

Social Reforms



in Armenia



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Hrayr Maroukhian Foundation
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Preface

The need to identify and analyze important policy issues by leading experts and researchers in their respective fields has never been more pressing in the Republic of Armenia as it is today. In the face of mounting social exclusion, polarization, an absence of public policy discourse and lack of trust in government by the electorate, informed policy-making and policy solutions need to be formulated.

This study, “Social Reforms in Armenia,” commissioned by the Hrayr Maroukhian Foundation (HMF) and made possible through the support of the Friedrich-Ebert-Stiftung (FES) of Germany provides a timely analysis of issues confronting policy-makers in Armenia for three critical sectors: Healthcare, Social Housing and Employment.

Applying best practices and evidence-based research to help understand these issues and to explore the implications of this research for the design and implementation of policy initiatives will lead to more modern policy-making. It will result in better public services, foster broader involvement of the public in the decision-making process, encourage greater citizenship and better utilize creativity in organizations and communities and the final result will be securing public confidence through greater transparency.

The aim of “Social Reforms in Armenia,” is to supply high quality, independent research that will foster and inform the public policy debate in Armenia. By tapping into wider sources of information, perspectives and potential solutions, the government can improve the quality of policy making and build public trust in government, and contribute to strengthening democracy and civic capacity.

Ultimately, the aim of this study is to begin to embark upon a national discourse in those areas where there are serious shortcomings and in some cases a lack of an enduring and coherent policy. We foresee that “Social Reforms in Armenia” will be a first in a series of such studies to help broaden the scope of diverse approaches and begin to close the gap that exists between current government practices and the expectations of citizens for better access to services. The right of everyone to affordable and accessible healthcare, housing and employment are among the many challenges that the government of Armenia must address in the coming years if it wants to mitigate the dangers of social exclusion, disillusionment, migration and lack of trust in the authorities.

Both the Hrayr Maroukhian Foundation and the Friedrich-Ebert-Stiftung stand firm in the belief that the objective of coherent public policy is to identify and solve problems, and by doing so improve the lives of citizens, contribute to their quality of life and ensure a just and socially sustainable society.



Strategy for Reforms for the Healthcare Sector of the Republic of Armenia

(Conceptual Provisions)

Introduction

It is the constitutional duty of each social and democratic state to ensure the minimum essential conditions for the dignified life and creative potential of each of its citizens. When such conditions are not met, the result is the impoverishment of individuals and the serious social consequences to society.

The guaranteed right of an individual to live a healthy life is one of the most important, fundamental components in the reduction of poverty, protection of stable, long-term development of humanity, as well as the overall quality of life. The necessity for that right is set down in a series of international documents to which the Republic of Armenia (RA) is a signatory.

Thus, Article 25 of the “The Universal Declaration of Human Rights”¹ states that “everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.”

The “European Social Charter” directed to the May 1996 Congress in Strasbourg, obligates the European Council member states to create conditions where each individual has the right to use any of those measures which will make it possible to achieve the best health and to use the right to medical assistance.

On the basis of the above-mentioned principles the World Health Organization has set down, in its most important documents, “The protection of health is one of most important and fundamental human rights.” The fundamental principles for its attainment are:

- Universal, equitable and affordable access to medical care
- Ensuring the quality of medical care
- The definition of the new roles of the government and individuals in the maintenance of the health of the population and the division of responsibilities within that process

Guided by both the above-mentioned and other international documents, the right to live a healthy life is also set down in the RA constitution². Article 38 states that, “Everyone shall have the right to benefit from medical aid and service under the conditions prescribed by the law. Everyone shall have the right to benefit from free of charge basic medical aid and services. The list and the procedure of the services shall be prescribed by the law.”

The protection of human health is one of the most fundamental components in the reduction of human poverty, and the protection of stable, long-term development of humanity and a quality life. Health is given an important position in the Millennium Declaration,³ in which three of the eight defined aims as well as two partial aims, are concerned with the issue of the protection of human health.

A healthy individual’s creative and productive capacity is his own, his family’s, society’s, and ultimately the state’s, most valuable source of wealth. Investments in that human capital can be returned many times over if an efficient, focused strategy is implemented in the healthcare sector.

When realizing any healthcare sector policy in a free market economy it is essential to be aware that:

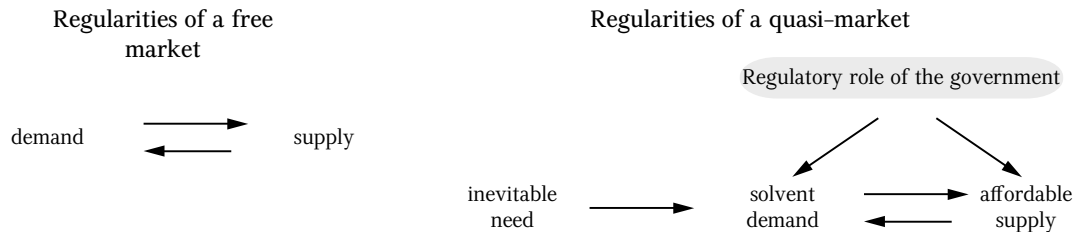
¹ Approved 10 December, 1948 www.undp.am

² Approved 1995 www.parliament.am

³ “United Nations Millennium Declaration” 8 Sep, 2000. UN Armenia offices, page 20. www.undp.am

- Healthcare is one of the most important constituents of every state's national security
- Healthcare is a social (public) good
- Healthcare is an expensive product (service)

That is the reason why, in almost all developed countries, healthcare sector economics are regulated by “quasi-market” (false market) rules⁴ which assume the combination of the constitutional right of the population to accessible health care services and the right of medical care workers to free entrepreneurship. These substantially differ from the objective rules of the usual free market.



Healthcare has always been considered an “expensive service/product” which may be unaffordable, not only to the poor, socially vulnerable strata but also to a majority of the population. As the experience of countries with a well developed healthcare system shows, medical care workers have always felt the state effort towards fully ensuring their populations increasing demand for the protection of health, at an acceptable quality and standard.

Within the context of the development of the country in the next 10 years, the realization of the above-mentioned fundamental principles is the basis of the strategy for reform of the healthcare sector of the Republic of Armenia (hereinafter strategy) presented below.

The strategy represents the regulation, financing, organization of medical services, and improvement in efficiency and quality, and the necessity for the implementation of an efficient pharmaceuticals policy in the healthcare sector of the RA. At the same time, the fundamental principles and perspectives of those reforms are proposed.

The strategy will serve as a basis for the development of focused programs of reform in the healthcare sector of Armenia, as well as an introduction of comprehensive mechanisms for their implementation.

Chapter 1. Prerequisites of the Strategy

Evaluation of initial status

It was not possible for the radical transformations which took place in the republic after the declaration of independence to have no effect on Armenia's healthcare system. In this important social sector the application of radical reforms, the move away from monopolised state financing, the use of different sources of finance, and the transition to management methods, revealed those shortcomings in the healthcare sector which had been left behind from the soviet era.

Beginning in the mid-1990s the basis for the systematic reforms was that the healthcare services could no longer ensure the healthcare requirements of the whole population, free of charge. In fact, the majority of the population had to pay in full for medical services. Although the government was trying, through state guaranteed programs, to secure the most vulnerable of the population with free medical care, under-financing assumed that even they sometimes had to make private payments. These changes had breached the principle of equality and had given rise to concerns about a worsening in the health of the general population.

⁴ 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 No 1 pages 21-29. Yerevan, 2002

2. M. Aristakesyan, The features of pro-poor policies in the healthcare sector, “ Human poverty and pro-poverty policies in Armenia” NHDS, Armenia, Yerevan 2005 www.undp.am

The RA government has registered significant progress over the last decade regarding the obstacles and limitations existing in the provision of health care services.

In particular, optimization programs of the healthcare system were implemented, resulting in the reduction of the existing, obvious, unused capacities. Similarly, organisations, or their subdivisions carrying out the same functions were amalgamated. A series of hospitals were closed or united, optimizing the use of limited resources. The privatization of healthcare institutions began to be implemented.

The means allocated from the state budget to healthcare increased substantially. The budgetary means earmarked for healthcare for 2011 is over 6.3 times the 2000 level. Moreover, the attention to the Primary health care system (PHC) has continually grown. Over the last decade, state expenditure in the PHC sector has risen from 15% of the state healthcare budget, to 38%.

The accessibility of pre-natal and post-natal services has been improved. Primary health care, protection of maternal and infant health and reproductive health strategies have been developed. The basic healthcare services package, ensuring free primary health care and maternal and infant services for the entire population, has been reviewed.

Together with the above-mentioned, serious fundamental issues continue to exist in the physical and financial accessibility of the health care services, the quality of services rendered, the accessibility of medicines, the efficiency of the management of the system, the effective and focused use of the budget means allocated to the sector, the management of financial flows in the sector, etc.

Management and regulation

On the whole, the reforms begun in the 90s have shaped the present structure and functional characterization of the healthcare sector. In principle, in the republic, healthcare presents a comprehensive system with its structure and focused services. From the medical care point of view, it includes the primary (ambulatory, ambulatory-polyclinic, and family medicine), secondary (multi profile hospital) and tertiary (specialized hospital) links in medical care.

The reforms implemented within the healthcare system are a constituent part of the focused systematic reforms implemented in Armenia, aimed at liberalization of the economy and creation of free market relations.

As a result of the privatization of state property and private investment, a private sector has been formed in the healthcare system. It includes hospitals (secondary and tertiary level), polyclinics, dental centres, family medicine offices, diagnostic centres, and pharmacies. The dominant majority of health care institutions (state and privately owned) are business organisations and they base their activities, from the legal and organisational point of view, on the corresponding legislation (in particular RA law “On stock companies.”)

In terms of sector, the RA law “On medical assistance and service to the population “(adopted 1996 with later addendums and amendments) is the healthcare systems fundamental regulating legislative act. The legislative acts regulating separate directions of the sector are “On drugs” “About the protection of the sanitary-epidemiologic security of the RA population” and other RA laws. Medical assistance is subject to licensing and is regulated by the RA law “On licensing.”

The Ministry of Health is the state body implementing policy development in the sector. The ministry implements the functional management of the system through its staff and the health care sub-divisions (directorates) in the regional administrations.

The organisations included in the medical care and service sector, as defined by the legislation, implement their economic activities (sphere of services rendered, pricing etc) on a self-regulatory principle.

