. Only a few of those sites provide up-to-date and useful information to the public. Considering also the fact that the middle class of the society are basically (and the poor totally) deprived from the possibility of using computers and the internet (see Figure 1), the extremely insignificant role of e-governance in awareness building for the masses and especially the poor becomes clear.

Third, simple information provision is not adequate, and access to *reliable, quality and up-to-date* information is of key importance. It is well known that one of the causes of the emergence of mass poverty in Armenia was the absence of professional up-to-date information available to the wide public. Armenia's population, without prior or relevant information, were forced to suffer from the devastating impact of decision, such as the November 1993 decision on "momentary" change of currency (due to being forced out of

the ruble zone) and the misappropriation of people savings by the chain reaction of "exploding banks" in 1994-1996, or some dubious transactions in conditions of privatization behind "closed" doors, etc. The unfortunate tradition of informing the population about decisions and programs only after they have been made or approved has been formed in Armenia. Even this information is not provided to an adequate level. *The only exception was the PRSP, as the population was informed and participated in the drafting phase.*

Fourth, the demand for being informed and aware is unacceptable low among the population in general, and the poorer groups in particular. Numerous studies, including the NHDS, reveal the indifference of the population toward the public life, lack of trust in political bodies, acknowledgement of inability to have an impact on authorities decisions, and consequently the inconsequentiality of their participation in governance (see Box 13). This means that

⁶ National Center for Liberalization Processes and Monitoring NGO conducted a monitoring, through internet sites, of transparency and information accessibility of Armenian Governments operations in 2004. For example *hot-line* section, through which immediate contact with agencies is possible, is available only in one ministry. Six ministries have *legal acts* section in their websites. *FAQ* sections, through which citizens can receive information, particularly information preventing red tape, are available only at one ministry's website, and *News* sections are available in 6 ministries websites, 3 of which do not update their news frequently enough.

BOX 12**UNDP supports the introduction of e-governance in Armenia**

The objective of the policy for modern information and communication technologies is to expand participation in decision-making processes and improve the effectiveness and capacity of public administration. The policy includes a range of issues, from strengthening democracy to improvement of governance services, transparency of decision-making and ensuring availability of information to the public.

Expanding people's possibilities for receiving knowledge and information is extremely important for achieving the MDGs. Information and communications technologies are not equally used by all countries, and in that respect Armenia is not in a particularly strong position. The Government of Armenia has declared the development of information and communications technologies as a national priority and makes efforts to create conditions for the use of information and communications technologies for the overall development of all sectors in the country and particularly for effective and transparent public administration purposes.

A number of pilot activities relating to the concept of e-governance have been implemented in Armenia in recent years. Starting in 1997, the UNDP has made Internet connection and relevant training courses available to the public, as the first project of such nature in Trans-Caucasus. The Armenian Freenet currently provides free-of-charge services to nearly 20,000 users - organizations and individuals, throughout the country. The UNDP currently cooperates with the National Academy of Sciences in order to contribute to higher level of public awareness. The current cooperation with the Government involves issues of access to information and communications technologies on the entire territory of the country, creation of an e-governance system-model, which will contribute to a more effective and transparent public administration at local and marz levels. In July 2002, the e-governance model was introduced in Lori marz government headquarters as the first pilot project. Continuing that process, within the framework of the UNDP "E-governance system for regional administration" project, ***similar systems were introduced in all marzes in 2003-2004 , and thus the national e-governance system for regional administration was formed.***

Artashes Darbinyan
UNDP Project Coordinator,
"E-governance system for regional administration"

decisions made in the public administration sphere, programs developed, monitoring and evaluation of their implementation, cannot be fully pro-poor right from the beginning if the poorer groups of the population, or organizations representing and protecting their interests, do not participate in those processes.

1.2. Trust in authorities as a precondition for pro-poor policies

The level of pro-poor orientation of socio-economic policies, as already mentioned, is directly and basically linked to the level of participation of the public, particularly poorer groups, in public administration. The unacceptably low level of participation (as indicated by the NHDS and other surveys), is mainly explained by the lack of trust in authorities among the majority of the population. Results of the mentioned surveys reveal that in our society ***in case of difficulties and extreme situations, the population does not consider the central***

Lack of access to awareness and information impacts poverty due to the low quality of public administration and adoption of political decisions which are not pro-poor.

or local authorities as reliable partners (see Box 14). Interestingly, the credibility of non-governmental organizations and readiness to cooperate with them are also at very low levels (see Table 2).

The high level of distrust in public administration is primarily linked to the low quality of services they provide, corruption, patronage, injustice, low capacities and other systemic phenomena.

Instead, there is a high prevalence of asking the support of relatives and friends (55 percent of respondents in total), which is explained by not as much by national traditions of maintaining strong family ties, but rather the fact that applying to public administration bodies makes no sense due to the low quality of their operations. Simply, the main functioning link still available to people is family ties and relationships with friends. Characteristically, the effectiveness of those links reduces from the socially well-off people to the poor. Thus, in case of difficulties, households seeing themselves in the average or higher

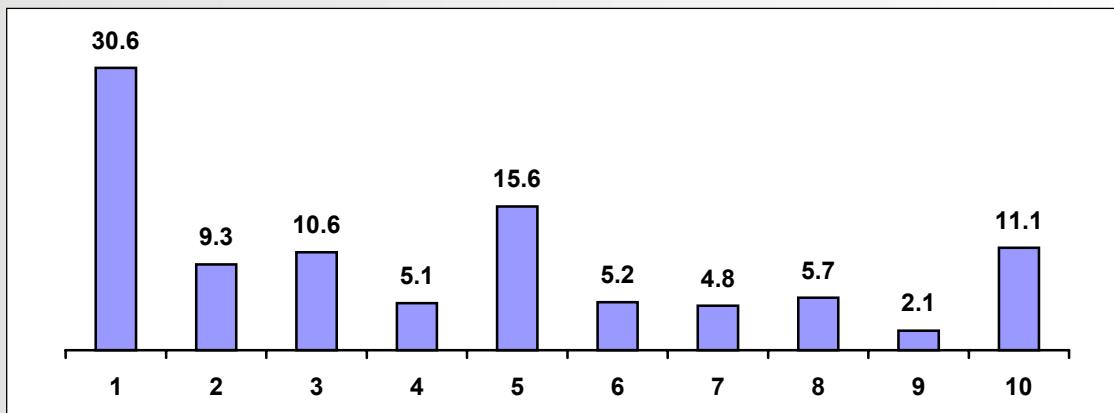
classes apply to friends more often (48.3 percent), compared to lower than average and poorer groups (44.5 percent), and even more so compared to the very poor (34.5 percent). And the latter more often (40.2 percent) than the other two social groups (34-37 percent) do not apply to anyone. This is **explained by the higher level of isolation of the poor even with regard to social relationships.**

Data in Table 2 allow us to state the low level of expectations of the population also from non-governmental organizations. The indifference and distrust with regard to non-governmental organizations is a significant obstacle to organizing public participation in governance. The fact of the matter is that NGOs should operate as an institutional bridge between the public and authorities. And if the majority of the population does not perceive these organizations as structures with the ability to help them in their problems, then **the operations of NGOs become only an aim in themselves.** It must be noted that the low level of public trust toward

BOX 13

The level of protection of the right to receiving information from the government in Armenia on a 1-10 scale

(1 - not protected at all, 10 - always protected)



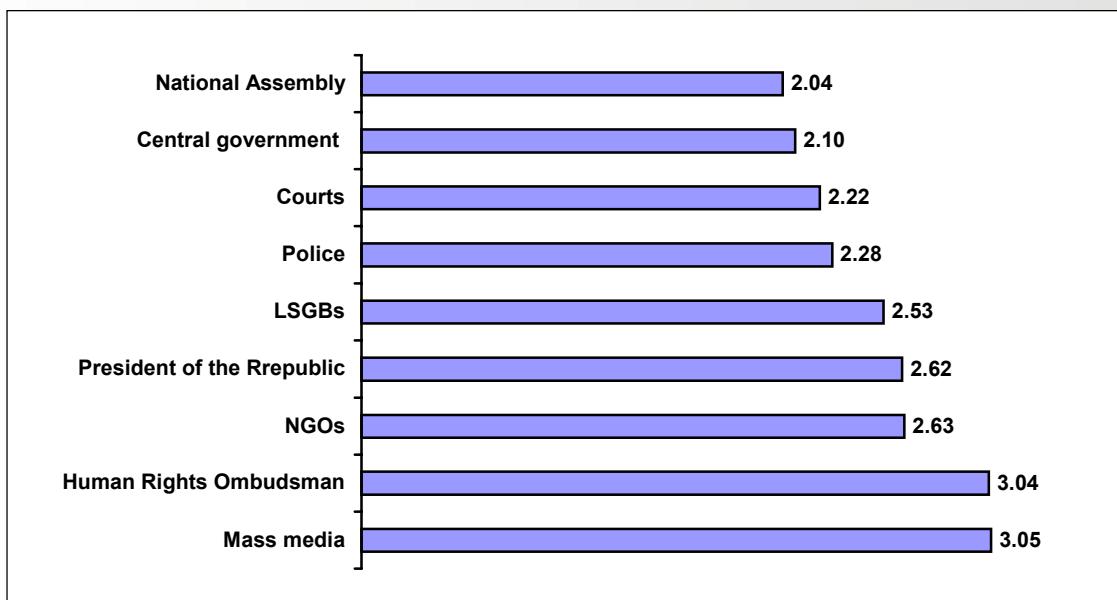
Source: "Opinions, knowledge and attitudes with regard to human rights in Armenia" report, lead by Lucig Danielyan, Yerevan, 2005.

UNDP "Promotion of human rights in Armenia and enhancing public awareness on the Human Rights Ombudsman institution" project.

BOX 14

Evaluations of the human rights protection structure in Armenia on a 1-5 scale

(1 is the lowest evaluation, 5 is the highest evaluation)



Source: "Opinions, knowledge and attitudes with regard to human rights in Armenia" report, lead by Lucig Danielyan, Yerevan, 2005.

UNDP "Promotion of human rights in Armenia and enhancing public awareness on the Human Rights Ombudsman institution" project.

Table 2. Indicators characterizing population's trust in various public institutions by social status of respondents (% in the number of highest ranking responses)

| In case of economic difficulties or crisis situations, real economic assistance is usually received from (three responses ranked by importance are allowed) | average and higher than average | lower than average and poor | very poor | TOTAL |
|---|---------------------------------|-----------------------------|-----------|-------|
| No one | 36.8 | 34.6 | 40.2 | 35.8 |
| Community authorities | 2.0 | 3.1 | 4.9 | 2.8 |
| Marz authorities | 0.4 | 0.2 | 0.6 | 0.3 |
| Central Government | 0.4 | 0.7 | 2.0 | 0.7 |
| Non-governmental organizations | 1.0 | 0.4 | 0.0 | 0.6 |
| The Church | 0.2 | 0.5 | 0.9 | 0.4 |
| International humanitarian organizations | 0.4 | 0.9 | 1.1 | 0.7 |
| Relatives | 48.3 | 44.5 | 34.5 | 45.5 |
| Friends/neighbors | 7.8 | 10.8 | 9.8 | 9.5 |
| Commercial organizations | 2.1 | 3.6 | 4.6 | 3.0 |
| Informal authorities of the district/community | 0.1 | 0.2 | 0.0 | 0.1 |
| Other | 0.5 | 0.5 | 1.4 | 0.6 |

Source: NHDS, 2003.

NGOs has been recorded by other studies, as well⁷.

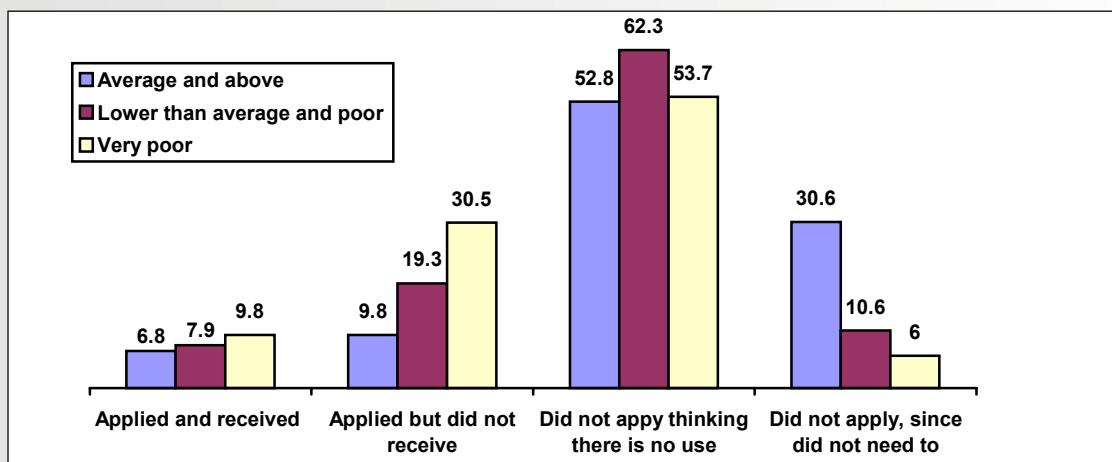
NHDS results regarding the level of public trust in local self-governing bodies are also interesting. As presented in Table 2, among governance bodies, residents more frequently apply to local self-governing bodies. However, considering the prevalent reality in rural areas of Armenia, i.e. close and widespread relationships between people, we can assume that cooperation with local self-governing bodies succeeds mainly due to the use of personal-friendly relationships. This means that ***community residents do not perceive local self-governing bodies as an established system standing above personal relationships.***

This conclusion is supported also by data in Figure 2, which show that the number of people who would apply to local authorities in case of difficulties is a number of times smaller than

those who would not. Another alarming circumstance is the fact that only 7.5 percent of households who received any assistance from local authorities were very poor, and among the households who applied but did not receive any support 11 percent were very poor. In our opinion, figures are proof enough that ***the level of pro-poor orientation of policies enacted by local self governing bodies, which incidentally are governance structures standing closest to the poor, is unacceptably low.***

To be fair we must also take note of the limited financial, technical, infrastructural capacities of local self-governing bodies, as well as their inadequate human, particularly professional, resources. In such conditions, many local self-governing bodies are not able to pursue even their mandatory functions⁸, let alone the provision of any real support to community residents. Hence, applying to local self-governing bodies becomes practically futile⁹.

Figure 2. Distribution of households, who applied or did not apply to local authorities in the 12 months preceding the survey, by responses, %



Source: NHDS, 2003.

⁷ A. Tadevosyan, M. Gabrielyan, "Picture of poverty and survival; society stratification processes in Armenia", Yerevan, 2003 p. 91. Public opinion polls reveal that the role of NGOs is evaluated to be at a low level also with regard to the protection of human rights and receiving information, see "Approach, knowledge and attitude towards human rights in Armenia", report of the results of the national survey, Yerevan 2004.

⁸ "Optimization of Armenia's administrative-territorial division and development of local self-government", edited by D. Tumanyan, Yerevan 2003, p. 8.

⁹ According to expert assessments, by their role in poverty reduction, the lowest points were awarded to public administration, governance bodies in particular. See A. Tadevosyan, M. Gabrielyan, "Picture of poverty and survival; society stratification processes in Armenia, , Yerevan, 2003 p. 90-91.

Summarizing the mentioned data, we can draw the following conclusions:

The atmosphere of lack of trust toward public administration structures in Armenia is a result of their corruption, indifference toward the problems of the wide public and low level of their capacities, including financial capacities.