In recent years, arising from the peculiarities of the sector and its important social orientation, certain steps are being undertaken towards the regulation of the legal field which conditions the normal development of the system, improvement of financing mechanisms and the raising of management efficiency.

The implementation of the reforms and the policy aimed at the development of the system are related to the fundamental issues which have been created and which can be described in the following manner: the decentralization and liberalization of regulations implemented in the sector and the increase in

the rights of healthcare institutions promoted the creation of numerous medical care institutions. This resulted in a swelling in the number of positions (particularly administrative-financial staff), disproportionate regional distribution due to the difference between the supply of healthcare services and supply based on genuine needs, a disruption in phased medical care with a lowering of both its standards and its accessibility to a broad strata of the population, and a decrease in the efficiency of the use of the limited financial means allotted to the healthcare system by the government.

The decentralisation of management also resulted in the disruption of multi-functional links both between healthcare institutions and republican, regional and local management structures. The role and involvement of individuals and of society on issues of safeguarding the healthcare system is weak, which results in the estrangement between the system and the population.

The circulation of shadow financial means (informal payments-corruption) was uniquely manifested in this new organisational-legal and management environment.

Corruption denies people the accessibility of healthcare services and results in a decline of the overall standard of health. Corruption is one of the main causes of human rights abuse in the healthcare sector.

Corruption can be manifested in a variety of ways including extortion, the demand and receipt of payment for services officially specified as free of charge, receipt of non-official payments for special conditions and services, and the prescription of non-essential medical services. Corruption risks are higher amongst the less informed groups in the population.

In previous years, certain work has been carried out towards solving basic issues in the system, particularly improvements in the financing mechanisms for healthcare services in the state budget, public awareness, optimization and strengthening of the system, quality and affordability of services (ex. reform of the Obstetric Care State Certificate System), for the purpose of perfecting the legislative field.

International and governmental structures (World Bank, USAID and others) are providing program assistance to the policy being implemented in the system. International assistance is on the whole aimed at the reforms in the primary health care sphere, improvements in reproductive health, optimization and capacity building in the system, and honing management skills, etc.

Financing

Medical care is a special service for which the demand and costs are continually increasing and resources are constantly insufficient. At the same time, it should be mentioned that medical care is a social commodity and the adequate supply of its demand is the constitutional duty of every state which proclaims itself to be social and democratic. In this light, **the most important issues in the strategy for development of the healthcare system of every state are the efficient financing and allocation of financial resources of healthcare.**

At present no country possesses sufficient resources to completely cover the demand for medical care. Consequently, based on the principle of ensuring health equally for all citizens that the member states of the European Union (EU) have opted for, access to a larger quantity and delivery of services for all citizens is considered a priority in the development of health care in the 21st century. This is in contrast to the present modest amounts provided to the vulnerable and the significantly broader services provided to the secure⁵.

The trend in international politics towards improving health care financing has been a reference point for policies being implemented in the RA. However, the reforms in the health care sector, including its financing, have been realized in conditions of extremely difficult systemic change and constant insufficiency of financial resources.

Reforms to the financing of the republic's health care system have been implemented in several phases, and concern both changes to the organisational-legal status benefitting the free enterprise of healthcare workers and to the improvement of regulation of financial flow, the provision of diversity of sources of

⁵ "Health for all in the 21st century" <http://www.euro.who.int/document/EHFA5-E.pdf>

financing, the improvement of mechanisms of financing and reimbursement for services offered and a more efficient use of financial resources.⁶

The RA law “On Medical Assistance and Service to the Population” of March, 1996 was a turning point towards the entrenchment of the reforms in the financing system of healthcare. It formed the basis for the next phase of health care financing reforms, which was marked on May 15 by the RA government’s approval of decision No. 135 “On the 1997 state order of the RA healthcare system and healthcare focused programs.” That heralded the start on 1 July of the implementation of the policy of aiming means **directed from the state budget designated to healthcare to more needy individuals and socially important diseases, as decided within the framework of state healthcare focused projects, based on the basic benefits package (BBP).**

The improvement of the mechanisms for reimbursement for services and medical assistance implemented with public resources is also an extremely important step in the reform of financing of healthcare, The functioning, unproductive and costly normative mechanism of financing, (according to expense items), which was aimed at preserving the system in its entirety during the first years of independence, changed towards the end of the 1990s to financing mechanisms in the area of primary medical care, according to per capita and in the area of hospitals, according to numbers treated. Subsequently, through these mechanisms public means began to be distributed between the health care organisations in the form of a global financing budget.

2006 was a very important stage in the reform of financing of the healthcare sector. Since 2006, free medical assistance is being provided for the whole population in the ambulatory polyclinic sector. This includes area therapists, area paediatricians, family doctors and specialised services rendered by specialists for all the registered population regardless of age and social status, without limits to the numbers of visits, and also diagnostic tests, where medically called for.

The insufficiency of state budget means to cover healthcare promoted the broad spread of **private direct payments**. Parallel to the private direct payments for healthcare services, attempts were being made to introduce the principle of joint payment for health care services in the country, which was not however comprehended unequivocally by either the patients or medical staff.

The creation of the State Health Agency under the RA government in December of 1997 was a very important stage in the reform of financing in the healthcare sector. It began its activities fully in 1999. Although it became subordinate to the RA Ministry of Health in 2002, nevertheless it is active as a separate subdivision and acts as the healthcare services procurer.

Despite the above mentioned reforms in the financing of the healthcare sector, **serious concerns exist regarding the provision of the necessary volume and quality of medical assistance to the population, as guaranteed by the constitution, and the basic issue of ensuring the affordability of those services for all strata of the population.**

The healthcare needs of the RA population is in practise far greater than that which is guaranteed by the government today and offered by medical care implementers. In practise over the past 20 years, since independence, only a part of that need, equivalent to the government demand and that of the solvent portion of the population, has been satisfied. Traditionally a large segment of those costs has for many years been the unofficial (shadow) out-of-pocket payments by the population; these have fluctuated in the region of 30-70%: 30 % in 1990 gradually increasing and reaching its highest level in 2000, forming 70 percent of overall costs⁷. Subsequently, parallel to the increase in resources allocated to healthcare from the state budget and the legalisation of direct payments, the proportion of those costs to the overall costs decreased and was assessed in 2010 at 45-50%.

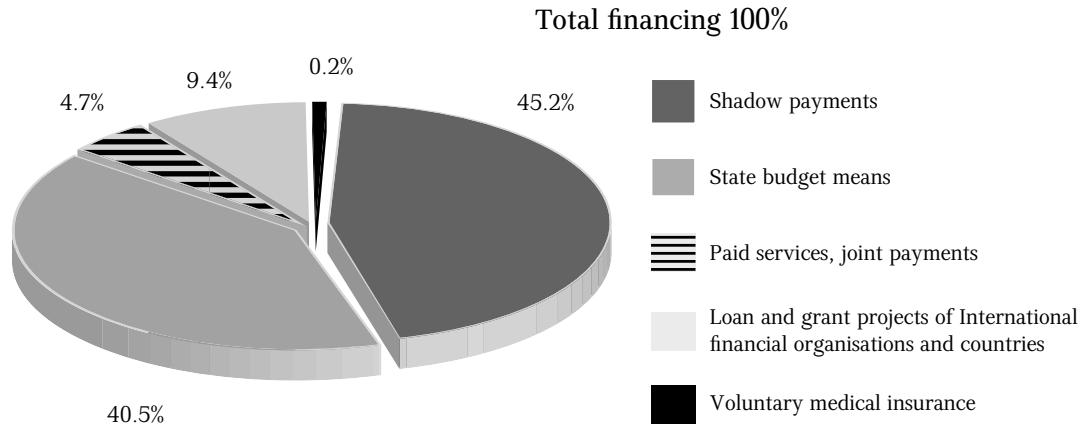
In general, according to different expert assessments, the need for healthcare of the population of the republic fluctuates in the region of around 150 billion drams or 400 million USD. Moreover, the largest

⁶ А.Е.Мкртчян, „Новые тенденции в здравоохранении Армении”, Ереван, 2001

⁷ “Health Care Systems in Transition, Armenia”, vol.8 No. 6, 2006, European Observatory on Health Care Systems, 2006 <http://www.who.int>

source of financing of the republic's healthcare sector remains the direct official and unofficial out of pocket payments (see diagram 1) which according to expert assessments, forms over 50% of healthcare financing. The predominant portion of cash payments (around 91 %) are unofficial (shadow) payments.

Diagram 1. The structure of the sources of financing of RA healthcare system at the end of 2003, in percentages.



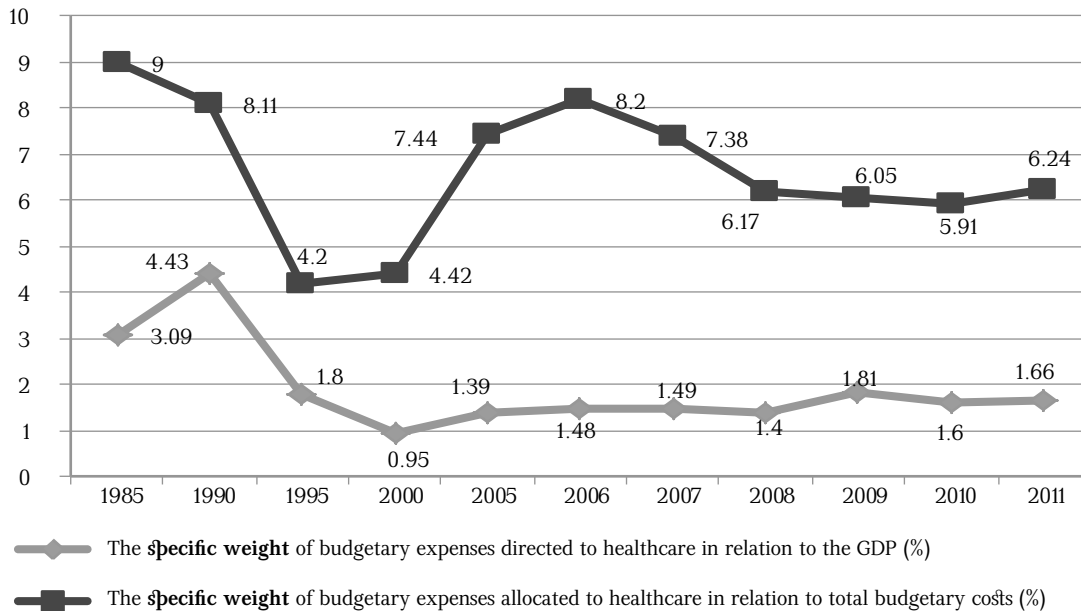
This situation is conditioned by the insufficiency of the resources allocated from the budget for state focused programs, the imperfections in the mechanisms for their distribution and the unproductive use and insufficient regulation of their expenditure. The experience of the introduction and implementation of the financing mechanisms of the BSP has shown that it is not perfect. In reality it does not guarantee free medical aid, encourage the development of healthcare and inspire trust in the population or in healthcare workers. Despite the fact that the volume of budgetary means directed towards ensuring free medical assistance for the population increases each year, the government's promises of free medical assistance are still of a declaratory nature and the budget allocations have not promoted an increase in the affordability of healthcare for the beneficiaries. This situation is loaded with numerous risks, including corruption, since in such cases patient and doctor become adversaries, which has a negative effect on the quality of the treatment. In this way, according to a survey⁸ carried out with beneficiaries, almost 68% in the regions and 80% in Yerevan are not aware of their right to free medical assistance, which is why around 2/3 of them are forced to make direct shadow payments. Moreover, 48% have not visited doctors because of the inaccessibility of medical assistance. In addition, according to 92% of them, the main reason for the inaccessibility is a lack of money.

The serious basic issue remains of the insufficiency in the budgetary financial resources for the healthcare needs of the population. Despite the fact that over the past 10 years, the budgetary expenses directed towards healthcare have increased more than 6 fold, the specific weight of the budgetary expenditure directed towards healthcare in the GDP and public expenditure remains considerably behind international levels and no tendency towards improvement can be observed (see diagram No.2). Thus, according to World Health Organization (WHO) data, over the past years the average healthcare funding expenditure from the state budget and social security funds in EU member states has been 8-9% of GDP, whereas in RA that figure was 1.6% in 2010 and a figure of 1.66% is envisaged for 2011.

It is noteworthy that this index was at its zenith toward the end of the soviet period and fluctuated between 3-3.4 of the national income. Subsequently that index fell, parallel to the economic fall, and reached its nadir in 2000, at 0.95% of GDP. Notwithstanding the fact that in the following years an improvement was observed, nevertheless in the past 3 years its deterioration has been detected. If in 2009, the worst year of the financial-economic crisis, that index was 1.81%, in the following years it decreased by about 0.2%.

⁸ "Human poverty and pro-poverty policies in Armenia" NHDS, Armenia, Yerevan 2005, pages108, 23-41.
<http://gov.am> <http://www.undp.am>

Figure 2. Budgetary expenditure for healthcare in RA relative to GDP, in percentages



Corresponding to the above mentioned tendencies, a negative movement has been observed in the specific weight index of expenditures directed to healthcare in the RA state budget expenditure. Furthermore, that index is also lower than internationally guaranteed indices (10–13%). Thus, if in 1985 9% of the state budget expenditure was directed toward the healthcare sector, then by 1995 that index had fallen sharply and was 4.2%. Despite the subsequent improvement in the index, nevertheless it is still low, around 6% which is not at all characteristic of the developing healthcare system of a purportedly social state.

The flaws present in the distribution of the state budget resources is one of the fundamental problems of the system. Despite the positive reforms in the sector, budgetary resources are being spent unproductively. They are divided between almost all the functioning healthcare organisations on the principle of “share and share alike.” It is clear that at present the number of active medical institutions, in their number, capacity, and personnel potential, significantly exceeds the demand for medical assistance, including that created within programs guaranteed by the state. As a result, the resources allocated from the state budget for those programs is being directed not to ensure quality medical assistance, but to maintain the entire system, including the payment of wages to personnel who may not have a corresponding workload. The main way to resolve this issue is to transition to the distribution of state budgetary means, by selective contracts⁹.

The participation of local authorities in meeting the healthcare needs of the population remains a serious main problem. It is noteworthy that the participation of local authorities (LA) in healthcare financing issues is in essence insignificant.

As a result of the shortage of financial means allocated from state and community budgets **the prices** of medical assistance and **services** for the population in the basic services package guaranteed by the state **are set 2–3 times lower than their actual value.** Moreover, the prices for services provided by the state are set low, to the detriment of the low wages of the doctors and assisting staff. Thus, the average wage of a worker in the healthcare and social sector was 68,270 AMD or about 190 USD as opposed to the average wage throughout the economy of 108,840 AMD or 302 USD¹⁰. This, in circumstances where, according to the official national statistics of RA, in the third quarter of 2010, the price of the

⁹ A. Ter-Grigoryan, M. Aristakesyan “Selective Contracts; Possibilities and Obstacles in Armenia”, “Drugs Agency” CJSC, “Drugs and medical care” informational bulletin No 4 pages 15–20, Yerevan, 2005

¹⁰ Annual statistics of Armenia 2010, www.armstat.am

monthly breadbasket containing the essential daily dietary intake of a RA citizen of 2412kcal, was 28,064,4AMD. Based on this, the minimal consumer basket price was calculated at 43,499.8 AMD¹¹. In effect, the average nominal wage of a healthcare worker consisted of 62.8% of that of a worker in the economy as a whole and was only 2.3 times higher than the minimal wage and only 1.3 times higher than the minimal consumer basket. In addition, an improvement is not foreseen in 2011. Thus in 2011, within the framework of the state order in the healthcare sector, a mean monthly salary of 84,700 AMD is anticipated for primary health care medical personnel as against the 2010 wage of 77,000 AMD. A mean monthly wage of 54,250 AMD is anticipated for middle level medical staff, as against the 2010 wage of 49,300 AMD. The situation is even worse in the hospital sector. Here a doctor's mean wage is envisaged at 71,300 AMD (as against 62,000 AMD in 2010) and that of a nurse at 56,400AMD (as against 49,000 AMD in 2010¹²).

In the above-mentioned context, **the setting of realistic prices for the services rendered** within the framework of the focused programs guaranteed by the state remains a fundamental problem. As has been presented above, the main obstacle to the resolution of the fundamental problem of accessibility of healthcare is the existence of widespread shadow payments. From the multi factorial assessment of the data¹³ relating to healthcare of the RA National Human Development Report, we come to the conclusion that the main reason for the shadiness in the sector is the unrealistic pricing of healthcare services which in reality is a result of the assessment of costs of medical care being implemented with state budget means at values several times less than their true cost.

The regulation of the implementation and pricing of paid services remains a fundamental problem in the sector. The fees for paid services are set by the medical care implementers. In many cases, paid medical care fees are maintained around or below the fee set for similar free medical care financed from the state budget. This means that just like the prices of medical aid implemented within the “state order,” the prices of paid medical aid services are several times below true costs. As a result, medical institutions and medical workers once again “look to” the patients’ wallets. They anticipate additional shadow payments from the vulnerable ones and, from those better off, they demand them. Under these circumstances even representatives of social groups protected by the state, under pressure to make the inevitable payments for medical services, often waive the free medical aid guaranteed by the state.

In addition to the above, **the efficient and focused use of budgetary and loan means and the prevalence of corruption remain serious fundamental problems.** In this sense, it is important to note that the government has not yet managed to set up the necessary supervision over the use of the scarce means and loan resources, the prevention of manifestations of corruption, and the imperfections in the legal field and the removal of loopholes for corruption. As a result, public means have become a steady source of illegal income, becoming an important factor furthering the shadow circulation. Moreover, manifestations of and conditions for corruption in the healthcare sector appear within the following 4 frameworks: quality and accessibility, finances and shadow monetary turnover, rights and legality, and administration and functions¹⁴. In the republic, incidences of corruption exist in all circles. However, the incidences of corruption in finances and shadow turnover and the administrative sector are more dangerous as they have a multitude of manifestations. The checks undertaken in 2008–2009 by the RA Control Chamber, through which the wastage, pulverization and appropriation of budgetary means by

¹¹ Internet publications department, Armenian national statistic service, www.Armstat.am

¹² “On the 2011 republic of Armenia state budget” RA law explanatory note, www.parliament.am

¹³ “Human poverty and pro-poverty policies in Armenia” NHDS, Armenia, Yerevan 2005, pages 108, 23–41. <http://gov.am> <http://www.undp.am>

¹⁴ 1. The methodology of anti-corruption participatory monitoring in the educational and healthcare sectors, drafted by UNDP within the framework of the “Support to information public and democratic governance” program, which was approved by the June 24, 2005 No.59-79 minutes of the RA government anti-corruption council. www.undp.am, www.gov.am

2. “Findings of the anti-corruption participatory monitoring conducted in RA health and education sectors by civil society anti-corruption groups”, drafted by UNDP within the framework of the 2007 “Strengthening awareness and response in exposure of corruption in Armenia” project. www.undp.am,

the RA Ministry of Health, bear witness to this¹⁵. Serious evidence of corruption has also been recorded during the realisation of the second phase of the WB supported “Health system modernization project”¹⁶.

Quality of medical care

The conceptual bases of the systematized policy of the quality of RA medical care was first laid down in the RA government’s October 31, 2002 approved protocol decision “Concept for the reform and regulation of the quality of the medical care delivered to the RA population” in which the improvement in quality of medical services and the creation of mechanisms to ensure quality is defined as one of the most important components in the reform of the healthcare sector.

An attempt to put the articles of the concept paper into practice was made in November 2002 when specialized quality control committees were created in hospitals, by order No. 1116-A of the RA minister of Health. However, due to the absence of clear standards and indices, evaluation processes and toolkits, the efficiency of the activity of those committees was and continues to be inadequate and limited, on the whole, to presenting the required reports.

An important practical step in the improvement in medical care was the approval of the “2008–2013 Strategy and Action Plan for Primary Healthcare of the RA population” (19.06.2008 protocol decree No. 24) where an fitting role is given to the problems of ensuring the quality of medical care in the primary healthcare sector and the program of measures designed to implement them.

By way of carrying out the above-mentioned strategy, with the support of the USAID Primary Healthcare Reform project (PHCR Project), a complex package for practical provision of quality medical care in the Primary health care sector has been developed and approved by the order of the Minister of Health (No. 1661 –A, 18.11.2008). This includes methods of implementation and toolkits for procedural, accounting and reporting forms. As a start, this toolkit has been employed in all marzes of the republic and in 139 of the larger (having 3 or more doctors) primary healthcare institutions in Yerevan.

For this purpose, 50 quality coordinators (QC) have been prepared by an RA Ministry of Health approved training program in Yerevan and all the marzes. They have given expert and organizational support through trainings, and subsequently continued to give practical support, to all the personnel of the above-mentioned institutions.