2. Equalization of economic opportunities as a national challenge for public administration

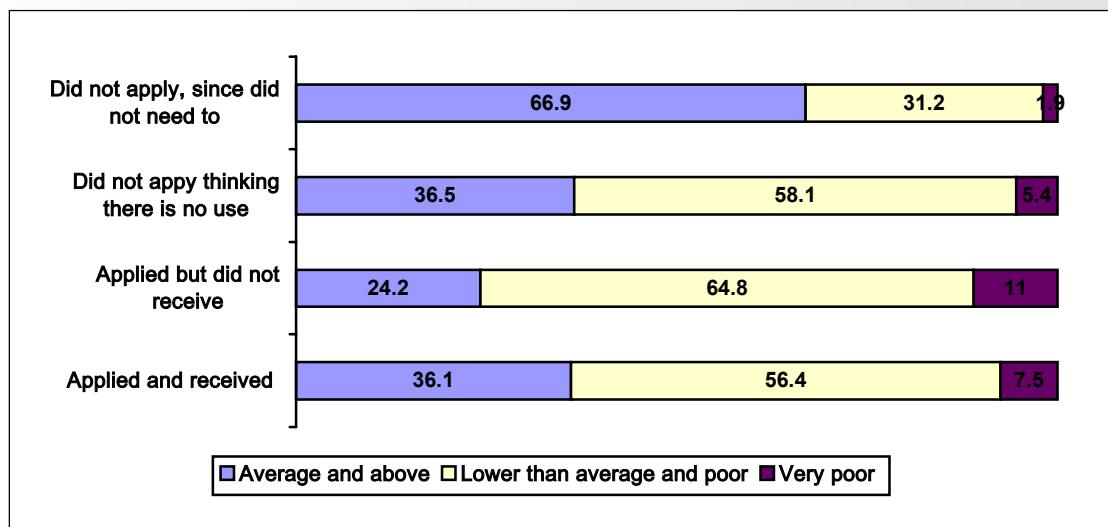
The principle of equal initial opportunities is a key factor in the conceptual framework of human poverty eradication. This gives rise to issues of public administration of the economy, the solution of which from a pro-poor point of view, assumes *the equalization of opportunities of poorer groups of population with non-poor segments for conducting economic activities*. In other words, if a poor person, not having adequate initial capital, intends to regenerate or restore his capabilities, for example to start a business or to receive

specialization, then the financial-economic policy and administration of the sector should ensure their maximum possible access to initial financial resources.

This issue needs to be addressed in the credit policy. The model of public administration of the economy in Armenia is still totally "indifferent" to the mentioned issue. It is not a secret that the credit market is accessible mainly to groups, ***who have valuables that can serve as collateral for those credits***. It must be noted also that this is a necessary, but not yet adequate condition. Mechanisms of acquaintances and patronage are widely applied also to this market.

NHDS data also provide a fairly real picture of the situation in the credit sector. 64.3 percent of respondent households, in the 12 months preceding the survey, had credit needs, including 64.2 percent in urban and 64.4 percent in rural areas. 84.9 percent of those who needed credits (90.3 percent in urban areas and 77.6 percent in rural areas) did not apply to lending institutions, since they thought it is useless (see Table 3). ***Only 9.5 percent of all those who needed credits applied for and received the credit.***

Figure 3. Distribution of households who applied or did not apply to local authorities in the 12 months preceding the survey, by status, %



Source: NHDS, 2003.

Table 3. Credit needs of respondent households, %

| Credit need of respondent household | Total | including: | | | | |
|--|-------|--------------|-------|---------------------------------|-----------------------------|-----------|
| | | by residence | | by household status | | |
| | | urban | rural | average and higher than average | lower than average and poor | very poor |
| needed | 64.3 | 64.2 | 64.4 | 55.9 | 69.5 | 73.5 |
| did not need | 35.7 | 35.8 | 35.6 | 44.1 | 30.5 | 26.5 |
| needed, but considered useless to apply, % of all who needed | 84.9 | 90.3 | 77.6 | 78.9 | 87.9 | 89.8 |

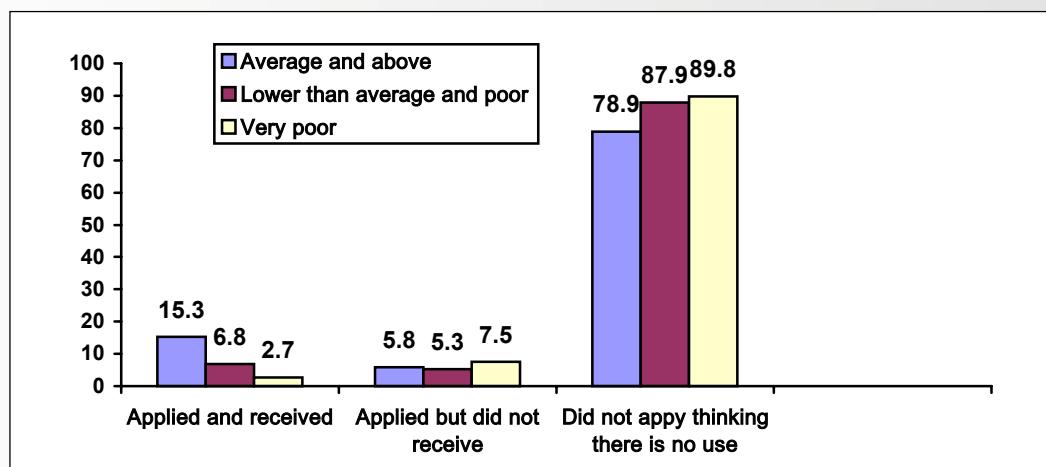
Source: NHDS, 2003.

Data presented in the Table clearly reveal that the credit policy is more efficient in rural areas, and this is thanks to the efforts of various international organizations, which promote credit accessibility in agriculture through allocation of small and medium sized loans.

Unequal opportunities in receiving credits for various groups of population are clearly seen in Figure 4. Due to the principles currently applied to the credit policy and the above-mentioned procedures for receiving credits, it is totally natural that the very poor population who has the most serious need for credits (73.5 percent according to Table 3), are initially of the opinion

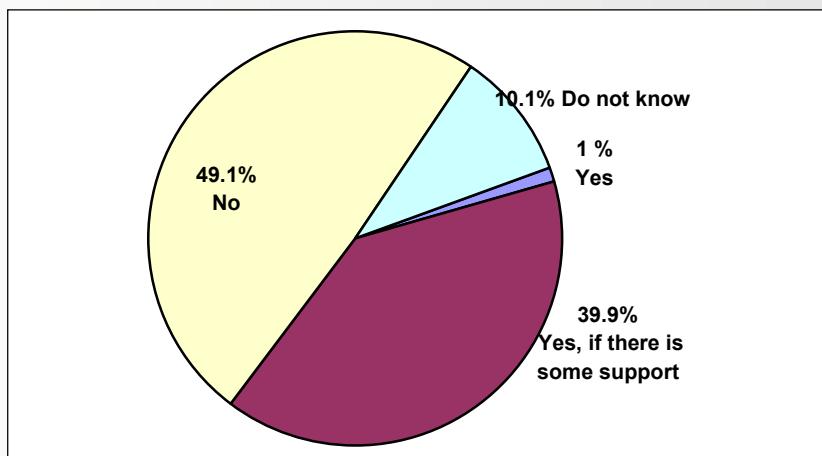
that it is useless to apply to lending institutions (89.8 percent according to Figure 4).

Data in Figure 4 also show that very poor households are more frequently rejected by lending institution, compared to other groups of population. 7.5 percent of very poor households, in the 12 months preceding the survey, applied for but did not receive credits, whereas those rejected among households with average and high social status constituted 5.3-5.8 percent. Hence, credits are more accessible to groups with higher living standards and broader possibilities, while the socially vulnerable are deprived from **favorable conditions for further**

Figure 4. Rate of credit allocation by households' social status, %

Source: NHDS, 2003.

Picture 1. Capacities of households for overcoming their poverty, %



Source: NHDS, 2003.

expanding their incomes through regeneration.

On the other hand, the NHDS data also warn about a very important fact: 39.9 percent of households considering themselves as poor or very poor are of the opinion that they can overcome their poverty themselves if certain assistance or support is available (see Picture 1).

49.1 percent of households considering themselves as poor or very poor, unfortunately, have totally lost their will and faith in overcoming their poverty by themselves. Pessimism and hopelessness with regard to success and the future in general is more underlined in this group. These households are of the opinion that they are subjects of the passive social policy (see Box 15).

And the mentioned around 40 percent of households, who are willing to make an effort and believe in their eventual success, should be supported by the state through a pro-poor economic policy. In particular:

In order to support poorer groups in overcoming their poverty by themselves, the pro-poor economic policy should definitely include measures to increase access to credits.

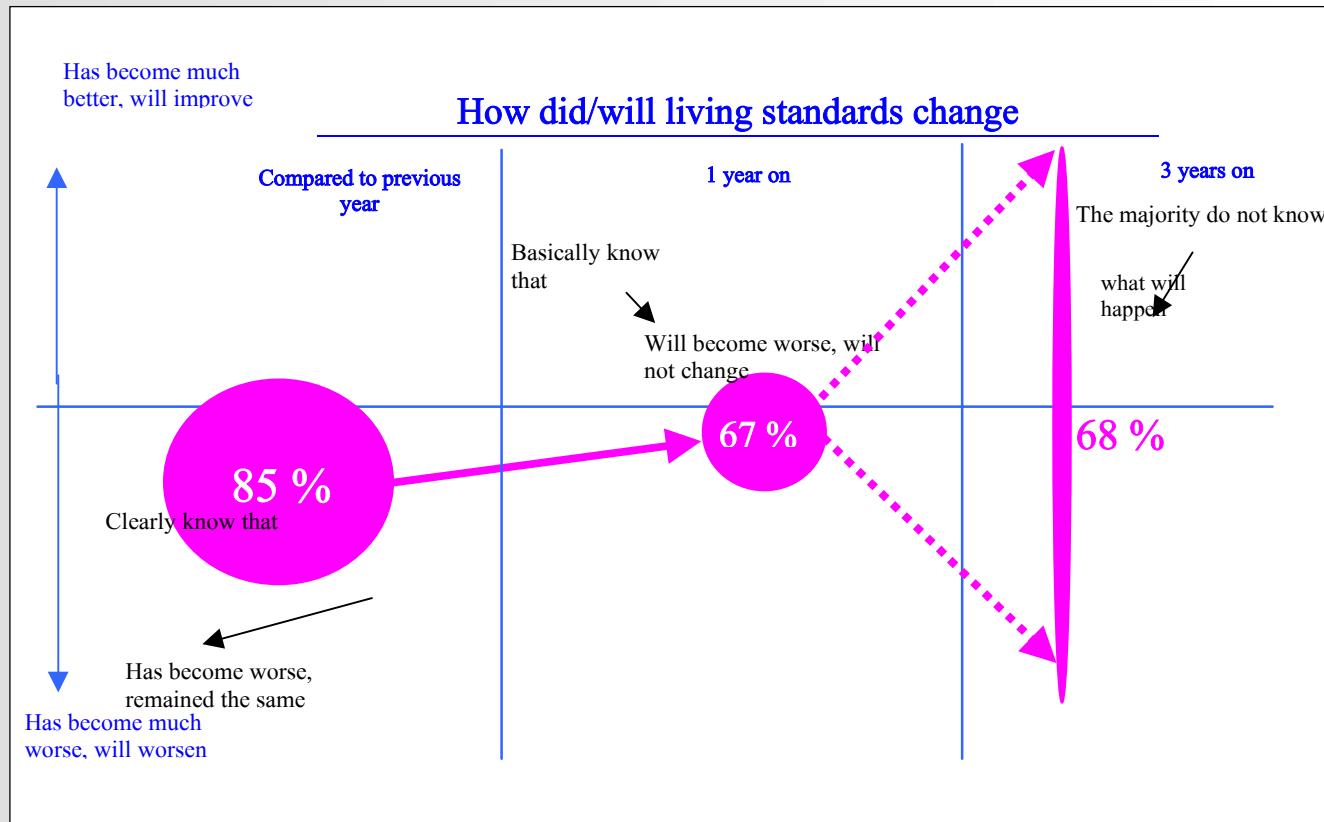
3. Recommendations for ensuring a pro-poor policy in the public administration sector

The above-mentioned analysis already contains a number of important recommendations regarding the priority directions of a pro-poor policy in the public administration sector. In this part of the paper, we would like to complement those with a list of specific measures, which stem from the requirements of the PRSP review process.

The section of PRSP referring to the public administration sector can be significantly improved, if it is complemented by a number of additional measures stemming from the conceptual approaches of pro-poor policies and the above-mentioned analysis. The fact of the matter is that the PRSP *basically envisages reforms of general nature in the public administration system, with a very weak pro-poor orientation*. From the viewpoint of pro-poor orientation, however, the issue is that the Paper does not clearly and specifically state what percentage or which groups of the poor, how and in what forms will benefit from the results of the policy or individual measures. The Paper is also unclear, as to how the planned changes in the administration of the economy would contribute to

BOX 15**Households in Armenia are still pessimistic**

Within the framework of the NHDS, 6000 respondent households expressed their opinion on changes to their living standard. 85 percent are convinced that household's living standard has not improved compared to last year, i.e. has remained the same or has even dropped. 67 percent of respondents specifically expect no positive changes for their household in the coming year. And for the near future, i.e. the next 3 years, 68 percent do not have clear expectations and do not know at all what their situation would be (see the Figure below).



Source: NHDS, 2003.

Percentages in circles are calculated based on households with a clear position, through the following weighting method: 1) has become much worse (-2); 2) has become worse (-1); 3) has not changed (0); 4) has improved (+1); 5) has become much better (+2). The figure not encircled, i.e. 68 percent, shows the proportion of the sixth "Do not know" responses to the question "How will your household's living standard change 3 year on?".

Do the data in the figure not testify to the absence of public participation in state policy-making, absence of public awareness, or lack of faith in the results of programs being implemented, including the PRSP?

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the involvement of the poor in entrepreneurial activities, how the policy would promote the development of their capacities and create equal opportunities in entrepreneurial activities. Only in three of the measures planned by the PRSP in the public administration sector the socially vulnerable groups have the status of direct beneficiaries of the policy¹⁰.

Interestingly, the system of PRSP monitoring indicators for the public administration system does not clearly reflect the possibilities for measuring the pro-poor impact of the policy and its results. Those indicators mainly refer to the evaluation of general quality improvements of administration¹¹, which is important in itself, but flawed from the viewpoint of pro-poor orientation.

From the mentioned point of view, in order to ensure the pro-poor orientation of the policy for the public administration sector, a number of recommendations are presented below, which might be taken into account during the PRSP review process.

1. Awareness building among the poorer groups of population:

- acknowledging public ***awareness building*** as a priority of the public administration sector, develop and introduce mechanisms specifically addressing the poor and accessible to them, which will ensure possibilities for the poor and vulnerable groups to use information of general or specific nature and tools of e-governance;
- create public institutions, which will ensure ***the transparency and glasnost*** of governmental decisions and official information, and through effective means will protect ***the right of the poor to***

receive information from red tape and illegal obstacles;

- introduce an indicator for cases of violations of the right of the poor to receive information in the list of ***social isolation and inequality indicators of the PRSP monitoring indicators system***, also introduce indicators for availability of ***contacts, FAQ, legal acts, information*** sections in websites of ministries, number of correspondences and frequency of updating.

2. Reflect the interests of the poor in the local self-governance sector:

- study and evaluate: a) possible negative impacts of ***community amalgamation*** on poorer communities; and b) possible negative impacts of ***land consolidation*** on poorer groups of population;
- develop mechanisms for increasing ***beneficiary participation and the influence of their opinions*** in local self-governing bodies' processes for three-year programming, community budget formulation and decision-making;
- ensure the emphasis on the priority of ***interests and expanding opportunities of the poor*** in community programs;

3. Expand opportunities of the poor in the economic administration sector

- develop and introduce mechanisms for a) human capacity building; and b) credit allocation, accessible to the poor for small and medium sized entrepreneurial activities,
- complement ***the PRSP monitoring indicators system*** with the following

¹⁰ From among the 34 measures of the PRSP Action Plan referring to public administration, the following three are directly addressed to the poor and socially vulnerable: a) differentiation of tariffs for paid services delivered by local self-governing bodies by various social groups; b) enactment of differentiated state policy for the earthquake zone, near border, mountainous and small communities; c) ensure better access to the court system for vulnerable groups.