Quality improvement boards (QIB) have been created and function in all three levels of Armenia’s primary healthcare system: 139 medical care institutions, regional (marz) healthcare departments and in the MoH.

Meticulously developed tools for assessing the quality of medical care are in place including continuous statistical monitoring of quality indices, internal self-assessment of service providers, review of medical cards/incidents, as well as methods of assessing patient satisfaction.

Based on international evidence-based medical practice, standards, brief clinical procedures for treating the 10 (3 for adults and 7 for children) most widespread diseases and conditions in primary health care practice have been developed, approved and adopted.

As a result of the introduction of the above-mentioned toolkit for quality control, the culture of regular, on-going monitoring of the quality of medical care has become implanted in the Armenian primary health care system, to a certain extent; this is more regulated specialized work, according to clinical standards and a more pro-active mode of action in the discovery and resolution of issues of quality. Here and there a series of discovered problems have been resolved, among them the improvements in working conditions and levels of technical equipment, and the level of awareness and healthcare education of the population.

¹⁵ “The current report on the results of the supervision of the use of state budgetary means allocated for RA Ministry of Health state orders and programs and the provision of budgetary revenues, as well as the management and use of state property” approved by March 9, 2009 decision No.7/6 of the RA council of the control chamber www.coc.am

¹⁶ “The current report on the results of the supervision of the progress of the World Bank supported “second program of modernization of the healthcare system project”, approved by March 9, 2009 decision No.7/5 of the RA council of the control chamber www.coc.am

Nevertheless, the stability and continuity of the above-mentioned positive achievements are still at risk. In Armenia's medical establishments it is not uncommon to see situations when the quality of medical care, despite constantly being declared a priority, only becomes a concern in practise when serious fundamental issues arise that can no longer be ignored. The measures initiated to resolve them are usually of a sketchy and situational nature. Traditionally, the study and analysis of medical errors are also approached in a similar, sketchy manner.

Thus specific regulators, standards and procedures exist in the republic's healthcare system, aimed at monitoring and improving the quality of medical care. Thanks to the assistance of international donor organizations, the former strictly perpendicular and punitive approaches to quality control are being gradually replaced by mechanisms and tools which are guided by more horizontal, supportive and supervisory principles. However, on the whole they function in the primary healthcare sector, being limited to certain medical services aimed at ensuring the health of children, women and the elderly.

In general, throughout the breadth of the healthcare system of the country, the systematic approaches aimed at improving the level of quality medical care, the existence of corresponding toolkits and the level of their institutionalization cannot as yet be considered adequate.

The mechanisms for quality medical care are as yet of a fragmentary nature. The motivation of medical workers is fairly limited as far as the active introduction and continuing implementation of measures to ensure the quality of medical care is concerned. Obstacles to the improvement of the situation are, in particular, the incomplete condition of the existing requirements for licensing and continuing professional education, the absence of a system of accreditation for medical services and the low level of competition and motivation between medical establishments.

One of the main problems in raising the quality of medical care in Armenia's healthcare is the introduction of evidence-based medicine (EBM) into medical workers' practice. EBM is a medical practise where decisions on diagnostic, prophylactic and treatment interventions are taken based on the existing evidence of their effectiveness and safety: in other words, scientific evidence. And that evidence is based on and proven by data from hundreds of thousands of clinical test results.

Unfortunately, the modern approaches to EBM are not accessible to most of Armenia's medical workers and they continue to practice traditions and methods formed by their experience or even many medical customs and attitudes which have existed over a long period of time which do not correspond to the scientific results of EBM.

Those medical workers who strive to implement EBM use clinical reference books of different formats that are in limited circulation in Armenia, which however predominantly concern the primary health care sector. The existing clinical reference books have been sponsored by international donor organisations (WHO, WB, USAID) and developed on the whole by various groups of experts. They have been developed using various sources, approaches and methodologies, as a result of which they may contradict each other on occasion and may even not completely correspond to the demands of contemporary EBM.

A national uniform procedure for the development, review and update of parameters of clinical practice based on EBM has not been created in Armenia.

The medical syllabuses in different medical education establishments also differ and sometimes do not comply with numerous clinical reference books. Continuing medical education programs also faces similar obstacles.

A system of accreditation of medical establishments and/or services does not exist in Armenia. A system of professional licensing or any other equivalent system does not exist for individual medical workers.

The present requirements in the contracts for services rendered signed with medical establishments do not encourage the motivation of doctors and nurses with regards to ensuring stable and continuing improvement in quality and patient safety.

Human resources and continuing professional development

One of the important factors hindering the delivery of quality healthcare of full value in Armenia is the fundamental problem of improper staffing of human resources in the healthcare system. This concerns

both numbers of medical workers and specialized personnel and the existing unresolved issues relating to their accreditation.

It is possible to define the healthcare system of Armenia, as far as the status of staffing of human resources is concerned, as overloaded in general; however, geographically and from the point of view of categories of specialization, disproportionately dispersed.

At the end of 2008 the total number of doctors in Armenia was 12,558 which is 38.8 per 10,000 residents. And the number of second level medical workers was correspondingly 18,328 or 56.6 per 10,000 residents¹⁷. In comparison, the mean standard in EU member states is around 35 doctors to 10,000 residents and 72 nurses per 10,000 residents¹⁸.

There are more specialists than necessary in the system and on the contrary, fewer general practitioners or family doctors than necessary.

This distorted balance is maintained in different marzes of Armenia and also in general between the healthcare of city and village. For 10,000 in population, the number of doctors in Yerevan is 32.1 and in the regions starting from 13.9 (Armavir marz) to a maximum of 19.8 (Shirak marz). Village healthcare has shortages in both general practitioners and specialists, whereas there is an excess in the numbers of both categories in cities.

The situation presented is a result of **obvious shortcomings in the long-term and short-term planning of human resources in healthcare.**

In this sense, the annual large numbers in intake of medical education establishments is characteristic. Although the size of the intake in state medical establishments is regulated by the state, nevertheless the effectiveness of that regulation from the point of view of strategically-based planning is still far from adequate. And some of the private medical educational establishments continue to expand their intake, remaining altogether out of the country-wide planning framework for healthcare human resources. The number of graduates from higher medical education establishments has decreased from 622 to 428 over the past ten years (1998–2009)¹⁹. However, non-state institutions of higher education are excluded from this statistic and the healthcare statistics service has no data for them.

There is also a need for **fundamental reform in the development of the healthcare human resources sector.** Moreover, problems exist in this sector both in the upper levels (including legislative) of management and in internal-organizational managerial processes.

After the licensing process for individual medical care workers was halted in Armenia in 2001, in essence the only functioning legislative leverage proposing a requirement for regular professional development of health workers was removed. And despite the fact that in the Armenian law “On licensing” there is a provision for the checking of accreditation of medical care workers, systematic mechanisms for the periodic verification of accreditation of medical care workers are still missing. In practice, the condition in the normative requirements for licensing of medical establishments for re-training of employees on 5-yearly intervals is not ensured, due to the absence of a proper accounting and control system. In essence, that problem is left to the will and discretion of the management of the medical care establishment.

On an internal-organizational level, the pivotal issue related to human resource development is the absence of the assessment of the work of medical care workers and proper mechanisms to decide the requirements of their professional development (including education). Job (position) descriptions must be the basis for the assessment of work and decision of requirements for development. These are simply absent in the overwhelming majority of medical care establishments. At best, certain provisions concerning the conditions of work are included in the contracts signed with medical workers which, however, do not create a complete base of standards for appraisal of the worker’s performance and decisions on the requirements for development, arising from it.

¹⁷ “Health and healthcare Armenia, 2008” Informational bulletin. RA MoH National Health Information Analytic Center

¹⁸ WHO Regional office for Europe, 2006

¹⁹ “Health and healthcare Armenia, 2008” Informational bulletin. RA MoH National Health Information Analytic Center

Having a **high quality, system of effective continuous medical education (CME) is one of the cornerstones of steady professional development for medical care workers.**

Continuous medical education in Armenia is implemented primarily by the National Institute of Health (NIH). The Yerevan State Medical University (YSMU) also implements some CME education, to a more limited extent. In a certain sense, the “exclusive” status of NIH contributes to the high cost of study in that sector and the worrying standard of the CME programs. Recently, YSMU has shown more initiative and is striving to play a greater role in the provision of CME for certain specialisations. That fact may create a more advantageous situation in the CME sector from the aspect of creating a more competitive, flexible and productive environment.

The rules for granting post-graduate CME credit, according to the provisions of the 2004 order of the Ministry of Health, are not functioning because the procedures for implementing and supervising them have not been clarified. Although several alternative methods for gaining credits are set out in that order, in reality only NIH trainings are automatically recognized as CME credits. Taking into consideration that the NIH is the only organisation giving CME credits and the largest establishment implementing CME, it is difficult to speak about any serious competition and quality control in that sector.

Financing of CME is achieved from both within the framework of the state order and through payments from the budgets of medical establishments or trainees’ personal means. Insufficient financing for CME from the state healthcare reserve budget means that the onus of financing rests on medical establishments and private means of medical workers which, however, is often an overwhelming issue for them.

Over the years of Armenia’s independence, international donor organisations have taken on a significant role in financing and implementing CME. They have on the whole invested in Primary healthcare and more precisely in post diploma specialisation and implementation of CME for medical personnel in family medicine. As a consequence the number of primary healthcare doctors and nurses who have received relevant training has increased. This however lags behind complying with standard requirements.

CME programs frequently do not arise from the real needs of practical healthcare. At present there are no defined mechanisms which would incite those establishments which implement CME to make the form, substance and quality of their programs correspond to the real needs of the trainees.

There are no productive mechanisms to ensure the quality of CME. The Ministry of Health approves or rejects training programs proposed by different organisations without having clear and officially set guidelines for quality assessment. On the other hand, medical education establishments have neither the necessary financial-technical resources to make EBM accessible nor, from the point of view of using international EBM resources, sufficiently competent specialists. These factors also hinder the designing of programs corresponding to the requirements of EBM.

The low wages of lecturers in its turn does not encourage the inclusion of the best specialists into the CME sector, which also does not promote improvement in the quality of CME. Incidences of trainings given by poorly qualified specialists are not infrequent, bringing their effectiveness into question.

Sometimes CME training bears no relation to work environment or conditions. This does not give the trainees the opportunity to fully apply their acquired knowledge and skills in practice. Situations such as these are frequently recorded in, for example, specialists trained as family doctors who subsequently cannot carry out their professional work due to difficulties created in their workplace or the absence of suitable conditions.

These basic problems in the quality and affordability of CME have a disincentive effect on medical personnel who generally go through the training at the insistence of the management of the medical institution.

Pharmaceutical policy

The development of the pharmaceutical sector of the RA is of important strategic, social and economic significance. Positive progress has taken place in this sector over the past 20 year: a drug regulating body has been established (1992); the RA laws “On drugs” (1998) and “On narcotics and tranquillizers” and

several sub-legislative acts have been approved; a system for testing, evaluating and registering drugs has been introduced; the import and export of drugs has been regulated and a comprehensive system for the fight against counterfeit drugs has been developed, etc.

However, serious basic problems still exist in the republic such as the affordability, maintenance of quality and effective use of drugs. The guarantee of affordability of drugs is one of the basic factors in healthcare reform and the economic development of the country. Moreover, importance is placed on both the availability and affordability of drugs to the population. Although the availability of drugs has increased significantly in the past few years, the problem remains unresolved in rural areas. Thus, in almost 90% of the 170 village communities studied in the framework of UNDP “National Human Resources Study”, a pharmacy either didn’t exist or was not functioning²⁰. Moreover, around 77% of the population of those communities is obliged to obtain drugs from pharmacies 6 or more kilometres away.

As the results²¹ of the 2003–2004 study implemented by Oxfam in four marzes of the republic show, the absence of pharmacies in village communities forces around two thirds of the villagers to use pharmacies in cities of the marz and about 10–25% to use pharmacies in the capital city.

The unaffordability of drugs, even more than their inaccessibility, has become a serious obstacle to the population seeking medical care. In the general context of accessibility of healthcare services, the peculiarity of the unaffordability of drugs is that, even with the framework of the healthcare programs guaranteed by the state:

- The majority of drugs required for hospital medical care are obtained by the patient.
- The drugs necessary for medical care in ambulatory–policlinic treatment are obtained by the visitors
- The RA government’s 2006 November 23 decision No. 1717 “On approving the list of diseases and social groups entitled to acquisition of drugs free of charge or under privileged conditions”²² is virtually not functioning.

The unavailability and unaffordability of drugs further entrenches the psychological barrier to seeking medical care when ill, as one of the basic excuses for not visiting the doctor is that after the visit, the treatment will necessitate obtaining appropriate drugs, which they will not be able to do. Under these circumstances, many people prefer to bury their heads in the sand – “It is better not to know about our illness than, being aware of it, be unable to treat it due to the unaffordability of drugs”²³.

The levels of shadow drug circulation and counterfeit drugs in Armenia are high. This presents a high risk in the sense of the maintenance of the health of the population and drug terrorism. Thus, according to the results of a survey carried out by RA NSS the volume of pharmaceutical products obtained by households is 5.65 times greater than the volume claimed to have been sold by pharmaceutical product retailing businesses and individual entrepreneurs. The shadow turnover has been assessed at 65–70 %²⁴.

A state regulatory system for drug prices is not functioning in the country, which in many cases gives rise to unfounded price rises and a conspicuous decrease in affordability of drugs for the population and

²⁰ “Human poverty and pro-poverty policies in Armenia” 2005, Yerevan. <http://www.undp.am>, <http://www.gov.am>

²¹ “Monitoring and assessment of the situation of primary health and irrigation water in the marzes of Shirak, Vayots Dzor and Syunik” Volume 6 “Mass Investigation” OXFAM, Yerevan 2004

²² Drafted by UNDP within the framework of the 2007 “Strengthening awareness and response in exposure of corruption in Armenia” project:

1. “2005 report on the findings of the anti-corruption monitoring conducted in RA health and education sectors by civil society groups” 2006, Yerevan. <http://www.undp.am>

2. “Findings of the anti-corruption participatory monitoring conducted in RA health and education sectors by civil society anti-corruption groups”, 2007, Yerevan. <http://www.undp.am>

²³ M.Aristakesyan, “Drugs and poverty”, RA Information Analytic Center on Economic Reforms “Hayatsk Tntesutyan” informational booklet No.11(23), pages 23–28, Yerevan <http://www.gov.am>

²⁴ “Report on expenses incurred by healthcare organisations and pharmacies and housewives on healthcare services selective study” RA NSS, Yerevan 2002

in the healthcare system. The VAT applied to drugs since 2001 has exacerbated the affordability of essential drugs²⁵.

The widespread incidence²⁶ of corruption in all phases of drug circulation is a serious problem.

There are serious problems in the drug quality assurance system. As a consequence of the groundless simplification of the licensing system operating in the republic, some pharmaceutical organizations have been left out of supervision, specialists are not licensed and there is no compulsory requirement for re-training. For about 10 years now, no body exists to carry out inspections and businesses entities are not subject to professional supervision. In Armenia, as in the entire world, incidences are being noticed of counterfeit drugs entering the pharmaceutical market and circulating, due to poor cooperation between the corresponding bodies and the “transparency” of the borders. The problem became more complex after the 2011 approval by the government of several decisions related to the simplification of procedures for state registration and packaging of drugs.

The efficient use of drugs remains an urgent issue. Treatment using ineffective drugs is widespread as is the unjustified prescribing of a large number of drugs – particularly antibiotics, the widespread practice of dispensing medicines requiring a doctor’s prescription to patients without a prescription, uncontrollable self-medication, and the illegal, dishonest promotion of drugs in the market by certain pharmaceutical organisations. A lack of concise, objective, trustworthy information on drugs is also noticeable, both amongst specialists and the public at large. Insufficient public awareness also encourages the incorrect use of drugs.

Parallel to these main issues, the process of reform of educational programs is inadequate. There is still a shortage of comprehensive pharmacological and pharmaco-economic research. The absence of objective, complete data on the circulation of drugs hinders objective decisions being taken concerning the regulation of the sector.

Chapter 2. The Aim of the Strategy

The aim of this strategy has arisen from the initial precept that having a strong and efficient healthcare system is of pivotal importance in order to achieve desirable and sustainable results in the medical care delivered to the population. Hence, the regulation, financing, organization of medical services in the healthcare sector in Armenia and the regulation of the existing problems of capacity building will allow improvement in the availability of quality healthcare services for the population and long-term stable health.

Management and regulation

The aim of the strategy is to perfect the system’s management mechanisms and functional regulatory role, calculating that in liberal economic conditions the activities of the system spring mostly from the demand for satisfaction of public needs, ensuring the quality of services delivered, their accessibility and

²⁵ “Medicine Prices: a New Approach to Measurement”, 2003 edition (working draft for field testing and revision), WHO / EDM / PAR / , 2003.2, 2003, medicineprices@who.int, <http://www.who.int>, <http://www.haiweb.org/medicineprices>
M. Aristakesyan” Observation of drug prices and sales volumes in Armenia”, “Drugs Agency” CJSC, “Drugs and medical care” informational bulletin No 3 pages 61-63, Yerevan, 2001

M.Aristakesyan, interview “We are going to suffer again, people” “Hayots Ashkhar” daily newspaper No. 12/1107 , June 23, 2002, Yerevan

M.Aristakesyan, ““Some issues of the reform of healthcare financing system in Armenia”, “Drugs Agency” CJSC , “Drugs and medical care” informational bulletin No 4 pages 15-20, Yerevan, 2002

²⁶ 1. “Findings of the anti-corruption participatory monitoring conducted in RA health and education sectors by civil society anti-corruption groups”, drafted by UNDP within the framework of the “Strengthening awareness and response in exposure of corruption in Armenia” project, 2007 Yerevan. <http://www.undp.am>
2. “The current report on the results of the supervision of the use of state budgetary means allocated for RA Ministry of Health state orders and programs and the provision of budgetary revenues, as well as the management and use of state property” approved by March 9, 2009 decision No.7/6 of the RA council of the control chamber www.coc.am

affordability, and ensuring transparency and raising public participation in the resolution of healthcare issues and the process of reforms.

Financing

The main purpose of this component of the strategy is the provision of financial stability for the delivery of quality healthcare services aimed at satisfying the continually increasing healthcare needs of the population of Armenia, the efficient and focused use of public means and through them, the development and continual improvement in the processes ensuring the affordability of the services guaranteed by the state to the entire population (firstly, the poor groups in the population).

Quality of medical care

The main aim of this component of the strategy is to develop a decent level of quality, and the processes and capacities to ensure continual improvement, in the healthcare system of Armenia.

Human resources and continuous professional development

To introduce and develop efficient planning, training and development mechanisms for human resources in the Armenian healthcare human resources management sector.

Pharmaceutical policy

The main aim of this component of the strategy is the development and continual improvement of processes aimed at ensuring effective, safe, high quality, available and affordable drugs for the population of Armenia.

Chapter 3. The Pivotal Issues and Principles of Reform

Management and regulation

The development, strengthening of efficiency and issues ensuring the social orientation of the healthcare sector are pivotal results in the context of the introduction of the optimal structure and mechanisms of a system of management.

The policy for improvement of the management system must be based on the synthesis of the fundamental principles of the development of the country, a chosen, liberal market economy and the raising of the regulatory role of the state in the healthcare sector

It is essential to notice that healthcare is a system of organisational, socio-economic and medical measures aimed at the maintenance and improvement of the health of the population.

The healthcare system plays a most important role in the improvement of the general health of the population, realizing its four functions (The European health report 2009, WHO-2010). These are:

The provision of services: The securing of individual medical services and, of no less importance, the implementation of disease prevention measures and the promotion of a healthy lifestyle.

Financing: The collecting, uniting and distributing of financial means between service providers, ensuring justice, transparency, protection of the population from costs related to individual payment for medical services, and providing stimulation for efficient and high quality services.

The development of personnel and other resources: Investments in corresponding proportions in essential human and material resources including the level of equipment, technologies and pharmaceutical means of establishments, to secure optimal results.

Strategic management: Policy (including influence on health determinants), regulatory mechanisms, means and tools for implementation, including transparent monitoring and assessment and accountability systems for management.

The contemporary approach is that the state does not carry out the direct regulation or management of the system, but guides its activities. The state defines aims and problems, as well as regulations

whereby they must be achieved. It includes the drafting of strategic policy directions, the existence of appropriate regulations and the provision of corresponding tools for their realization, and the receipt of essential informative-analytic data concerning healthcare activities, to ensure accountability and transparency.