¹¹ See “Conceptual framework for PRSP monitoring indicators system” approved by the Government of Armenia on 11 November 2004, p. 17-18, 61-67.

economic indicators: a) number of the poor who received business credits; b) number of the poor who received credits, grants or any other type of assistance for economic activities, through the support or guarantees

of the relevant governmental structures or local self-governing bodies; c) proportion of measures which directly reflect the interest of the poor in the list of proposals for the governance policy.

The national human development survey (NHDS): some results of the secondary analysis of data

**Samvel Manukyan
Nairuhi Jrbashyan**

Within the framework of the UNDP and Government of Armenia joint project "Creation of a social monitoring and analysis system", a wide-scale national human development/poverty survey was conducted in spring 2003, which included 6000 households representatively selected from 200 rural and urban communities of all the 11 marzes of the country. Survey's results were processed and summarized in 4th, 5th and 6th issues of "Armenia's Social Trends" informational-analytical bulletin¹. The methodological basis for NHDS was described in detail and published in the mentioned bulletins². This Annex presented some results of the

secondary analysis of NHDS data, which directly refer to the justifications and proposed priorities of pro-poor policies presented in the Report.

1. Priorities of fully meeting the needs of households

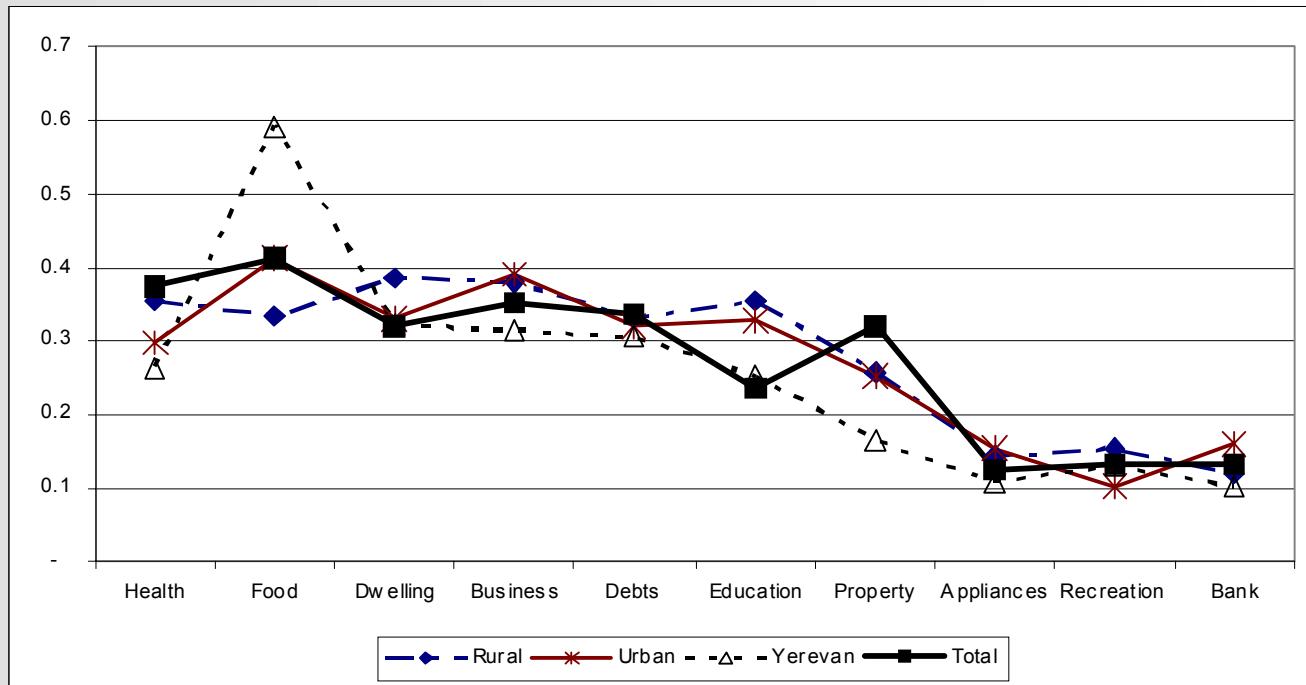
This part of the Annex summarizes one of the most interesting questions of the subjective evaluations sub-groups of the NHDS questionnaire: "If your households had additional (unexpected) amounts, where would you spend it in the first place (mentioned three responses ranked by priority)?". Responses were grouped

Table 1. Priority needs of households which need to be fully met, % of households

| Needs | Sum distribution of three priority needs | | | | Distribution of first priority need | | | |
|-----------------------------------|--|-------|-------|---------|-------------------------------------|-------|-------|---------|
| | I | | | | II | | | |
| Needs | Total | Rural | Urban | Yerevan | Total | Rural | Urban | Yerevan |
| Health | 70.6 | 70.0 | 71.6 | 69.8 | 26.4 | 26.6 | 28.0 | 21.9 |
| Better nutrition | 67.2 | 64.5 | 68.5 | 70.9 | 27.7 | 21.6 | 28.3 | 42.0 |
| Better dwelling | 46.6 | 52.4 | 41.8 | 42.8 | 14.9 | 18.6 | 12.5 | 11.3 |
| Repaying debts | 29.8 | 32.7 | 32.6 | 15.4 | 10.0 | 11.6 | 10.7 | 3.9 |
| Investments in own business | 25.0 | 23.9 | 23.8 | 30.9 | 8.8 | 9.2 | 7.9 | 10.0 |
| Education | 20.4 | 17.9 | 22.4 | 21.6 | 4.8 | 4.6 | 5.6 | 3.6 |
| Purchasing property and valuables | 13.8 | 14.8 | 12.2 | 15.0 | 4.4 | 4.9 | 3.9 | 4.6 |
| Purchasing household appliances | 12.7 | 14.3 | 12.5 | 9.2 | 1.6 | 2.2 | 1.3 | 1.2 |
| Recreation | 6.8 | 4.2 | 7.5 | 11.6 | 0.9 | 0.5 | 1.2 | 1.2 |
| Bank investments | 1.5 | 0.7 | 1.3 | 3.7 | 0.2 | 0.1 | 0.2 | 0.4 |

¹ See www.undp.am

² See "Human poverty in Armenia's marzes", Armenia's Social Trends, #5, June 2004, pp. 3-7.

Figure 1. Needs urgency in various types of communities

by various categories: a) rural and urban communities; b) social status of families; c) vulnerable groups of population.

1.1. Priorities of fully meeting the needs of households by rural-urban categories.

Table 1 records the main needs, which households are not able to fully meet on their own and are mentioned among the first three priorities they would like to address if possible.

Data in Table 1 reveal that ***the highest priority need of households is healthcare both in general, and by rural-urban-Yerevan categories.*** Better nutrition and dwelling come second and third. And, by the level of priority attached to the needs, healthcare has the highest priority in rural communities, and in small and medium sized towns has nearly the same level of priority as better nutrition. In our opinion, such high level of need for better nutrition, in essence, refers to *the need for diverse and quality food*.

The mentioned three needs are the most highly prioritized. Investments in own business,

repaying debts and educational needs are less expressed, and thus can be classified as secondary needs which are not fully met. With regard to secondary needs, indicators for Yerevan on the one hand and rural communities and small and medium towns on the other hand, are clearly different. In this group, the underlined need in Yerevan is investments in own business, while the other have prioritized repaying of debts.

If we consider the distribution of highest priority needs by importance as the severity of the need (see Table 1, II column), and the distribution of the three primary needs (see Table 1, I column) as its spread, then we can characterize the inadequately met needs of households by a new indicator, which we call "need urgency indicator". ***By definition, need urgency is the ratio of need severity to its spread.*** The higher the ratio, the more urgent is the need. From this point of view, the characterization of inadequately met needs is presented in Figure 1. It must be noted that the content of this characterization is a derivative of *needs urgency and spread*.

The overall conclusion from Figure 1 is that regardless of the type of settlement, two urgency groups of inadequately met needs have emerged: *high urgency* (nutrition, healthcare, investments in own business, better dwelling, repaying debts and education) and *low urgency* (recreation/culture/entertainment, bank investments, household appliances).

The second overall characteristic is that yet again the pattern of similarities between rural communities and small and medium towns on the one hand, and their large difference from Yerevan on the other hand, has emerged. The figure clearly shows the following characteristics in different types of settlements:

- In Yerevan, the urgency of households' nutrition needs is prevalent, which largely depends on the higher level of socio-economic development in the capital city and consequently the diversity of the food market. At the same time, in conditions of the recorded inequalities in living standards of Yerevan residents, the socio-psychological need of poorer households for better nutrition becomes more acute. Moreover, the urgency of the need for

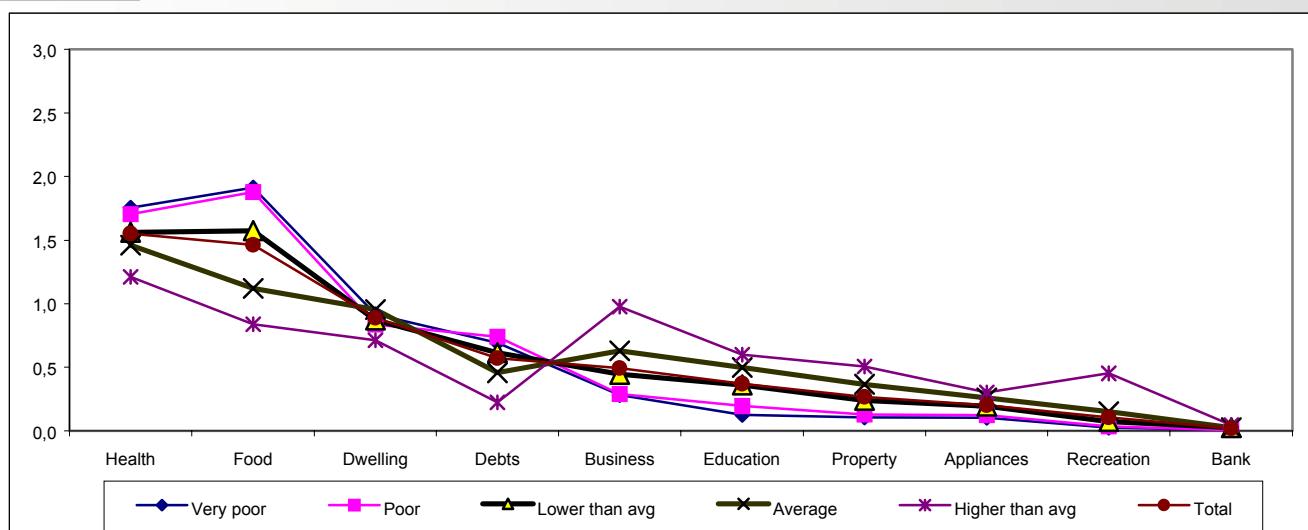
better nutrition in Yerevan is accompanied by the low urgency of the other inadequately met needs, compared to rural communities and other towns.

- For residents of **small and medium towns and rural communities** the urgency of educational needs is higher than Yerevan, which is an important sub-cultural feature of the those communities, since it means that education for those residents is the primary potential for prosperity.
- **Rural communities** are also characterized by the higher urgency of the needs for healthcare and better dwelling, compared to Yerevan.

1.2. The Impact of family's well-being on priorities of inadequately met needs.

The NHDS has allowed each respondent household to evaluate its well-being, in accordance with five groups characterizing social status. The analysis reveals that the distribution of inadequately met needs depends largely on the level of well-being of households. The classification of inadequately met needs by priority³ is presented in Figure 2.

Figure 2. Impact of well-being on the priority needs of households



³ The first priority need is assigned the value "3", the second one "2", the third one "1" and "0" denoted the fact that meeting the given need was not a priority for the household.

The Figure clearly shows that there are inadequately met needs “more characteristic for the poor” and “more characteristic for the non-poor”. ***The priority inadequately met needs of poorer groups are healthcare, better nutrition and dwelling, as well as repaying debts, while those of the non-poor are investments in own business, education, purchasing property, recreation and entertainment, bank investments.***

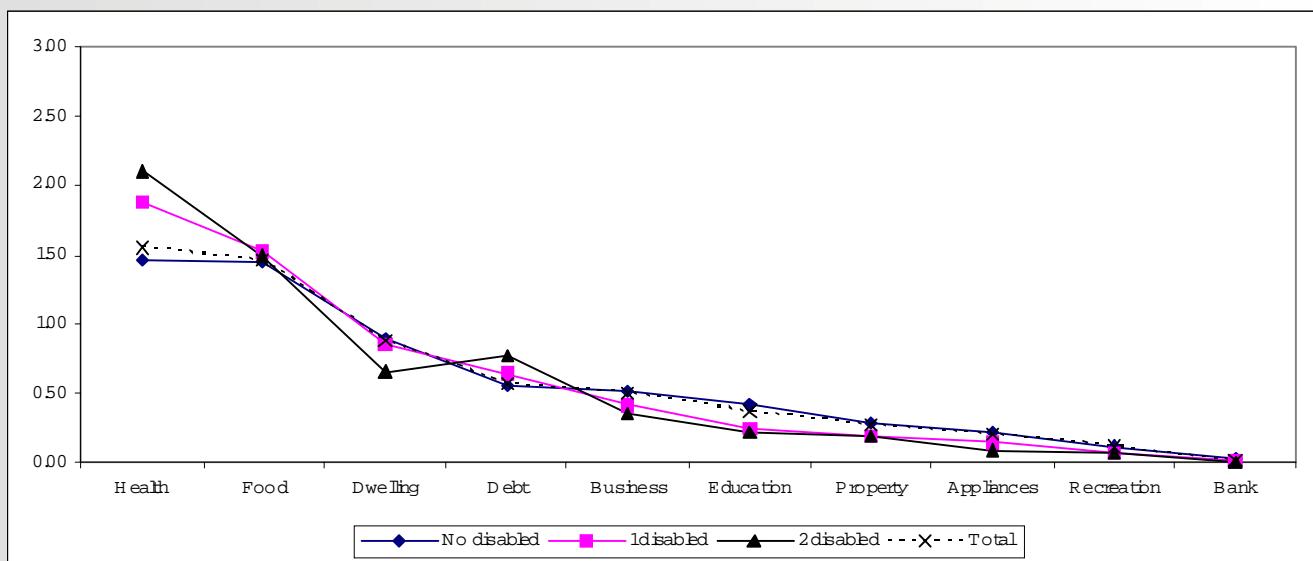
The most visible difference among social groups is noted in the need for better nutrition⁴. And the second and third differences by prevalence are noted in healthcare needs and investments in own business. For the group with higher than average level of well-being, the latter priority comes second after healthcare needs. Hence ***the group with higher than average level of well-being in Armenia, by its needs (and way of life based on those) significantly differs from groups with lower levels of well-being. It has clearly underlined priorities of diversification of reproduction and consumption (organizing recreation, cultural consumption and entertainment).***