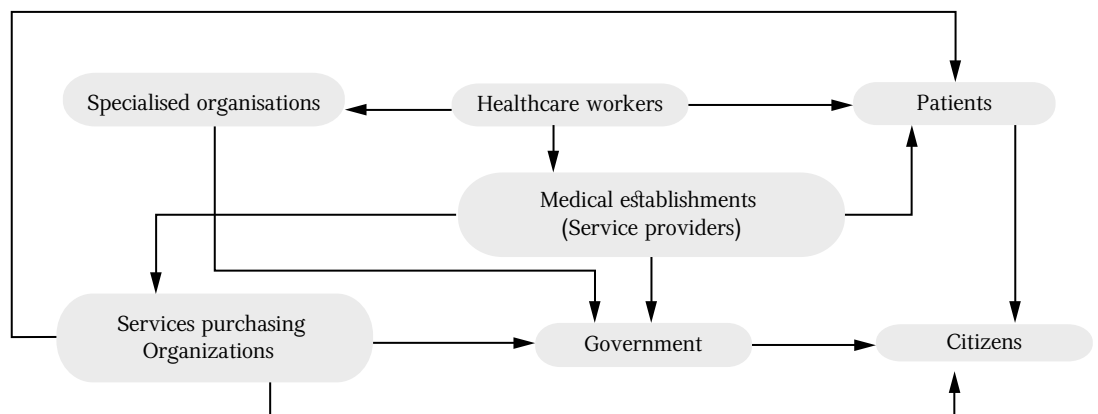
Thus, strategic management can simultaneously unite the three other functions of the healthcare system for the achievement of the desired structure of the healthcare system and the overall standards of its activities.

Healthcare management can have different structures depending on the economic, political and social situation. For example the national, cultural and historic context can have an influence on the performance of the private sector of healthcare service providers and on the level of decentralization of the process of decision making on a national level.

Nevertheless, the WHO European region countries have defined the specific function of the structure of healthcare management in the following manner:

- Define long-term aims and the strategic routes to reach them.
- The application of analytic information for the assessment of those aims and the results attained.
- The management of the healthcare system in such a way that its activities be founded on basic values, ethical principles and promote the attainment of the aims of the healthcare system.
- The mobilization of the jurisdiction of the authorities by laws and normative acts in order to achieve the aims of healthcare.
- The formation of a healthcare system in such a way that it can adapt to changing demands.
- Influence sectors outside of the healthcare sector with the aim of reinforcing the measures for strengthening health.

Գծապատկեր 3. Առողջապահության համակարգում հաշվետվողականության հիմնական փոխհարաբերությունների սխեմայիկ պատկերը



The accountability of all segments of the system is a pivotal issue for the efficiency of the management of the healthcare system. It should be of a periodic nature and be assessable for the resolution of issues put before the system.

The accountability should have a mechanism which includes the whole system, as pictured in the diagram above.

It is worth mentioning that a system of accountability is functional today in the healthcare system and is linked in particular to the presentation of state budget financed performance indices and in general specialised criteria. Also, according to the procedure set by the government, the Ministry of Health presents the annual activity report to the RA government, and an executive budget report to the RA national assembly. At the same time, NGOs are included to some extent in the implementation of monitoring of healthcare sector programmatic reforms (for example the reforms of the maternity care certificate program). Despite this, there is a necessity for regulation and development on a regular basis to raise the level of transparency in the overall activities of the system and the introduction of a more comprehensive system of accountability.

Financing

The strategies for the resolution of the following issues are considered highly important for the realization of the above-mentioned strategic aim of the financing of healthcare within the coming decade, taking into consideration the basic issues presented in the second part of this strategy.

1. The reinforcement of the priority of healthcare financing, the guarantee of financial stability and the legal-legislative stipulation and normative regulation of the efficient use of public means.
2. The realization of the strategy for the improvement of financing mechanisms and medical care and services guaranteed by the state programs.
3. Reduction in direct illegal payments and unaccounted shadow turnover and expansion of diverse forms of healthcare financing.

The guarantee of the provision of equal, fair and affordable medical care for all sections of the population is considered to be the basic and most important principle in the realization of the above mentioned strategies.

- 1. The reinforcement of the priority of healthcare financing, the guarantee of financial stability and the legal-legislative stipulation and normative regulation of the efficient use of public means**

From the point of view of stability and continuity, the proper legal-legislative stipulation and normative regulation of the processes of improvement in healthcare financing is a strategically important issue. In this sense, it is vital that the prime position of healthcare financing be stipulated in the framework of the legislative reforms being realized in the context of healthcare sector management. The state's strategy in the healthcare sector should be reflected in the state budget. Healthcare focused programs should be reviewed in such a way that they have the necessary financial security.

- 2. The realization of the strategy for the improvement of financing mechanisms and medical care and services guaranteed by the state programs.**

The other strategic approach is the correct decision on financial priorities in the healthcare sector. Under circumstances of severely limited resources, the justification of the directions of use of existing resources has been of great importance. The criterion for decision is the identification of the most urgent healthcare needs, in other words, the programmatic definition of healthcare priorities. The decision on the volume and structure of expenses, the definition of the direction and volume of allocations and also their optimalization, especially with regards to primary health care and hospital inpatient medical care, are important issues in the healthcare financing mechanism.

In the medium and long-term segments, even more importance should be given to the supreme role of primary health care in the field of healthcare financing as more affordable and less costly from the cost effectiveness point of view, and from the aspect of organising healthcare, as a form of healthcare organization having a disease prevention profile.

The task set is, while maintaining the free-of-charge primary healthcare system introduced in 2006, to transition into the raising of its level of financial security and efficiency. In this sense, priority must be given to the use of loan and direct budgetary means.

- Development of a system of family medicine
- The provision of adequate volume and quality in ambulatory-polyclinic medical care
- The introduction and improvement of financial and non-financial methods of stimulating professional motivation for medical establishments and medical workers. These will subsequently be important standards in the framework of the introduction of a medical insurance system.

One of the most important issues in the economic efficiency of Armenia's healthcare system must be the efficient financing and rational distribution of financial means in hospital inpatient medical care. The development of the hospital medical care system should progress with the rationalisation and perfection of the BSP, the perfection of the working financing mechanisms, the raising in efficiency of the means spent, reduction in excess capacity and ensuring of the standard of medical care, and the introduction and perfection of financial and non-financial methods of stimulating the professional motivation of medical establishments and medical workers.

In order to give the population quality, affordable and focused in-patient medical care and also to raise cost-efficiency, it is planned to place the state order using the selective method. That measure will subsequently be an important standard in the framework of a social (compulsory) medical insurance system.

The task is set to re-evaluate the role of the RA MoH state healthcare service and perfect its function considering that in the future, in the framework of social (compulsory) medical insurance, it will become the most important body in the command and management of the means of insurance.

In the sense of the raising of efficiency of public and insurance financial means, the predictability, substantiation and protectedness of the population's healthcare costs, future reforms of the financing mechanisms of the healthcare system, the setting of realistic prices for healthcare services and the introduction of medico-economic standards are of great importance. The realization of this issue springs from the priorities of attainment by the republic's population of the human right to medical care of an appropriate standard and volume, the guarantee of the quality of medical care and the assurance of its affordability, the total elimination of shadow payments and the exclusion of corruption from the healthcare system.

3. Reduction in direct illegal payments and unaccounted shadow turnover and the expansion of diverse forms of healthcare financing

The other strategic approach, from the viewpoint of the security of stable healthcare financing and thus, the satisfaction of the demands of the population in a guaranteed and affordable way, is the reduction of shadow payments in the healthcare sector and the expansion of diverse forms of healthcare financing.

From this strategic point of view, the task is:

- To gradually, substantially decrease the specific weight of direct payments in the structure of healthcare costs
- To make local self-government bodies participate in healthcare financing
- To introduce social (compulsory) insurance and stimulate the activity of voluntary medical insurance.
- To implement, in market conditions, an optimal (also system stimulating) pricing policy, including the regulation of pricing.

In the overall costs of healthcare, the role of the official income from **paid services** is low while unofficial payments are widespread. The direct payments made by the population must in essence gradually decrease in the overall specific weight of healthcare financing, relinquishing their position on the whole to the social (compulsory) medical insurance system.

From a strategic aspect, the application of co-payments in the healthcare sector should be of a transient nature. Moreover, its use in the present phase should be re-evaluated in the future. It is worth mentioning that the practise of copayment in this phase does not correspond to international practise²⁷ and copayments have turned into an additional burden on patients' shoulders. The task is set in the future to implement copayments as a means of financing healthcare, not to secure financial means, but as a means to control unnecessary medical interventions and as payment for non-medical services.

The next direction in the provision of accessibility of healthcare services is the **strengthening of the role and responsibilities of the LSG bodies** and based on that, their involvement in the financing of healthcare projects.

Taking into account the above-mentioned proposal for expansion and strengthening (including re-equipment) of the family doctor network in the village communities, special attention should be paid to increasing the responsibility of the LSG bodies in safeguarding the health of the community. We see the implementation of this in particular in the setting down of their compulsory powers in the legislation concerning LSG bodies in the healthcare sector and in the envisaging of corresponding financial sources. In that situation, an LSG body will be compelled to pay special attention to the medical organisations within

²⁷ 1. „Основы политики, Финансирование здравоохранения: альтернативы для Европы”, Elias Mossialos, Anna Dixon, Josep Figueras, Joe Kutzin, European Observatory on Health Care Syses, N 4, 2002,
2. WHO, http://www.euro.who.int/data/assets/pdf_file/0004/74785/E80225r.pdf

its territory and to support family doctors' offices under its jurisdiction. The financial-psychological support of the LSG body in those villages where the family doctor is not a local is even more important.

The fundamental issue of medical insurance is of extreme importance to this strategy. Moreover, its development should not be viewed merely as a means of drawing in additional healthcare financing sources but also as a means of making medical care more accessible to the population, instilling the principles of social justice, a guarantee of the focused use of resources and the raising of effectiveness of medical care and the most important aim of state importance. Medical insurance in Armenia should be social (compulsory) for all those included since, in contrast to voluntary insurance, that will benefit the realization of the government's healthcare policy the most.

The introduction of social (compulsory) medical insurance will allow:

- The population to overcome the psychological obstacle to seeking medical care,
- Raising the level of protection of citizens in cases of unpredictable illnesses,
- Making payment for medical care more transparent, predictable and targeted,
- Gradually introducing civilized methods to make the medical costs which today are paid directly by the population more manageable, by raising the effectiveness of their use.

At the same time, it is vital to set down legislatively the foundations of corporative insurance, as a social guarantee for the employed. By this means, the healthcare worries of both the state and population will be significantly eased.