1.3. The impact of vulnerable groups of population on priorities of inadequately met needs.

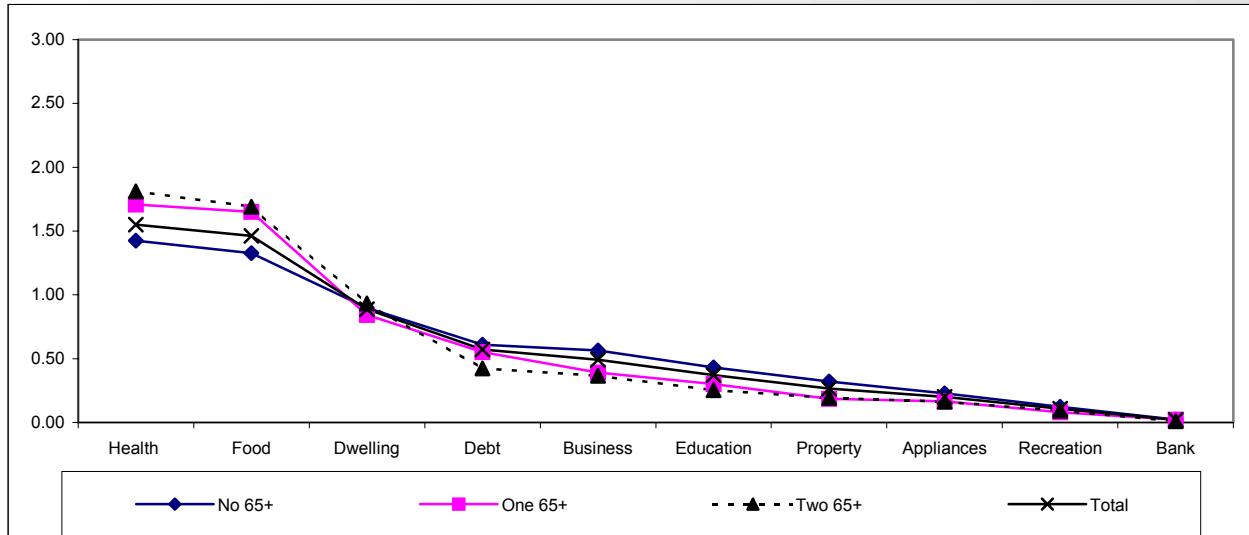
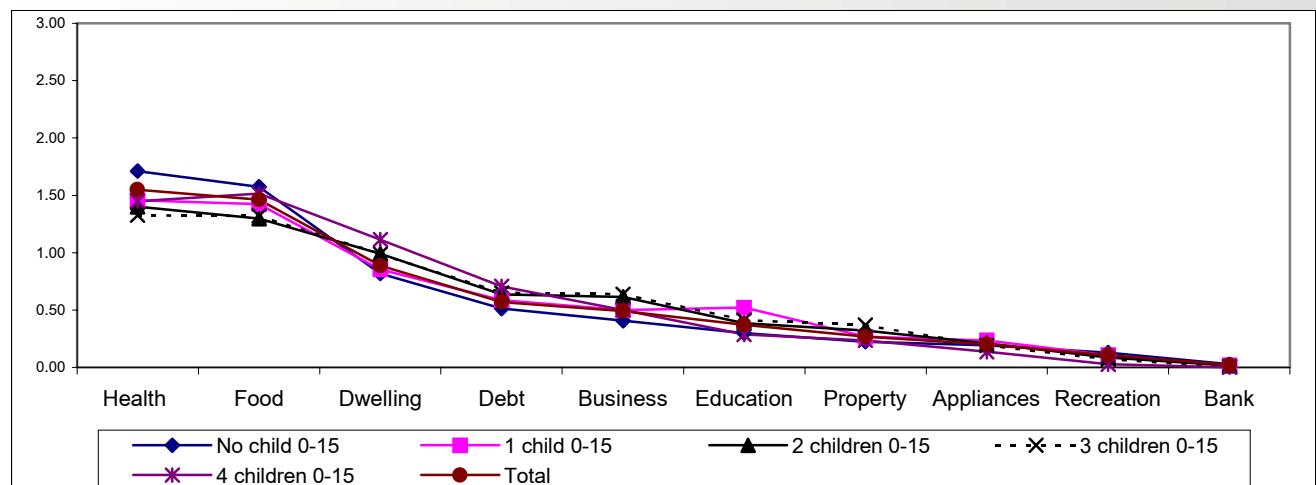
Any household member belonging to vulnerable groups has certain impact on the picture of inadequately met needs of the household. Analyses reveal that:

- ***disabled persons*** in the household have an impact on the priority of fully meeting one of the fundamental needs of the household, i.e. healthcare. Depending on the permanent presence of that need, the priority of repaying debts acquires more importance. And accordingly the priorities of all other inadequately met needs reduce. Also the number of disabled persons (1 or 2 members of the household) has a large impact on the priority of inadequately met nutrition need. While the priorities of “high status” needs for families with one or two disabled persons are almost equally “suppressed” (see Figure 3).
- ***65+ members*** increase the needs for healthcare and nutrition in the household, at the expense of lower priority of the remaining needs (see Figure 4).

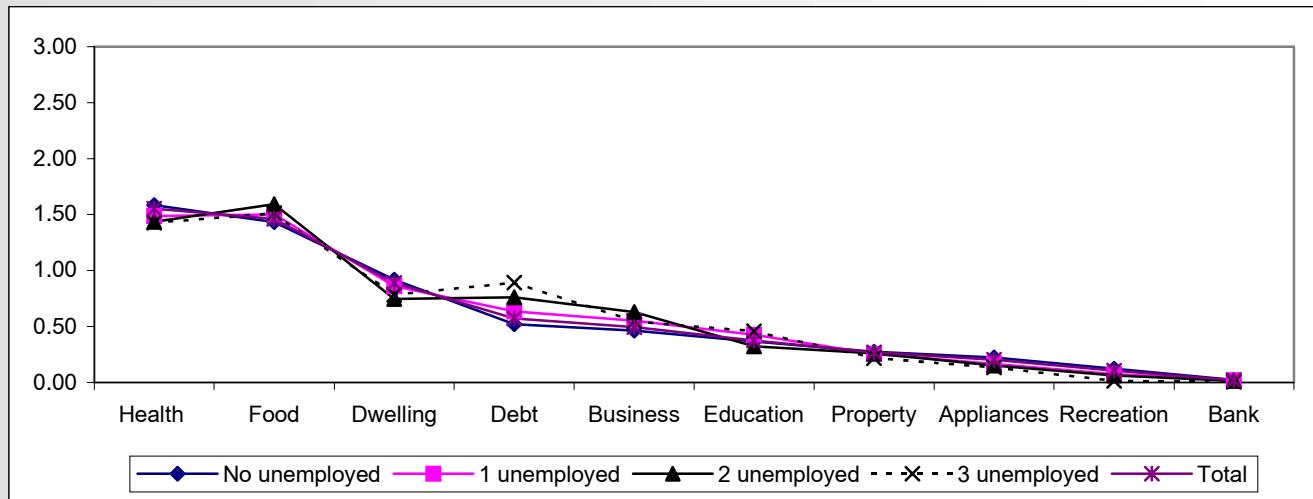
Figure 3. Impact of disabled members on the priority needs of households



⁴ The dispersion of the average level of priority attached to the need for nutrition by well-being groups is the highest; it reaches up to 36 percent of the measurement scale.

Figure 4. Impact of 65+ members on the priority needs of households**Figure 5. Impact of children and their numbers on the priority needs of households**

- **children (0-15 year-olds)** and their numbers impact the priority needs of households as follows: in families with 1 child the priority of education is slightly higher, and in families with 4 children the priority of better dwelling increases emphatically. Families who do not have young children attach higher priority to healthcare issues (this is the expression of characteristics of other families, in particular those composed of elderly persons, see Figure 5).
- **unemployed members** cause a significant increase in the priority of the need to repay debts (households with unemployed members probably loan money more frequently). Characteristically, families with unemployed members are more prone to make investments for starting businesses, which shows the willingness of this group of people in the labor market to solve their problems on their own.
- in families with **lone elderly members** high priorities for nutrition and healthcare needs

Figure 6. Impact of unemployed members on the priority needs of the household

are more underlined, compared to families with working-age members. Those families practically do not have priorities of investments in own businesses and purchase of property/valuables. Characteristically, the priority of paying back loans also has the lowest level in this group. These families have the highest preference for living with their own incomes. In addition, they have the lowest level of priority of better dwelling. The picture of priority needs in families with one

able-bodied member is similar, although somewhat more favorable.

- priorities of families with **two or more able-bodied members** are similar, with the exception of families with 6 able-bodied members, whose set of priorities has two peaks: priorities of repaying loans and purchasing property are visibly higher (see Figure 7).

The summary of the mentioned analyses is presented in Table 2. Thus, better living standards and number of able-bodied members

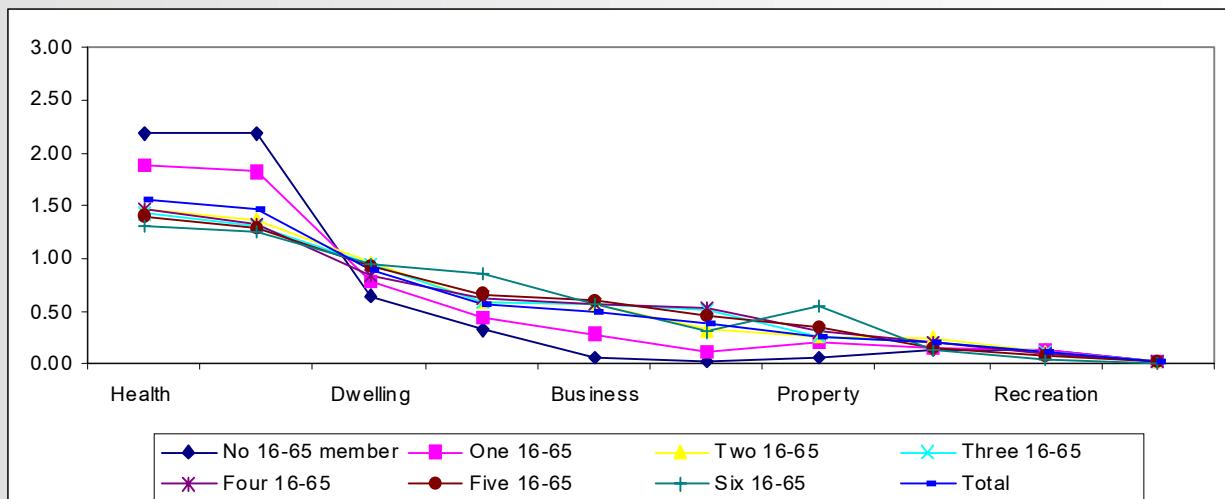
Figure 7. Impact of 16-65 year-old members and their numbers on priority needs of households

Table 2. Most significant impacts of family parameters on priorities of inadequately met needs

| Household parameter Inadequately met need | Healthcare | Food | Dwelling | Repaying debts | Own business | Education | Property, valuables | Household appliances | Recreation, entertainment |
|--|------------|------|----------|----------------|--------------|-----------|---------------------|----------------------|---------------------------|
| Well-being | ↓↓ | ↓↓↓ | ↑ | ↓↓ | ↑↑ | ↑↑ | ↑ | ↑ | ↑↑ |
| Number of 16-65 year-olds | ↓↓↓ | ↓↓↓ | ↑ | ↑↑ | ↑↑ | ↑↑ | ↑↑ | | |
| Disabled members | ↑↑ | | ↓ | ↑ | | | | | |
| Unemployed members | | | | ↑ | | | | | |
| 65+ members | ↑ | ↑ | | | | | | | |
| Number of young children | ↓ | ↑ | ↑ | | ↑ | ↓ | | | |
| Type of community | | ↑↑ | ↓ | ↓ | | | | | |

↑ means that the priority increases parallel to the increase in the parameter of the given row.
 ↓ means that the priority decreases parallel to the increase in the parameter of the given row.
 Number of flashes shows the intensity of the increase or decrease.

reduce the priorities of basic needs and increase priorities of "high status" needs. The remaining characteristics of households increase the priority of one or two basic needs (healthcare, nutrition), at the expense of inadequately meeting "high status" needs. This means that the latter characteristics generate poverty.

2. Households' income composition and well-being

2.1. Sources of household income by rural-urban category.

The Annex presents the analysis of the link between sources of incomes and self-assessed level of well-being by rural, urban, Yerevan categories, based on NHDS data.

NHDS respondent households indicated their sources of income, and further distinguished and classified three most important sources.

The analysis of the sources of incomes mentioned by households (see Table 3) allows

us to draw the following conclusions:

- The most common sources of households incomes are pensions (53.3 percent), agricultural self-employment (47.8 percent) and wages (42.3 percent). Other sources of income have a significantly lower representation. **There are essential differences, however, by rural-urban-Yerevan categories.**
- In general, 78.7 percent of households receive incomes from wages. Incomes from employment (agricultural and non-agricultural self-employment, wages) constitute a fairly large share (97.8 percent) of rural households' incomes, mainly due to agricultural self-employment (**89.9 percent**). **In towns, with the exception of the capital city, agricultural self-employment is also fairly common (22.3 percent), which is a specific feature of our small and medium towns⁵. Around 1/3 of households in rural areas have**

⁵ See AST'04, 2003.

Table 3. Distribution of sources of income for rural, urban and capital city households, %

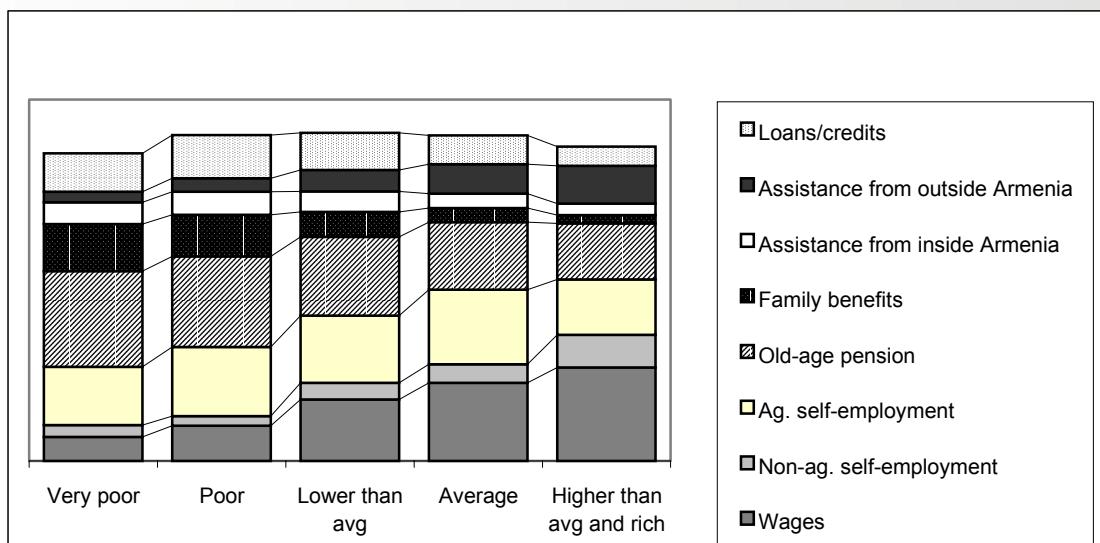
| <i>Source of income</i> | <i>Rural</i> | <i>Urban</i> | <i>Yerevan</i> | <i>Tot.</i> |
|---|--------------|--------------|----------------|--------------|
| Wages | 32.4% | 48.6% | 52.5% | 42.3% |
| Agricultural self-employment | 89.9% | 20.7% | 6.2% | 47.8% |
| Non-agricultural self-employment | 5.1% | 14.3% | 19.7% | 11.3% |
| <i>Households with any kind of income from employment</i> | 94.8% | 66.1% | 68.4% | 78.7% |
| Old-age pensions | 57.9% | 50.1% | 49.5% | 53.3% |
| Family benefits | 15.6% | 22.3% | 10.2% | 17.4% |
| Stipendium | 0.7% | 2.4% | 2.9% | 1.8% |
| Other state benefits and pensions | 3.6% | 7.4% | 3.0% | 5.1% |
| <i>Households receiving state social transfers</i> | 64.2% | 60.7% | 54.6% | 61.2% |
| Assistance from persons inside Armenia | 9.9% | 13.4% | 18.9% | 12.8% |
| Assistance from persons outside Armenia | 13.4% | 17.8% | 15.1% | 15.5% |
| <i>Households receiving private transfers</i> | 22.2% | 29.7% | 32.5% | 26.9% |
| Loans/credits | 25.3% | 23.9% | 22.2% | 24.2% |
| Humanitarian assistance | 8.4% | 4.4% | 1.3% | 5.6% |
| Sales of property, land or valuables | 3.3% | 6.9% | 10.2% | 5.9% |
| Savings | 2.2% | 2.8% | 10.0% | 3.7% |
| Income from property or land rented out | 1.6% | 1.0% | 1.0% | 1.3% |

members who receive wages. This is a fairly large proportion, if we consider that around 1/2 of residents in towns and the capital city have incomes in form of wages.