Parallel to the introduction of social (compulsory) medical insurance, the **task is to stimulate the development of a voluntary system of medical insurance.**

The regulation of market mechanisms functioning in the healthcare sector, including in the first place, the regulation of paid medical services, is **also extremely important from the point of view of this strategy.**

Quality of medical care

The task is to design and apply in the republic the constant monitoring and continuous evaluation of quality of medical care, the prediction of issues in quality of medical care and their active exposure and, through their proposed solutions and implementations, a stable process of improvement in quality. This must have at its base a systematic approach and regulated methodology, procedures and toolkit.

Those procedures for the improvement of the quality of medical care should be directed towards the improvement of recognized international attributes and components of medical care.

The efforts at improvement must include the three basic components of quality which according to Avetis Tonapetyan, author of the three-dimensional model of medical care quality, are: structure, process, result. The main emphasis in the present healthcare management practice in Armenia is on the improvements of the structural component of the quality of medical care (investments, resources) and also to a certain extent, the processes.

The effectiveness of the processes for improvement of quality must also be assessed at the level of improvement of modern attributes of the quality of medical care. In international quality management practice, among the attributes of the quality of medical care, the professional or clinical side of quality is more frequently monitored: (compliance with EBM standards), physical conditions (buildings, provision of technical equipment and medicines), accessibility (in the geographic, socio-economic, financial and informational sense), the provision of appropriate communication and feed-back, and also effective management. At present, attempts to improve the quality of medical care in Armenia are mostly aimed at the improvement of accessibility and physical conditions of medical care, whereas new developments are taking place in the improvement of the quality of medical care in international practice. Thus, the American Institute of Medicine (IOM) suggests monitoring the following attributes of quality of medical care: Safety, Effectiveness, Equity, Timeliness and Personalized Care²⁸.

²⁸ Institute of Medicine Report: "Crossing the Quality Chasm: A New Health System for the 21st Century," Washington, D.C (2001).

In post-soviet healthcare systems, one of the main problems in the quality of medical care is the weak and inflexible substance of the criteria guiding clinical practice, from the viewpoint of their links with EBM, and that they are mostly used on a punitive basis.

Bearing this in mind, it is essential that the assessment, provision and improvement of the quality of medical care should be based on, and guided by, previously declared and taught guidelines: that is, clearly defined and properly reviewed and refreshed national criteria (clinical, organizational-managerial and medical-economic) based on EBM.

The processes to be introduced for the improvement in the quality of medical care should be realized on the principle of assisting supervision, and should be regular and continuous.

From the point of view of stability and continuity, the proper legal-legislative stipulation and normative regulation of the processes of improvement in quality are of strategic importance. It is important to clearly define roles and responsibilities from the quality of life viewpoint in all the basic institutional, marz, and national levels of the healthcare system. It is also important to secure adequate resources necessary for their implementation (human, material, financial and informational).

One of the important principles promoting the continuity and consistency of the processes of quality improvement is also the fact that quality medical care should be recognized and encouraged. The control and punish mentality and attitude of quality maintenance must gradually be substituted, from the aspect of providing the best quality and results, by financial and non-financial incentive methods, stimulating the motivation of medical establishments and medical personnel. In particular, the quality of the medical care provided can serve as a standard for choice when placing state orders in medical establishments. This will also be an important standard within the framework of the medical insurance system.

It is essential to strengthen and develop the monitoring and evaluation system in medical care when considering the effectiveness of processes for the improvement of quality. From that point of view, the provision of reliable bases of information and the accessibility of a united information system for all those interested parties involved in the processes of improving quality are also extremely important.

Moreover it is essential to provide the opportunity for exchange of appropriate communication and information not just between different levels of the system, but also between the same levels functioning in different structures.

The main beneficiary of quality medical care is the medical services-using population. It aims at satisfying the real healthcare demands of the people with quality and safety. Therefore, it is important to ensure the inclusion of the population in the processes of quality improvement.

As a more general strategic issue, it is essential to set down the necessity of distinguishing between the strategies for Quality Assurance/Control and that of Quality Improvement in the medical services of Armenia's healthcare system, clearly comprehending their differences and the necessity to adopt appropriate methods. The main emphasis of the management of Armenia's healthcare practice at present is placed on quality control methods, incorrectly equating them and considering them measures for the improvement of quality. From the long-term strategic perspective, it is necessary to develop and improve the licensing system (quality assurance/control) functioning at present and create conditions for the introduction of a system of accreditation for medical services in Armenia, as a spur to improvement in quality. That process should also assume political dialogue and decisions concerning, acceptable sizes and forms of de-centralization of the functions of quality assurance and improvement, and the wider inclusion of regional healthcare structures and also professional organisations in those processes.

Human resources and continuing professional development

The task is set to develop the capabilities of the competent bodies in making decisions concerning the management of human resources in the healthcare system in the republic, the clear analysis and evaluation of the present condition of the healthcare workforce, for the introduction of effective human resources planning and developmental mechanisms.

When making decisions on securing human resources in healthcare, it is necessary to take into account that the healthcare market is not a perfect market; it bears a great social burden within it. Therefore, as with healthcare in general, its human resources cannot be completely regulated by free market mechanisms and effective planning is the imperative necessity in this sector.

It is essential to review and reform/strengthen the **processes of human resources planning** in healthcare in Armenia in such a way that they correct and properly regulate the evaluation of real needs, harmonize the supply and demand of human resources and accordingly resolve the issue of adequate provision of personnel for the system. The planning of human resources should be based on informatively grounded forecasts of the short and long-term manpower demand and supply, and initiate measures to be taken to match them to each other.

Human resource development programs should include complex processes which are directed towards the improvement of the activities of medical personnel throughout their working lives. These should be of a regular, continuous, and not episodic, nature. The form, location and volume of their implementation should spring from the real developmental needs of medical personnel. The current stereotypic attitude, according to which the main (if not only) means for development of personnel are considered the trainings functioning in their present format, needs to be fundamentally changed. It is essential to broadly apply a diverse range of complex approaches to human resource development, including inter-organisational evaluations and analytical-training methods and measures.

In order for **Continuous Medical Education** to have a more efficient system it is necessary, first and foremost, to match, officially define/approve and unite the capabilities and input of all interested parties in that sector including their system-regulating, specialised, financial and other useful resources. The CME system must become the link connecting licensing, accreditation, professional certification and medical care quality improving inter-organisational processes.

Drug policy

In the coming 10 years, the strategies aimed at resolving the following basic problems are deemed extremely important in the realization of the above mentioned drug policy strategy:

1. The improvement of the legislative field of drug circulation and its harmonization with international legislation,
2. The subsequent instilling of the concept of basic drugs,
3. The increase in availability and accessibility of basic drugs,
4. An increase in the corresponding level of financial provision for corresponding drugs on the approved list of those used for the treatment and prevention of prevailing illnesses,
5. An increase in the role and significance of the regulating body for drug circulation and the provision of conditions for its independent and effective activities,
6. The creation of a drug inspection and quality supervision system and the provision of conditions for its effective functioning,
7. The development of a system for efficient use of drugs,
8. The provision of controllability of self-medication,
9. The provision of evidence based use of traditional/alternative medicines
10. The spur to production of local drugs with the intention of satisfying the demands as far as possible for basic drugs in the republic,
11. The introduction of a system to decide the demand for drugs within state programs,
12. The continuous refining of the pharmaceutical activities licensing system and the strengthening of the basic role of pharmacologists in that sector,
13. Scientific research in the pharmaceutical sector including the development of pharmaceutical economics,
14. The improvement in informational systems of monitoring, observation of side-effects of drugs, and the processes of collection and analysis of data in the drug-circulation sector.

Chapter 4. The Basic Directions and Measures for Implementation of the Reforms

Management and regulation

The strategy for reform of the management system must affect all spheres of healthcare. It is especially important to:

- **Legislatively refine the principles and mechanisms of leadership and management in organisations implementing medical care**

As has already been mentioned above, organisations implementing medical care and provision are on the whole, independent of the form of their ownership, business organisations and conduct their activities in compliance with the existing legislation.

However, taking into account the peculiarities of healthcare and taking into consideration its underlined social orientation, and at the same time taking note of international experience, the introduction of a more transparent and effective system of management at the level of implementing medical services is proposed.

An aim of the reforms in particular is to create public managerial boards with consultative participation in organisations implementing medical service. It is proposed that they should include specialised NGOs, consumer protection groups, other interested structures (public and donor organisations, foundations) publicly recognized figures and representatives of owners.

The functions of the council may include the discussion and advisory decision making of issues relating to the quality and accessibility of services, professional activities and prospects for development of organisations implementing medical care. The introduction of the management component mentioned may be implemented in phases and in the first phase it may be applied experimentally in selected medical care implementing organisations. As a result of the summary and discussion of the results of the experimentally introduced applied management (public) mechanisms, it may have general application and distribution.

- **The introduction of accountability and transparency raising mechanisms, including legislative, for organisations implementing services.**

At present healthcare organisations are accountable in respect to programs being financed by the state budget, however there is a need to raise the accountability to a public level and make it even more transparent and visible. With this purpose in mind, it is proposed to introduce a process of refining the annual brief activity reports of organizations implementing medical care and making them accessible to the public. Modern information technologies quite simply allow the operative publication of information and its review by interested consumers. The best method for the dissemination of information is on websites which are more accessible to wide sections of consumers.

The brief annual reports of organizations implementing medical care may include information concerning the volume of services rendered (according to financing sources), beneficiary groups, qualitative criteria, the use of new technologies and development programs being implemented.

- **Introduce the practice of presenting an annual report from the Ministry of Health on the state of the population's health.**

Taking into consideration the social orientation of the healthcare sector and strategic significance for the country, it is expedient to periodically introduce the presentation of the annual report on the population's health, as an institutional function. The annual report should include the strengths (material and personnel) of the healthcare system, the general description of services and their current distribution and tendencies for change, the indices of results of healthcare programs, indices representing the condition of the population's health and tendencies for change. The annual report should be of an analytic-informative nature. Similar experience exists in international practice. In this case it could be presented to the RA national assembly by the Health Minister with the opportunity for members of the public to sit in.

The presentation of such reports will ensure that the pivotal basic healthcare issues are brought to the forefront, focusing public and more importantly, multi-sectoral attention on the dangers

to the health of the population and on the planning of ways to overcome them. At the same time the processes being implemented in the sector can become more transparent and more effectively monitored.