- The prevalence of incomes from employment in list of sources of income for households in the capital city and other urban communities is significantly lower compared to rural areas. **Around 32 percent of Yerevan households, and around 34 percent of households in other towns, do not have any income from employment, while the same indicator for rural areas amounts to only 5.2 percent. Around half of households in towns (including Yerevan) mentioned wages as a source of income, but here**

the spread of non-agricultural self-employment is fairly limited. The latter was mentioned as a source of income only by 19.7 percent of households in Yerevan, and 14.3 percent of households in towns.

- The large number of households receiving old-age pensions (around 50 percent) testifies to deviations of population's normal composition, and those deviations are more significant in rural areas.**
- In urban communities, especially in Yerevan, fairly large numbers of households receive private transfers. In Yerevan, private transfers as a source of income were mentioned by 32.5 percent of households, in towns 29.7 percent and in villages 22.2 percent.**

Figure 7. Spread of various sources of income by well-being groups, %

- State social assistance (family benefits and all other types of benefits and pensions, except old age pension) are more widespread among urban households. In towns 32.1 percent of households receive social assistance, compared to 16 percent in Yerevan and 19.9 percent in villages.
- In all types of settlements, around 1/4 of

households have mentioned loans/credits as sources of income.

2.2. Households' sources of income by level of well-being of households

Comparison of the spread of income sources by levels of self-assessed well-being of households (see Table 4) allows us to draw the conclusion that:

Table 4. Distribution of income sources by households with various levels of self-assessed living standards, %

| Source of income | Very poor | Poor | Lower than average | Average | Higher than average and rich |
|--|-----------|------|--------------------|---------|------------------------------|
| Wages | 16.7 | 24.3 | 42.5 | 54.1 | 64.7 |
| Agricultural self-employment | 40.5 | 47.8 | 46.5 | 51.6 | 38.2 |
| Non-agricultural self-employment | 8.0 | 6.7 | 11.6 | 12.8 | 22.6 |
| Old-age pension | 66.1 | 62.6 | 54.4 | 46.6 | 38.9 |
| Family benefit | 32.5 | 28.9 | 17.3 | 9.9 | 5.7 |
| Stipendium | 1.1 | 1.2 | 1.8 | 2.1 | 3.0 |
| Other state benefits and pensions | 5.7 | 6.1 | 5.4 | 4.3 | 3.4 |
| Assistance from persons inside Armenia | 15.2 | 16 | 14.1 | 9.9 | 8 |
| Assistance from persons outside Armenia | 7.2 | 9.2 | 14.8 | 20.4 | 26.1 |
| Loans/credits | 26.7 | 29.9 | 25.8 | 19.8 | 13.3 |
| Humanitarian assistance | 10.3 | 7.9 | 4.8 | 4.8 | 1.1 |
| Sales of property, land or valuables | 8.0 | 8.2 | 6.4 | 3.9 | 4.5 |
| Savings | 0.9 | 1.6 | 4.1 | 4.6 | 7.3 |
| Income from property and land rented out | 1.1 | 0.7 | 1.4 | 1.3 | 3.0 |

- The most widespread source of income for households with average and above average living standard is employment.** Incomes from employment for this group of households are very diversified. They come from contractual employment, as well as agricultural and non-agricultural self-employment.
- The most widespread sources of income for very poor and poor households are social transfers (family benefit and old-age pension), loans, and as odd as it might seem, also agricultural self-employment.** 40.5 percent of the very poor and 47.8 percent of the poor have incomes from agricultural self-employment. This self-employment is obviously not very effective, and does not even fully satisfy household's own needs. **Around 15 percent of households having incomes from agricultural self-employment have considered themselves as very poor or poor, and another 33 percent thought**

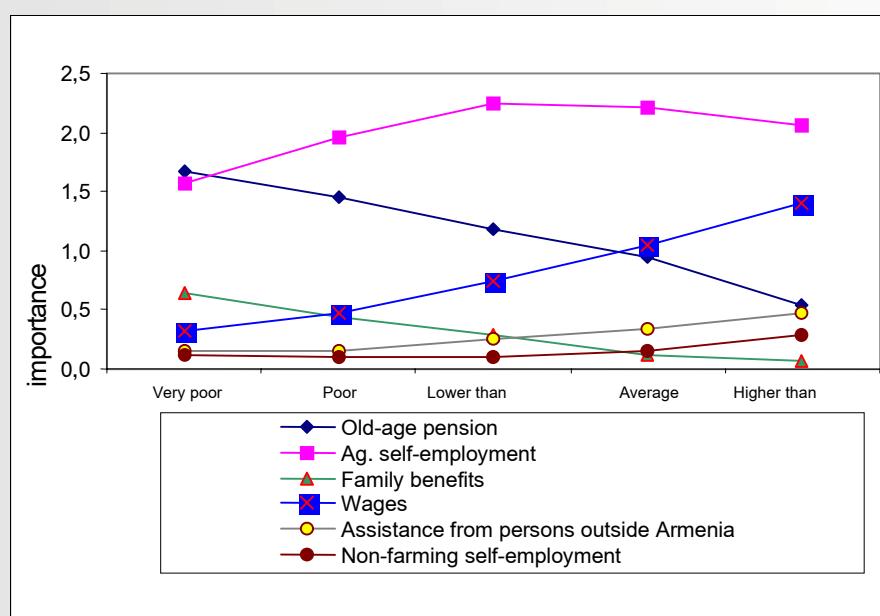
their living standard in higher than average.

- Sources of income for households with average and above average living standard are the most diverse.** The majority of households in this group have various incomes from employment, and at the same time also receive social transfers (mainly in the form of old-age pension) and private transfers, especially from people outside Armenia. This group also has the highest rate of non-agricultural self-employment.

2.3. Importance of households' sources of Income by level of well-being of households

Respondent households also classified their incomes by importance and mentioned the three most important incomes. Distributions of the average values of the degree of importance of the mentioned sources of income for households by level of well-being of various groups and by types of settlements, allow us to draw the following conclusions (see Figures 8-10⁶):

Figure 8. Level of importance of sources of income in rural areas



⁶ In the Figures, the "Importance" axis has 5 levels: [0, 0.5); [0.5, 1.0); [1.0, 1.5); [1.5, 2.0) and [2.0, 2.5], and correspondingly 5 ranks of importance of incomes, where the I rank of importance corresponds to the average value in the [2.0, 2.5] range.

Figure 9. Level of importance of sources of income in urban communities

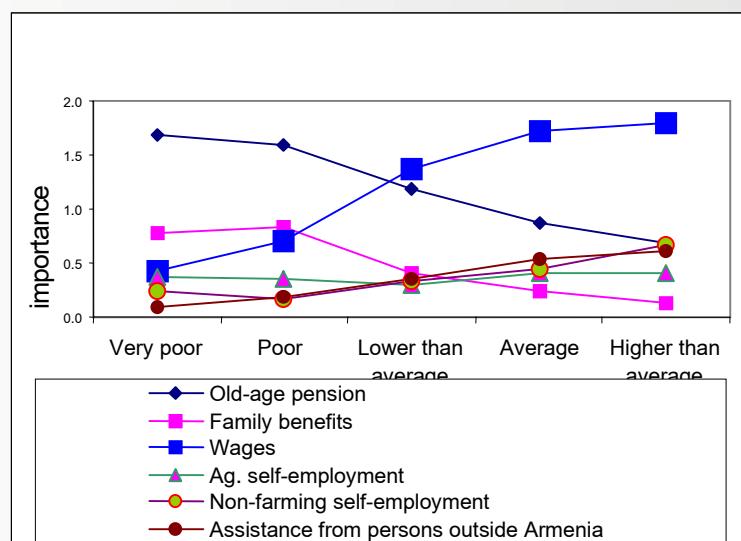
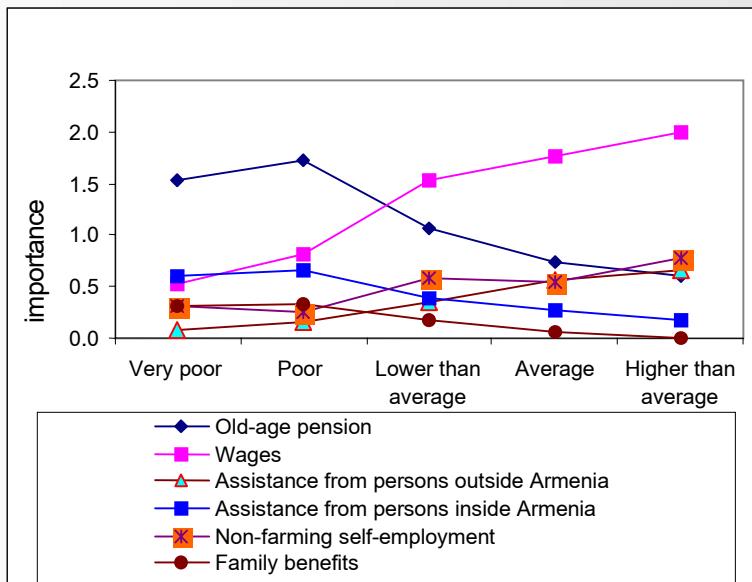


Figure 10. Level of importance of sources of income in Yerevan



- In each type of settlement, compositions of incomes of well-being groups significantly differ from each other. The main sources of income causing the differences in the income composition of various well-being groups are:
 - wages, the importance of which steadily increases parallel to the increase in the

- level of well-being in all types of settlements;
- b) old-age pensions, the importance of which is inversely proportional to the increase in the level of well-being;
- In rural areas, agricultural self-employment is the most important type of income for all well-being groups.

- In towns and the capital city, the impact of wages and old-age pensions on the composition of incomes is similar. Changes in the ranking of the mentioned types of income takes place in the group with lower than average well-being.
- Importance of old-age pensions in rural communities and towns by well-being groups are similar and are clearly different from Yerevan. In Yerevan, the irregularity of the dynamics of the importance of old-age pensions from extremely poor to poor groups shows that there is a specific sub-stratum of extreme poverty in the capital city, for whom old-age pensions have small significance. This sub-stratum might consist of households with able-bodied members or elderly who do not receive pensions.
- Family benefits are the most importance source of income in towns.
- Households entitled to family benefits are identified more accurately in rural areas, compared to towns and the capital city. This is caused by the fact that the importance of family benefits in rural areas decreases steadily⁷, while in towns and the capital city the steadiness of the corresponding curves for transition form

- extremely poor to poor groups is disrupted.
- The importance of wages for capital city and town households is similar and is slightly higher than their importance for rural residents.
 - In the capital city and other towns, non-agricultural self-employment has a higher importance, and its importance increases parallel to the increase in the level of well-being. Yerevan households with higher than average living standard have attached the highest importance to non-agricultural self-employment.
 - The higher the living standard of the household, the higher importance it attached to private remittances from abroad as a source of income. Private remittances from abroad have the largest impact on the level of well-being of households in towns and the capital city. And reversely, the degree of importance of private remittances from Armenia decreases parallel to the increase in the level of well-being.
 - For the extremely poor residents of the capital city, private remittances from persons inside Armenia are an importance source of income and are capable of increasing the level of well-being by one degree.

⁷ The steady decline should logically be intrinsic to the principle for allocation of family benefits.

Are Government's Orders enforceable?

Silva Abelyan, UNDP Specialist

In order to ensure access to healthcare services, the Government of Armenia, among other measures, also issued the Order "Free of charge medical care and services guaranteed by the state" (No. 318 dated 4 March 2004) and the Order issued earlier "Approving lists of socially vulnerable groups and diseases entitled to drugs free of charge or with privileged conditions" (No. 396-N dated 8 June 1999).

In order to determine whether beneficiaries are able to benefit from the mentioned Orders, i.e. to what extent they are enforced to the benefit of the population, staffs of Monitoring and Evaluation Units of marz governments and Yerevan municipality, with the support of UNDP, conducted an opinion poll among beneficiaries. The poll included 1100 families: 100 families from rural and urban settlements of each marz, whose at least one member was a beneficiaries of the mentioned Orders.

Results of the poll revealed that **only 38.7 percent of all families with at least one beneficiary member, and a mere 20 percent of such families in Yerevan, are aware** of the mentioned governmental Orders. In general,

informed residents use the privileges they are entitled to more often than those who are not aware of those privileges (see Figure 1).

Results of the poll reveal that informed beneficiaries used privileges 4.5 times more often than those who were unaware. On the other hand, 43.5 percent of those who were unaware of privileges but needed medical care did not seek medical help presuming that they would need to pay for services. Thus, lack of awareness:

- results in the ineffective use and evaporation of already limited state resources allocated;
- does not reduce the lack of access to healthcare services among socially vulnerable groups.

Furthermore, the poll also revealed that during the six months preceding the survey, **only 33.4 percent of medical needs of beneficiaries were covered free of charge** (see Figure 2). And mostly children up to 7 years of age use all types of privileged free of charge healthcare services (see Table 1).

Figure 1. Proportions of those who needed and used privileges in medical services in the 6 months preceding the poll among informed and unaware beneficiaries, %

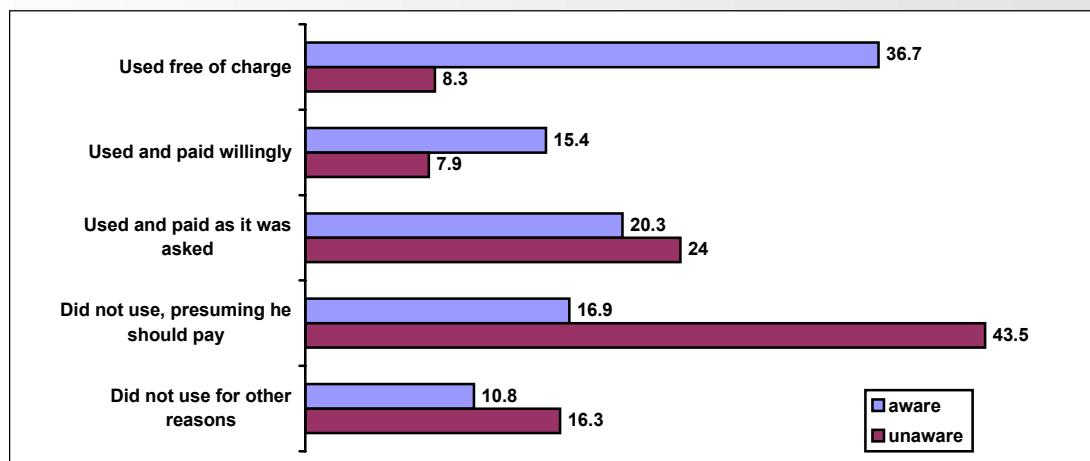


Figure 2. Proportions of those who used free of charge medical services in the 6 months preceding the poll among informed and unaware beneficiaries by marzes, %

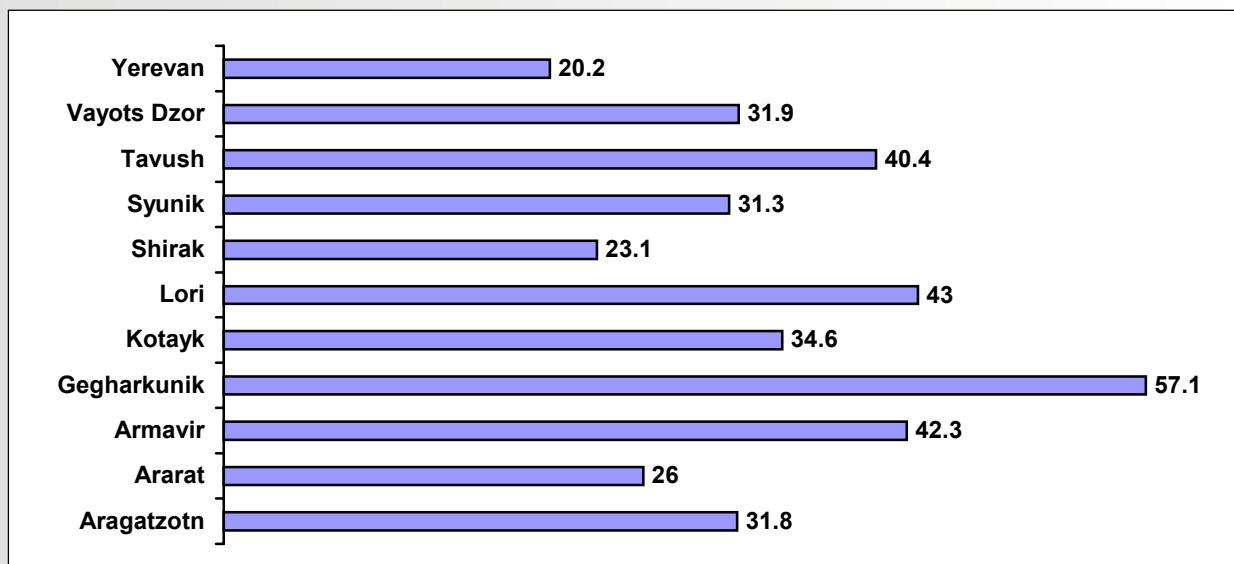


Table 1. Distribution of the use of healthcare services in the 6 months preceding the survey by types of services and forms of payments for two age groups, %

| | polyclinic or ambulatory | | emergency medical care | | hospital care | | obstetric-gynecological care | | special diagnostic examinations | | procuring drugs | |
|--|--------------------------|------|------------------------|------|---------------|------|------------------------------|---|---------------------------------|------|-----------------|------|
| used free of charge medical services, free or discount drugs | 42.0 | 59.8 | 38.0 | 47.5 | 23.5 | 23.7 | 8.3 | - | 5.5 | 1.4 | 32.1 | 38.3 |
| paid willingly | 14.6 | 18.2 | 17.5 | 30.3 | 9.7 | 20.5 | 22.0 | - | 2.7 | 1.4 | 16.1 | 20.8 |
| paid since was asked to | 17.8 | 14.8 | 14.4 | 7.1 | 28.0 | 26.9 | 32.6 | - | 12.3 | 10.0 | 15.2 | 13.6 |
| did not use, since should have paid in any case | 16.2 | 4.5 | 19.3 | 6.1 | 26.0 | 20.5 | 28.4 | - | 48.6 | 50.0 | 5.8 | 7.6 |
| did not use, for other reasons | 9.5 | 2.8 | 10.7 | 9.1 | 12.9 | 8.3 | 8.7 | - | 30.8 | 37.1 | 30.8 | 19.7 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | - | 100 | 100 | 100 | 100 |

- ages 7 years and older

- up to 7 years of age

Access to physical infrastructures from the viewpoint of pro-poor policies

Sergey Balasanyan,

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of the Ministry of Finance and Economy

1. Access to drinking water

The PRSP attaches importance to access to and availability of drinking water, as well as the quality of water supply, as factors with a direct impact on people's living standards. PRSP experts, based on comprehensive studies of the results of surveys conducted in recent years, have come to the conclusion that poor families are the ones who have suffered the most from the decline in the quality of water supply.

In this regards, data from the NHDS is also interesting. *First*, their comparative analysis by marzes reveals that they are very different with regard to sources of drinking water (see Table 1), which indicates a vast differentiation of the quality of drinking water.

Nearly all households, or 99.8 percent, in Yerevan have drinking water taps either inside or outside their dwelling, while the same cannot be said about Aragatsotn, Gegharkunik, Ararat and Armavir marzes, where this indicator is less than

80 percent. In the mentioned marzes, households without drinking water taps inside or outside their dwellings, mainly use common sources, which, in some cases, might be located at a few kilometers distance from the dwelling.

In some settlements **households purchase their drinking water from water tankers**. In Aragatzotn, for example, 2.8 percent of households use purchased drinking water, in Armavir 2.4 percent and in Tavush 1.4 percent. It must be noted that according to the results of the household survey conducted by the Armenian National Statistical Service (NSS) in 2003, nearly 6 percent of all households in the country used purchased drinking water.

Thus it can be concluded that **households without drinking water taps inside or outside their dwellings, have to spend additional time, efforts and money in order to obtain drinking water**, which makes such households more vulnerable and increases their risk of poverty.

Table 1. Main sources of drinking water in Armenia's marzes and Yerevan city

| Main sources of drinking water | Yerevan | Aragatzotn | Kotayk | Gegharkunik | Tavush | Lori | Shirak | Ararat | Armavir | Syunik | Vayots Dzor |
|--------------------------------|---------|------------|--------|-------------|--------|------|--------|--------|---------|--------|-------------|
| Tap inside dwelling | 97.8 | 31.6 | 68.3 | 41.2 | 50.5 | 67.6 | 64.4 | 36.5 | 30.8 | 82.7 | 60.7 |
| Tap outside dwelling | 2.0 | 40.1 | 22.2 | 37.8 | 23.5 | 16.5 | 22.5 | 42.9 | 48.0 | 13.0 | 33.6 |
| Source for common use | 0.0 | 19.7 | 8.2 | 17.1 | 24.6 | 12.9 | 11.8 | 18.1 | 14.7 | 3.7 | 5.4 |
| Well, river, other source | 0.0 | 0.7 | 1.1 | 3.5 | 0.0 | 2.6 | 0.9 | 0.3 | 0.5 | 0.0 | 0.3 |
| Purchased from water tankers | 0.1 | 2.8 | 0.0 | 0.0 | 1.4 | 0.0 | 0.0 | 0.7 | 2.4 | 0.1 | 0.0 |
| Other sources | 0.1 | 5.2 | 0.2 | 0.4 | 0.1 | 0.4 | 0.4 | 1.5 | 3.5 | 0.5 | 0.0 |
| TOTAL | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Analysis of reciprocal links of NHDS data reveals that, in all marzes, households considering themselves poor or very poor¹ have much lower level of access to drinking water inside the dwelling, compared to households considering themselves as having a higher than average living standard (see Table 2).

As presented in Table 2, in the majority of marzes, the level of access to drinking water taps inside dwelling is 2-3 times lower for poor households, compared to households with higher than average living standards. The difference is much more underlined, if the comparison is drawn with very poor families. In Aragatzotn marz, for example, it amounts to nearly 10 times.

In general, the self-assessment of households of their own living standards is directly proportional to the availability of drinking water tap in dwelling, i.e. the higher the level of availability, the more well-off the household considers itself to be. The mentioned pattern has been noted in all marzes and is more visible in Ararat, Lori and Aragatzotn marzes (see Figure 1).

In our opinion, Figure 1 indicates that households classifying themselves in any social groups, besides other factors, have also taken into account the availability of drinking water tap in their dwelling. Thus, in household's perception, ***the availability of drinking water tap in dwelling is an important criterion for inclusion in one or another social group and characterizes the living standard.***

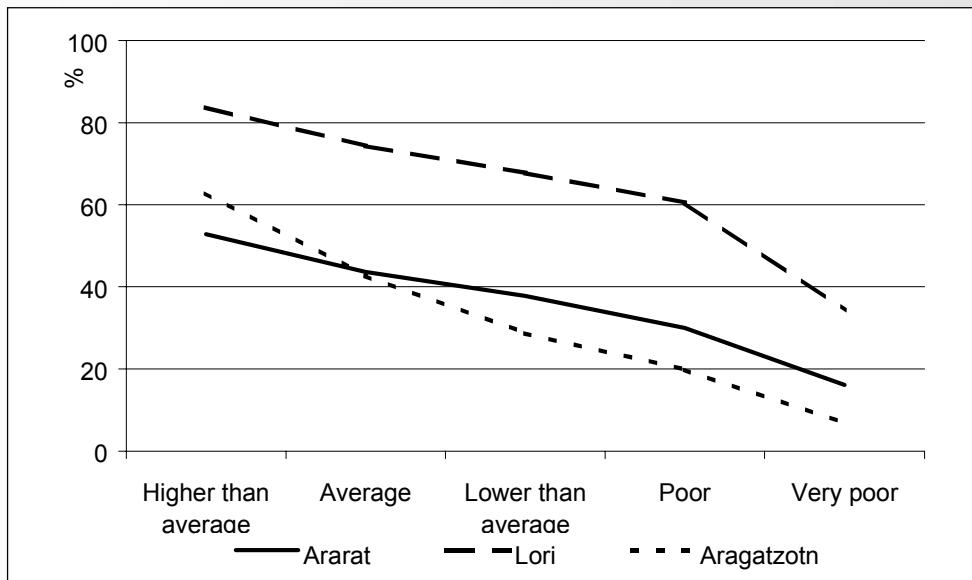
Another interesting observation is that the distribution of the availability of drinking water tap in dwelling, i.e. the indicators for access to water, is fairly reasonable for households receiving or not receiving family benefits. As seen in Table 3, it is much lower for families receiving benefit. The indicator calculated for the latter in Yerevan and 7 other marzes is lower than marz averages, and in some marzes the difference is significant, for example in Aragatzotn, Kotayk, Lori, Vayots Dzor (see Table 3). This also indicates that the level of access to drinking water is particularly low among families classified by the state as poor.

Based on the above-mentioned, in our opinion, **the pro-poor policy for water supply should**

Table 2. Availability of taps in dwelling as an indicator of access to water

| | Proportion of those with drinking water taps inside dwelling by various social groups, % | | | | |
|-------------|--|-----------|---------------------|--------------------------|-------------------------------|
| | Poor | Very poor | Higher than average | Higher than average/poor | Higher than average/very poor |
| Aragatzotn | 19.8 | 6.8 | 62.8 | 3.17 | 9.24 |
| Kotayk | 72.6 | 55.3 | 87.5 | 1.21 | 1.58 |
| Gegharkunik | 30.4 | 43.7 | 81.3 | 2.67 | 1.86 |
| Tavush | 42.9 | 52.5 | 77.6 | 1.81 | 1.48 |
| Lori | 60.5 | 34.3 | 83.7 | 1.38 | 2.44 |
| Shirak | 34.6 | 45.4 | 84.2 | 2.43 | 1.85 |
| Ararat | 30.0 | 16.1 | 52.9 | 1.76 | 3.29 |
| Armavir | 26.0 | 29.5 | 65.5 | 2.52 | 2.22 |
| Syunik | 83.8 | 74.6 | 92.6 | 1.11 | 1.24 |
| Vayots Dzor | 37.8 | 59.1 | 87.9 | 2.33 | 1.49 |

¹ Respondent households classified themselves in 6 living standard groups: very poor, poor, lower than average, higher than average and rich. The last two groups were combined and titled "higher than average living standard".

Figure 1. Availability of indoor drinking water tap by social groups

ensure the necessary and equal conditions for all households with regard to at least the minimum level of meeting the demand for drinking water. The mentioned objective assumes the investments in the sector should be directed toward the solution of problems relating to improved access to drinking water in Armenia's marzes, attaching priority to those marzes, where the indicator is at its lowest.

At the same time, in settlements, where drinking water pipeline construction is too costly and currently is not economically viable,

mechanisms for compensation of additional costs related to water should be developed and introduced, in order to meet households' minimum demands for drinking water.

With regard to tariff and subsidy policy, we should abandon both the subsidizing of water supply companies and privileged tariffs for their operational costs. Our recommendation is based on the fact that the current subsidy policy is not characterized by a high level of targeting, which is also indicated by the results of the NHDS and NSS surveys².

Table 3. Access to drinking water in households receiving benefits

| | Yerevan | Aragatzotn | Kotayk | Gegharkunik | Tavush | Lori | Shirak | Ararat | Armavir | Syunik | Vayots Dzor |
|--|---------|------------|--------|-------------|--------|------|--------|--------|---------|--------|-------------|
| Access to drinking water among households receiving family benefits, % | 97.4 | 19.3 | 58.4 | 44.9 | 44.1 | 58.9 | 71.2 | 29.5 | 36.7 | 76.7 | 49.4 |
| Average level of access to drinking water in the marz, % | 97.8 | 31.6 | 68.3 | 41.2 | 50.5 | 67.6 | 64.4 | 36.5 | 30.8 | 82.7 | 60.7 |

² As the results of the survey reveal, poor families have lower level of access to drinking water networks, which allows for the conclusion that they consume less drinking water per capita, compared to non-poor families. And the current subsidy policy, in essence, is applied to all households based on the consumed volume of drinking water.

2. Access to heating

From the viewpoint of pro-poor policy, together with drinking water, heating of households' dwellings is also among the important issues. The NHDS data base allows us to conduct certain analyses in this direction also.

Figure 4 presents summary data on the main sources of heating of households' dwellings. They indicate that in marzes with high proportion of urban residents and in Yerevan city, firewood and electricity are the preferable sources of heating. The latter is especially preferred by Yerevan residents; 42.4 percent of households in Yerevan used electricity for heating (see Table 4).

On average, around 58 percent of households in marzes have mentioned firewood as the primary source of heating for their dwellings. This indicator is higher in Tavush, Syunik and Lori marzes, correspondingly 98 percent, 80.1 percent and 74.6 percent, which is explained by the relatively larger forest areas, as well as larger proportion of urban residents in those marzes.

In Aragatzotn, Gegharkunik and Vayots Dzor marzes, manure constituted a large proportion among source of heating, with correspondingly 60.5 percent, 45.6 percent and 36.3 percent of households using it as fuel, which is the result of the prevalence of rural communities and spread of livestock production in those marzes.

The NHDS recorded that in the winter preceding the survey, a small proportion of households used natural gas for heating purposes. The proportion of such households exceeded 10 percent only in a few marzes (Shirak, Ararat, Armavir, Vayots Dzor and Yerevan). It must be noted, however, that the NHDS was implemented two years ago and currently this indicator should be higher, due to the large-scale gas supply operations in recent years. Moreover, at the end of 2004, the number of subscribers of the gas supply network reached around 260-270 thousand, or around 55 percent of the level in the Soviet period.

Centralized heating was used by a small fraction of households, i.e. up to 8 percent, only in Yerevan, Kotayk, Shirak and Lori marzes.

Table 4. Main sources of heating of dwellings in Armenia's marzes and Yerevan city

| Main source of heating | Yerevan | Aragatzotn | Kotayk | Gegharkunik | Tavush | Lori | Shirak | Ararat | Armavir | Syunik | Vayots Dzor |
|------------------------|---------|------------|--------|-------------|--------|------|--------|--------|---------|--------|-------------|
| Central heating | 7,1 | 0,0 | 8,6 | 0,0 | 0,0 | 0,3 | 6,3 | 0,0 | 0,0 | 0,0 | 0,0 |
| Natural gas | 11,4 | 2,6 | 3,8 | 2,9 | 1,0 | 5,2 | 20,6 | 17,9 | 13,6 | 0,7 | 10,2 |
| Electricity | 42,4 | 1,1 | 9,7 | 2,6 | 0,5 | 6,6 | 3,3 | 5,3 | 7,9 | 5,2 | 6,1 |
| Liquid fuel | 1,5 | 0,0 | 0,6 | 0,3 | 0,0 | 0,7 | 0,4 | 1,2 | 0,2 | 0,5 | 0,2 |
| Coal | 0,2 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,5 | 0,0 | 0,3 | 0,0 | 0,5 |
| Firewood | 29,5 | 34,3 | 49,0 | 47,3 | 98,0 | 74,6 | 40,9 | 55,8 | 59,9 | 80,1 | 43,2 |
| Manure | 0,1 | 60,5 | 21,4 | 45,6 | 0,0 | 9,4 | 18,6 | 16,1 | 11,2 | 11,2 | 36,3 |
| Other | 1,8 | 0,6 | 3,7 | 0,6 | 0,0 | 0,2 | 7,2 | 2,3 | 5,0 | 0,3 | 0,4 |
| Not heated | 6,2 | 0,8 | 3,1 | 0,8 | 0,6 | 3,1 | 2,3 | 1,5 | 2,1 | 2,0 | 3,2 |
| TOTAL | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

From the viewpoint of pro-poor policy, special consideration should be given to data on households which did not heat their dwellings during winter. Table 4 reveals that the largest number of such households, at around 6.2 percent of respondents, has been recorded in Yerevan. This indicator was in the range of 0.6-3.5 percent in marzes. In general, around 2.6 percent of households did not heat their dwellings in winter 2003.

The analysis of correlation between NHDS data reveals a very important correlation ***between the morbidity of household members and heating of the dwelling.*** It turns out that lack of heating in the dwelling has a direct and negative impact on the health of respondents. Thus, data in Table 5 reveal that in Yerevan and nearly all marzes of the country (with the exception of Syunik), the morbidity indicators for households which did not heat their dwellings have significantly exceeded the average indicator.

Calculations based on the results of the survey reveal that morbidity among members of households with no heating is 1.5-2.5 times higher compared to households with heating.

In this regard it is interesting that households receiving family benefits and those considering themselves as poor constitute the largest proportion of households with no heating. This is revealed by the results of NHDS data: around 4 percent of benefit receiving households did not

heat their dwellings in winter 2003, which is 55 percent higher than the mentioned average indicator.

This indicator was at its highest in urban communities, and amounted to nearly 16.5 percent in Yerevan (see Table 6). This means that every sixth family receiving poverty benefits in 2003 did not heat its dwelling in winter, and this a seriously alarming fact.

The same picture emerges if we analyze lack of heating by social statuses of households (see Table 7). The proportion of households with no heating among poor and very poor households is significantly higher than the average: 2 times higher for poor households and 4 times higher for very poor households.

As in the case of drinking water, this also indicates that households classifying themselves in any social group, among other factors, also take heating into account, and have, in essence, considered the latter as a criterion of poverty.

Based on the analysis presented, it can be concluded that ***from the viewpoint of pro-poor policy in the heating sector, solution of heating problems of poor families, especially in urban communities, is extremely important and requires certain support from the state.*** Such support can take the form of full or partial compensation of the costs of heating for those households in two directions: *investment costs* and *operational costs.*

Table 5. Morbidity of members of households without winter heating, %

| | Morbidity of household members, % of total | | | | | | | | | | |
|----------------------------|--|------------|--------|-------------|--------|------|--------|--------|---------|--------|-------------|
| | Yerevan | Aragatzotn | Kotayk | Gegharkunik | Tavush | Lori | Shirak | Ararat | Armavir | Syunik | Vayots Dzor |
| Households with no heating | 49 | 71 | 46 | 53 | 70 | 59 | 52 | 55 | 35 | 35 | 54 |
| All households | 34 | 35 | 25 | 30 | 33 | 41 | 32 | 41 | 29 | 38 | 40 |

Table 6. Distribution of households with no heating by criterion of receiving benefits, %

| | Proportion of households with no heating | | | | | | | | | | |
|-------------------------------------|--|------------|--------|-------------|--------|------|--------|--------|---------|--------|-------------|
| | Yerevan | Aragatzotn | Kotayk | Gegharkunik | Tavush | Lori | Shirak | Ararat | Armavir | Syunik | Vayots Dzor |
| Among households receiving benefits | 16.5 | 0.5 | 3.6 | 1.2 | 0.9 | 1.8 | 4.3 | 4.4 | 4.9 | 1.9 | 6.6 |
| All households | 6.2 | 0.8 | 3.1 | 0.8 | 0.6 | 3.1 | 2.3 | 1.5 | 2.1 | 2.0 | 3.2 |

Table 7. Distribution of households with no heating by social status, %

| | Proportion of households with no heating, % | | | | | | | | | | |
|----------------------|---|------------|--------|-------------|--------|------|--------|--------|---------|--------|-------------|
| | Yerevan | Aragatzotn | Kotayk | Gegharkunik | Tavush | Lori | Shirak | Ararat | Armavir | Syunik | Vayots Dzor |
| Poor households | 14.9 | 1.5 | 11.8 | 1.0 | 0.9 | 7.3 | 4.1 | 0.6 | 6.1 | 3.3 | 7.6 |
| Very poor households | 25.0 | 0.0 | 5.3 | 5.4 | 3.0 | 12.7 | 4.9 | 8.8 | 9.8 | 15.5 | 8.7 |
| All households | 6.2 | 0.8 | 3.1 | 0.8 | 0.6 | 3.1 | 2.3 | 1.5 | 2.1 | 2.0 | 3.2 |

The first one assumes partial compensation of poor households' costs (in essence, investment costs) for setting up a more effective heating option, such as gas supply, or installing local

heating systems. And the second direction of the recommendation assumes certain compensation for poor households' costs related to heating (in essence, operational costs).

Household consumption and poverty

Samvel Manukyan

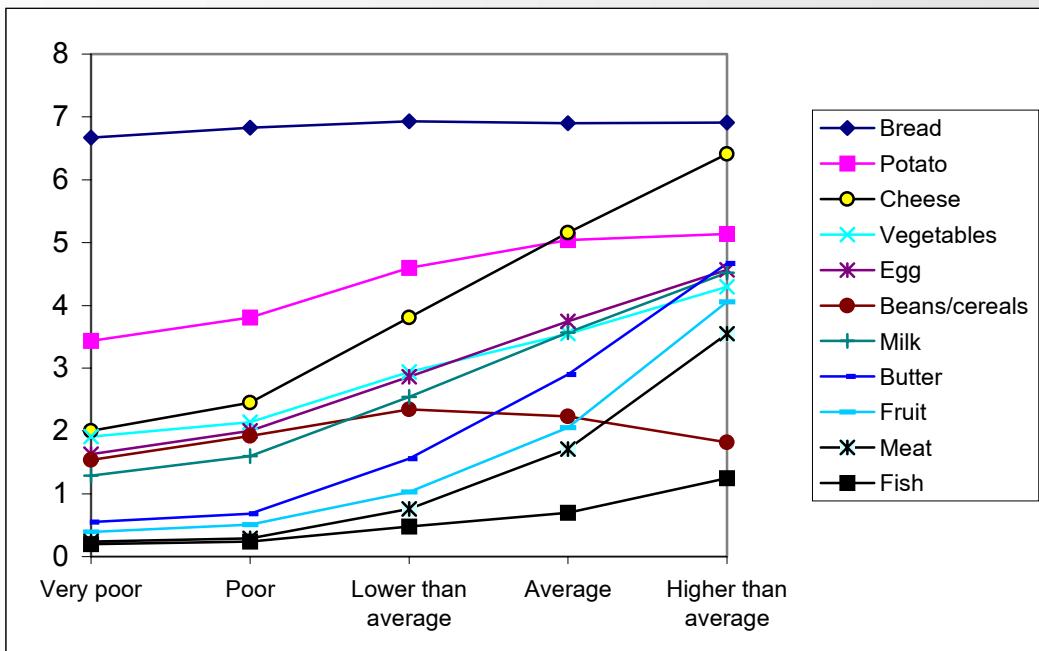
Characteristics of households' food consumption are analyzed in this annex, in particular those relating to the level of well-being and place of residence of households. The **frequency**¹ of the use of certain types of foodstuff in households has been used as the basis for comparisons of consumption. The self-assessment² of respondent household members regarding their own level of well-being has been used for evaluation of households' level of well-being.

1. Frequencies of the consumption of various types of foodstuff in households categorized in various groups of well-being

The distribution of frequencies of consumption of foodstuff by households categorized in various groups of level of well-being is presented in Figure 1.

Analysis of data presented in Figure 1 brings us to the following conclusions:

Figure 1. Frequencies of consumption of types of foodstuff by level of well-being



¹ The NHDS questionnaire allowed for determining the frequency of consumption of different types of foodstuff in the week preceding the interview, in accordance with the following scale: 1 – the given type of foodstuff was not consumed, 2 – consumed one day, 3 – consumed 2-4 days, 4 – consumed 5-6 days, 5 – consumed 7 days. A recoding was done before calculations so that the code would correspond to the number of days the given foodstuff was used during the week. Values presented with ranges are replaced by the middle point of the range, for example the code “4” has been replaced by 5.5, which is the middle point of 5-6 days.

² The self-assessment of well-being was measured by the question: “In which group would you classify your household?”. Possible responses were: very rich, rich, higher than average, average, lower than average, poor, very poor.

- Parallel to the increase in the level of well-being the frequency of the consumption of all types of foodstuff also increases, with the exception of legumes/cereals, which have the highest rate of consumption in the well-being group of "lower than average".**
- For "very poor" and "poor" groups of well-being, 4 groups of foodstuff are obviously notable in the composition of the diet:**
 - 1) bread used practically every day;
 - 2) potato used practically every other day;
 - 3) egg, milk, vegetables, cheese, beans use 1-2 days per week;
 - 4) meat, butter, fruit, fish used 1-2 times per month.
- Differences between the compositions of foodstuffs used by "very poor" and "poor" groups have not been recorded, however, the frequency of their use for in**

- the "poor" group is somewhat higher.
- Diet compositions have distinct differences in households with "poor" and "lower than average" living standards:**
 - 1) cheese is purged from the 3rd diet group and placed in between the 2nd and 3rd diet groups;
 - 2) butter is purged from the 4th diet group and placed in between the 3rd and 4th diet groups.

However, differences changes of positions among the 11 types of foodstuff have not been occurred.

- New changes of compositions occur in households with "lower than average" and "average" living standards:**
 - 1) cheese moves to the 2nd diet (potato) group;
 - 2) beans descend from the 3rd egg-milk group to the 4th meat-fruit group;
- And most importantly, positions of the 11

Figure 2. Frequency of foodstuff use in "very poor" group by settlement

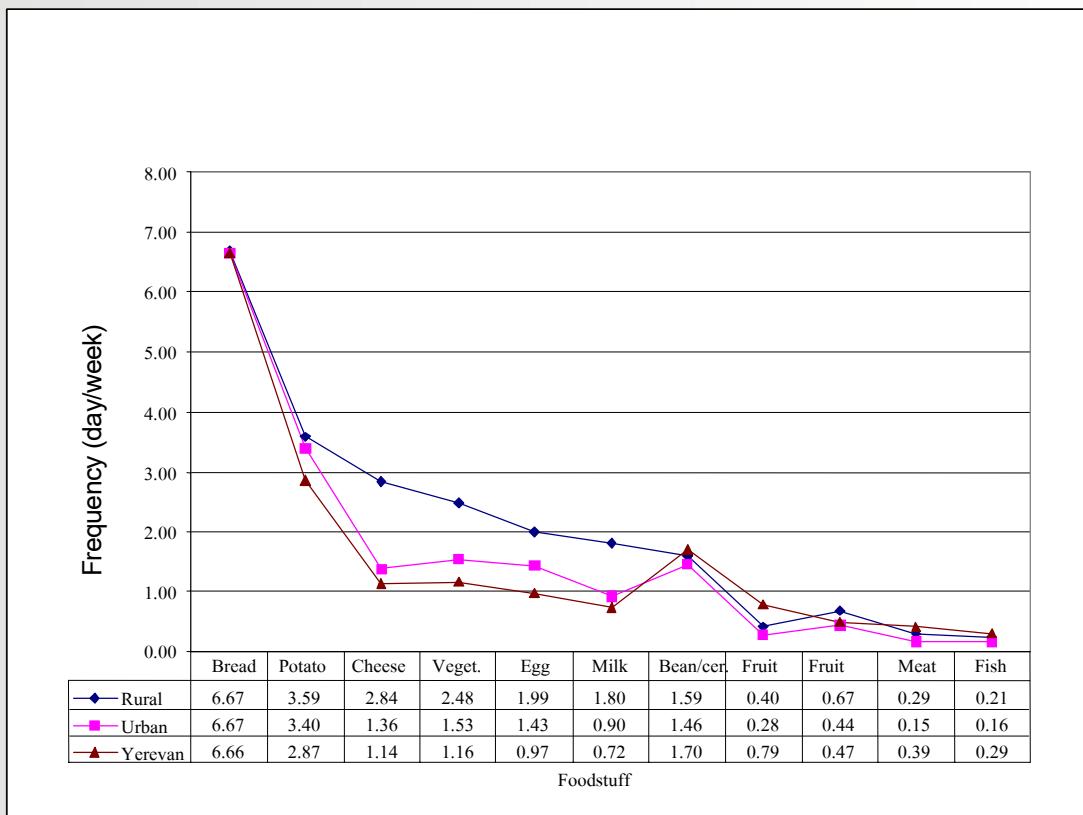
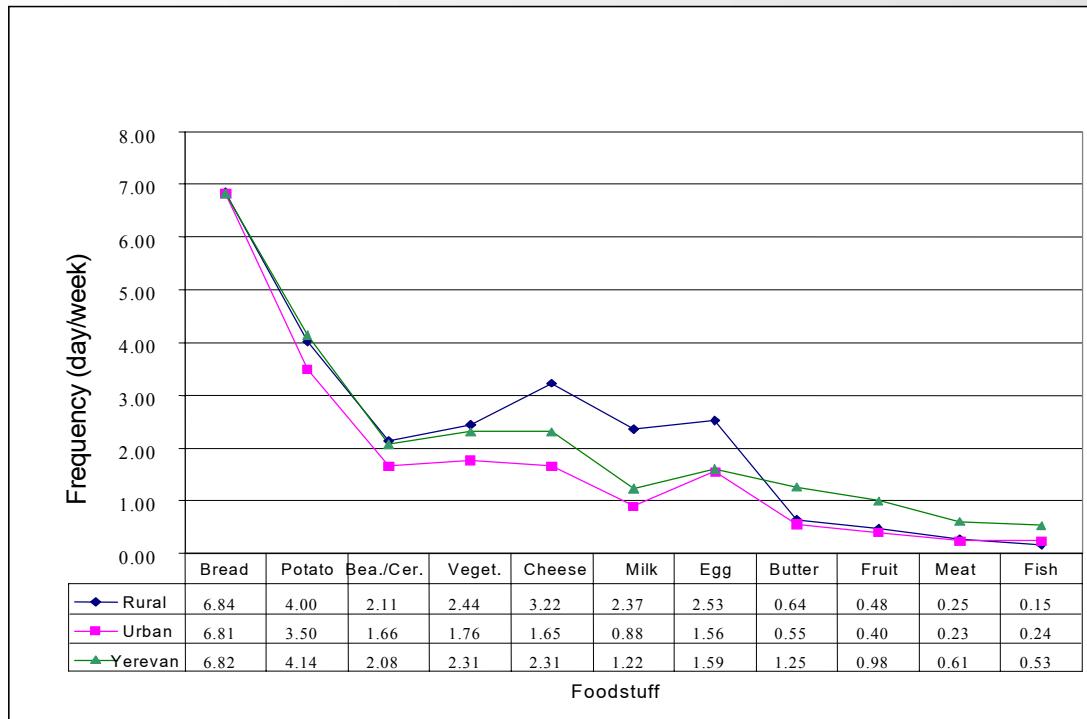


Figure 3. Frequency of foodstuff consumption of "poor" groups by settlement

types of foodstuff change, i.e. the position of cheese exceeds that of the potato; beans descend sharply (the frequency of their use also decreases); egg moves to a higher position than vegetables.

- **Most notable differences in diet composition have been recorded between “average” and “higher than average” living standard groups of households:**
 - 1) cheese moves to the first diet group;
 - 2) potato, egg-milk and meat diet groups are unified and form one group;
 - 3) beans and fish are also unified into one diet group.
- **The diet of “higher than average” well-being groups is the most balanced.**
- **The most revealing indicator of food consumption among households of various well-being levels is the consumption of cheese:** it is the most important indicator reflecting changes in diet compositions of 4 out of 5 groups of well-being studied.

2. Consumption of foodstuff in households and types of settlements

Let us examine the comparison of the frequencies of foodstuff use by types of settlements for the same well-being group (see Figures 2-6).

The following conclusion can be drawn from the 5 figures presented:

- **Compositions of foodstuff use among “very poor” groups in Yerevan and other towns are similar, in rural communities; however, they are essentially different and more balanced.**
- **Foodstuff consumption in urban communities, including Yerevan, among “very poor” groups is essentially different with significantly lower consumption of cheese, vegetables, egg and milk.**
- **In the three types of settlements the consumption of butter and meat are similar among “very poor” households.**
- **Foodstuff consumption among “very**

Figure 4. Frequency of foodstuff use in households with "lower than average" well-being by settlement

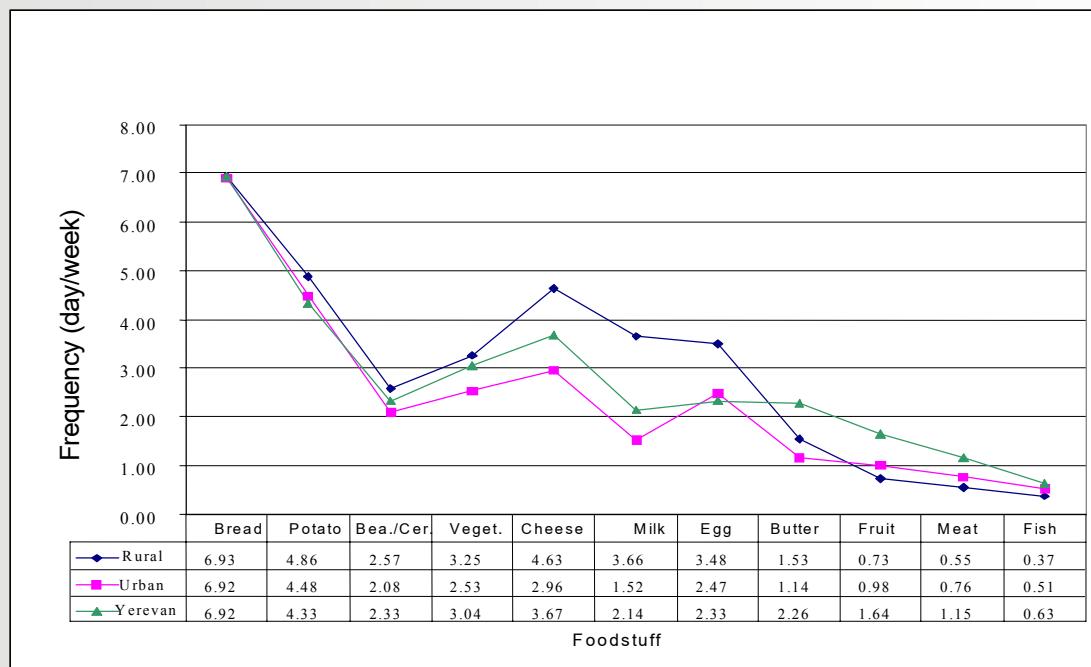


Figure 5. Frequency of foodstuff use in households with "average" well-being by settlement



poor” urban households is similar to that of rural households:

- a) with regard to potato consumption, which is higher than in the “very poor” group in Yerevan;
- b) with regard to fruit consumption, which is lower than in Yerevan.
- **Foodstuff consumption is notably lower in urban “poor” groups, compared to those in rural areas and the capital city:** this is particularly notable for the 3rd group of milk-egg foodstuff (milk, egg, cheese, vegetables).
- **Milk-egg foodstuff consumption is particularly high in “poor” groups of rural areas.**
- **The consumption of meat-fruit foodstuff is particularly high among urban “poor” groups.** From that point of view, consumption among rural and urban “poor” groups is similar.

The pattern of foodstuff consumption among households with “lower than average” well-being in various settlements repeats the consumption pattern of “poor” groups with the only difference that differences between urban and rural areas in meat-fruit foodstuff consumption are more notable (see Figure 4).

Compositions of households with “average” level of well-being, repeating the overall pattern of Figures 3 and 4 and “capital city-urban-rural” differences, are nevertheless different by the level of consumption of two groups of foodstuff – milk-egg and meat-fruit.

In various types of settlements, the main characteristic of the pattern of foodstuff consumption in households with “higher than average” living standard is that the milk group has joined the meat-fruit group having the highest rate of consumption in the capital city, as well as the “urban-rural” difference has become more tangible with regard to meat-fruit foodstuff consumption.

Figure 6. Frequency of foodstuff use in the “higher than average” well-being group by settlements

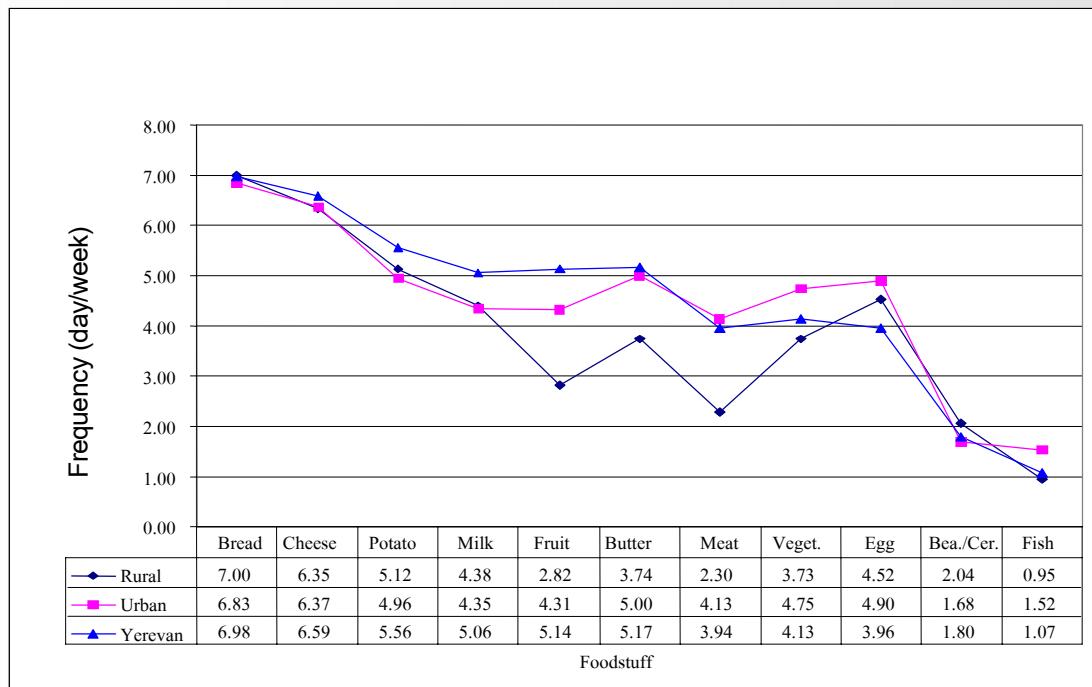


Table 1. Summary table of the factorial analysis of foodstuff consumption parameters for rural, urban and capital city populations

| Foodstuff | Yerevan | | Urban | | Rural | | | |
|---------------|----------|----------|----------|----------|----------|----------|----------|----------|
| | Factor 1 | Factor 2 | Factor 1 | Factor 2 | Factor 1 | Factor 2 | Factor 3 | Factor 4 |
| Cheese | 0.783 | | 0.714 | | 0.816 | | | |
| Meat | 0.774 | | 0.813 | | 0.301 | 0.712 | | |
| Fruit | 0.768 | | 0.747 | | 0.207 | 0.647 | | |
| Butter | 0.767 | | 0.783 | | 0.534 | 0.459 | | |
| Milk | 0.745 | | 0.674 | | 0.813 | | | |
| Well-being | 0.701 | | 0.656 | 0.224 | 0.519 | 0.385 | | |
| Egg | 0.639 | | 0.681 | | 0.565 | | 0.245 | |
| Vegetables | 0.442 | 0.281 | 0.517 | 0.241 | | | 0.843 | |
| Fish | 0.304 | 0.524 | 0.438 | 0.241 | | 0.737 | | |
| Potato | 0.217 | 0.646 | 0.203 | 0.665 | 0.255 | | -0.546 | 0.550 |
| Cereals/beans | | 0.781 | | 0.833 | | | | 0.895 |

The tables includes 3 matrixes.

3. The factorial composition of the consumption of foodstuff in households

In order to have a more general picture of the mentioned results, a factorial analysis of the frequency of foodstuff consumption was conducted, where indirect indicators of households' well-being were used in parallel to indicators for consumption of foodstuff. The mentioned indicators were compared by "Yerevan-urban-rural" categories.

The main results of the mentioned analysis are presented in Table 1.

Among the factorial models describing foodstuff consumption for Yerevan and towns' residents, the most appropriate were the two-factor models presented in Table 1. A four-factor model has been devised for rural residents, where the first and the second factors are the "split" of factor 1 for the capital city and urban areas, and rural factors 3 and 4 are the "split" of factor 2 for the capital city and urban areas.

I. Urban, including capital city, factors are:

Factor 1. Dietary factor of well-being.

The factor determines the sum consumption

of meat, fruit, butter, cheese, milk, egg foodstuff groups. The **sum** consumption of foodstuff is directly proportional to the level of well-being. This result coincides with the result stemming from the category column of Table 1.

Factor 2. Base dietary factor.

The factor is determined by the frequency of consumption of beans/fish and potato. While the beans/fish component is more informative, since the frequency of their consumption has a very weak correlation with the level of well-being. Table 1 shows that cereals reach their highest rate of consumption in the group of "lower than average" well-being. The mentioned factor balances the dietary differences caused by the level of well-being.

The Table also shows that this component, on the one hand, groups the "average" and "lower than average", and on the other hand "higher than average" well-being groups, and the given foodstuff **are components balancing the dietary factor of well-being**, while for the "poor" they are basic foodstuff.

It should be noted that beard was not

Table 2. Frequency of foodstuff consumption by marzes

| | Yerevan | Aragatzotn | Kotayk | Gegharkunik | Tavush | Lori | Shirak | Ararat | Armavir | Syunik | Vayots Dzor |
|---------------|---------|------------|--------|-------------|--------|------|--------|--------|---------|--------|-------------|
| Bread | 6.90 | 6.79 | 7.00 | 6.88 | 6.89 | 6.56 | 6.93 | 6.94 | 6.94 | 6.96 | 6.92 |
| Potato | 4.43 | 4.28 | 5.04 | 5.76 | 3.83 | 4.39 | 5.20 | 3.49 | 3.90 | 4.62 | 5.19 |
| Beans/cereals | 2.17 | 1.80 | 2.67 | 1.96 | 1.79 | 1.78 | 2.13 | 1.94 | 2.17 | 2.36 | 2.77 |
| Vegetables | 3.08 | 2.39 | 3.32 | 1.88 | 2.34 | 2.49 | 1.73 | 4.10 | 4.86 | 3.67 | 2.95 |
| Cheese | 3.94 | 4.81 | 3.75 | 4.86 | 3.28 | 3.06 | 3.55 | 3.43 | 4.37 | 3.99 | 5.21 |
| Milk | 2.50 | 3.76 | 2.68 | 3.59 | 2.54 | 1.98 | 2.62 | 1.98 | 3.19 | 2.48 | 2.92 |
| Fish | 0.73 | 0.51 | 0.86 | 0.52 | 0.42 | 0.35 | 0.59 | 0.44 | 0.66 | 0.28 | 0.25 |
| Egg | 2.52 | 3.45 | 3.00 | 3.50 | 2.76 | 2.58 | 2.57 | 3.38 | 3.78 | 2.87 | 3.11 |
| Butter | 2.69 | 2.57 | 1.95 | 1.64 | 1.09 | 1.33 | 1.98 | 1.41 | 2.45 | 1.86 | 1.52 |
| Fruit | 2.25 | 1.07 | 1.24 | .73 | .90 | 1.20 | 1.12 | .99 | 1.26 | 1.20 | 2.39 |
| Meat | 1.58 | .80 | .92 | 1.13 | .78 | .89 | 1.02 | .89 | 1.39 | 1.21 | 1.02 |

included in the list of parameters for factorial analysis, since its use by well-being groups is not elastic and is characteristic to all well-being groups³.

II. Rural factors are:

The dietary factor of well-being has been divided into tow factors.

Factor 1. Dairy factor of the well-being diet

This factor is characterized by the increase in the consumption of milk, cheese, butter and egg. It is more strongly linked to the increase in the level of well-being in rural areas.

Factor 2. Meat-fruit factor of the well-being diet

The factor is correlated to the increase in the frequency of meat and fruits consumption.

The other two rural factors are:

Factor 1. Dietary factor of agricultural specialization

The factor is not linked to well-being. It rather characterizes the agricultural specialization of rural settlements, which is particularly reflected in the consumption of vegetables and potato by rural households and was weakly reflected in urban dietary factors. And the factor is bipolar: the increase in the consumption of vegetables occurs in parallel to the increase in the consumption of potato (and visa versa). The mentioned fact is clearly discernible from Table 2, which includes ***the high consumption of potato and the low consumption of vegetables*** in Gegharkunik and Shirak marzes, and ***the high level of vegetable consumption and the low level of potato consumption*** in Ararat and Armavir marzes.

Factor 2. Base dietary factor

Is similar to the same urban factor.

³ Although Table 1 shows that the *frequency* of bread consumption is nonetheless somewhat dependent on the increase of the level of well-being.

Independent experts:

- Harutyun Marzpanyan** – Docent of Yerevan State University, Deputy Dean of the Economics Faculty. Author of over 50 scientific papers, mainly on the economics of prosperity.
- Movses Aristakesyan** – Economist-statistician, expert on healthcare economics, advisor to the Director of Research Center for Drugs and Medical Technologies of the Ministry of Health. Nearly 50 scientific and essayistic articles.
- Ashot Khurshudyan** – Economist, Head of Education and Training Unit of the International Center for Human Development, member of Governance Reforms Committee. Author of numerous articles and policy papers on various sectors.
- Suren Poghosyan** – Economist, Consultant on budgetary reforms in “Support to Medium Term Expenditure Framework in Armenia” project. Specializes mainly on social expenditures from the state budget and fiscal policy issues.
- Aghasi Tadevosyan** – Historian-sociologist, Lecturer on Political Science and Culture at Yerevan State University, author of 6 monographs and author or co-author of more than 40 articles.
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