- **To optimize the volume and distribution of medical care services by licensing and state tender.**

According to the legislation in force, organisations realising medical care can be established in the country by licensing for services. The licensing process does not take into account the actual needs in individual territories, not noticing that there is a disproportionate distribution of medical care and professional resources in Armenia. From the point of view of international experience, permission to implement medical care activities in different countries (Holland, Iran etc) is based on the basic issue of meeting the given region's needs.

A program of optimalization of the system has been implemented with the intention of balancing the supply and demand of medical care services in Armenia. However, in conditions of increasing changes in the sector, the licensing process may play a significant role, according to which the Health Ministry must be authorised to define needs and, amongst other requirements, realize the applying structure's licensing accordingly. It is also expedient to consider the necessity for reactivating the licensing of professionals (or another equivalent system of ratification of professional accreditation). Moreover, the licensing (or equivalent alternative) of (young) professionals can have an immediate bearing on the expansion of territorial distribution and required time period of professional activity.

With this policy, it will be possible to ensure the proportionate development of the system and to avoid additional administrative expenses, which is a source of the economic burden in healthcare, and at the same time to promote the accessibility and affordability of medical care from a regional point of view.

One of the measures for raising the efficiency of the management of state budget means is the placement of a state tender. This will allow for limited budgetary resources to be more effectively and purposefully directed. The MoH should be empowered with the authority to determine requirements and introduce competitive mechanisms for financing of services.

- **The creation of the institute of healthcare ombudsman for the purpose of defending the population's social rights and the medical workers' rights.**

In the healthcare sector, the guarantee of the defence of the rights of the population is a specific fundamental issue. With this in mind, it is proposed to introduce the function of the institute of healthcare ombudsman. It can operate either in the Ministry of Health or in the offices of the RA Ombudsman or can be an independent structure. It is necessary to add that the healthcare ombudsman can carry out the function of not only the defence of the population but also that of medical personnel. Other countries have experience with this institute; for example, it has been functioning in Israel for a long time.

- **Fundamentally improve the involvement of civil society in the management and drafting and implementing of policies in the sector.**

Although NGOs are, to a certain extent, involved in the functions of the sector (monitoring of programs, advocating public health etc.), they mostly carry out their activities through grants. It is necessary to create stable mechanisms in the policy drafting and implementation processes in the healthcare sector. In particular, it is expedient to form NGO committees attached to the Ministry of Health which will periodically set about actively participating in the drafting and implementation processes of reforms. At the same time it is expedient to put into place the mechanism for the ministry to commission the work of drafting policies to the NGOs. The latter may also stimulate the establishment and development of civil society in the institutional sense.

Financing

For the purpose of the realisation of the strategy, based on the pivotal principles and issues noted in section IV of this document, it is necessary to develop and implement solutions and measures for the proposed issues. Moreover it is essential to introduce a successive chain of logically connected, successive and interdependent processes. Within the framework of the above mentioned multi-faceted approach, the development and implementation of the following programs is proposed:

i. The strengthening of the priority of healthcare financing, the provision of financial stability and the legal-legislative stipulation and normative regulation of the effective use of public means.

The development and implementation of the following programs and measures are considered important for the realization of this strategy:

1. The law “On healthcare,” in which the healthcare financing sector must also be regulated in a specific way, **must be approved in the short-term perspective.** Provisions ensuring diverse sources of healthcare financing, and the protection and continuing growth of state financing, must be stipulated in them. Correspondingly, in the medium term, it is important that:

1.1 The law “On medical insurance”, in which it is vital that the legal and economic relationships for realization of both social (compulsory medical insurance,) and voluntary medical insurance, be approved.

1.2 Amendments and supplements be made **to the RA law “On local self-government bodies”** so that the compulsory healthcare sector responsibilities of the LSG bodies, together with their corresponding financing sources, can be planned.

2. Necessary steps must be taken towards perfecting the healthcare sector budget policy. With this in mind it is necessary to implement the following steps in the medium term:

2.1 Radically review the state healthcare focused programs so that they are financially secure and ensure the implementation of the aims envisaged by HDF and this strategy.

2.2 Make such amendments and supplements to the budget law that will guarantee the sustainability of the financing of state healthcare focused programs. In this context, in the annual laws of the state budget:

2.2.1. The stipulation of the proportionate (percentage) size of healthcare financing in relation to the corresponding size of state budget costs or gross domestic product. Also the size of financing per capita of the population must be stipulated.

2.2.2. It must be determined that the proportionate percentage relationship between healthcare budgetary financing within the current expenses of the state budget should not be less than the corresponding criterion of the previous budget year.

2.2.3. In the sense of design and management of the budget, it is also essential to stipulate that state healthcare focused programs represent a protected expense of the state budget and that increases in extra-budgetary means cannot result in a decrease in the budget financing for healthcare.

2.3. The budgetary process should be realized using rules of results-based program budgeting which will ensure the effective, focused and directed use of budgetary means.

ii. The realization of the strategy for improvement of state guaranteed medical care and services programs and financing mechanisms.

For many years, stemming from the inadequacy of the budget, there seem to have been attempts to reduce the state healthcare focused programs and more realistic issues have been proposed. However, essentially, only a partial reorganization has taken place in the program and, within the vulnerable groups, the priorities in the sense of the selection of the truly needy are not clear.

The development and implementation of the following programs and measures are considered important for the realization of this strategy:

1. The future development of the ambulatory– polyclinic link over the next decade must continue to be considered a priority.

- 1.1. It will focus on bringing the primary link in medical care closer to the population and making it accessible, nailing down the basic measures for prevention and early diagnosis of illnesses, and easing the load on the hospital system. **Over the coming decade, the specific weight of the financing of the ambulatory – polyclinic system in the overall volume of state budget financing of medical care must gradually increase and constitute not less than 55% in 2015. By the end of the decade, it should be no less than 60%.**
- 1.2. The task is set to firstly direct budgetary and loan means towards the main direction for development of the ambulatory – polyclinic link: **the development of the family doctor system.** In rural areas, it is essential to replenish the institution of the family doctor by sending medical personnel who have been laid off by healthcare organisations as a result of optimization and who have been re-profiled and re-trained, to the village communities, on condition of corresponding social guarantees. The next important project in the upcoming decade, in particular the mid-term section, from the point of view of this strategy, must be the realization of a serious investment policy in the technical re-arming, updating and fully equipping of polyclinics and family doctors' surgeries.
2. The next immediate project in the upcoming mid-term segment must be the testing, gradual introduction and development of financial and non-financial incentive methods for primary health care medical establishments and medical personnel.

In this respect it is planned, in the mid-term section, to test and introduce the following models of extra-hospital and hospital interrelated financial management systems of medical care services:

- For the primary link, the allocation of supplementary means (“partial treasury” schema), supervised by authorised bodies.
- Standardised orders from ambulatory– polyclinics for in-patient treatment (relating to the defined normative hospital medical care: treasury schema).

The application of these schemas will allow the resolution of the following basic issues:

- Increase in the economic interest of ambulatory–polyclinic medical personnel in the protection and improvement of the health of the population
- The restoration and development of organisational and economic links between ambulatory and in-patient medical establishments
- The provision of continuity in the processes for prophylaxis, diagnosis, treatment and patient care
- The establishment and provision of the sequence of activities of healthcare medical establishments
- The reduction in the number of unjustified orders for expensive in-patient medical care.

3. It is envisaged to continue improving the financing mechanisms of the hospital segment
 - 3.1 From this perspective it is envisaged that in the first year of the planned period the **basic service package, which forms the basis of the above mentioned hospital medical care, should be reviewed to reduce it, to clarify the circle of individuals who are entitled to government guaranteed free medical care and to eliminate the number of incidences of the same individuals being included in different groups.** These activities will further the realization of the aim that free state-guaranteed medical care be more focused and transparent.
 - 3.2 **From the point of view of this strategy, one of the most important projects in the planned mid-term section must be the allocation of budgetary means by tender.** This is evidenced by the European experience in reforms. We can identify four different approaches to contractual relations in European countries with differing healthcare systems (in particular central and eastern Europe and NIS countries), including the transition from signing contracts with all medical care providers to competitive selective contracts²⁹. Tenders by the state are a powerful lever for the optimization of the hospital system and the legalization of incomes and will also **secure the principle of financing of the citizen and not the medical care**

²⁹ Реформы системы здравоохранения в Европе: Анализ современных стратегий”, Р.Б.Салтман и Дж.Фитейрас, Москва, 2000

establishment. Within the framework of this project it is planned to draft the normative documents and standards for the introduction of a “Selective contracts” mechanism in the first year of the mid-term section. The following year, the pilot project is to be implemented in selected multi-profile hospitals (for adults and children), and maternity and highly specialized hospitals and hospital departments in Yerevan, Gyumri and Vanadzor. After the summarization of the results of the test project it is planned to adopt it in its entirety throughout the republic, towards the end of the mid-term section.

4. In order to raise the effectiveness of public funds and implement proper control on them, it is planned to change the status of the “State Healthcare Agency.”

For the purpose of introducing a demand and supply of services sector, the jurisdiction of the State Healthcare Agency, as the medical care procurer in the state financing sector and the quality control supervisor, will be reviewed. It will be changed into a structure having a status outside of departmental subordination. It will transform into a state medical insurance fund, concurrent to the introduction of social (compulsory) insurance.

5. One of the most important projects in the planned mid-term segment must be the setting of realistic prices for medical services and the development of optimal schemas for medical-economic standards and treatment.

The full reimbursement for actual medical services rendered, based on a framework of normatives, may serve as a base on which to design a **mechanism for state guaranteed in-patient medical care and services.** First and foremost, that concerns the salaries of medical personnel. This process must take into account medical-economic standards and international experience in developing optimal paradigms of treatment and WHO guarantees for groups selected according to diagnosis (DRG) and those selected according to healthcare resources (HRG)³⁰.

In the third year of the mid-term segment, based on the above mentioned measures, it is planned to conclude the drafting of all medical-economic standards and the approval of realistic prices for healthcare services being realised in the framework of state guaranteed focused programs. In subsequent years continuing updating and improvement of standards must take place.

iii. The reduction in direct illegal payments and unaccounted shadow circulation and the expansion of diverse healthcare financing

The development and implementation of the following programs and measures are considered important with regard to the realization of this strategy:

4. A gradual, significant reduction in the specific weight of direct legal and illegal payments in the structure of healthcare costs.

In this sense it is important to take into account that in developed countries direct payments in the structure of healthcare costs do not exceed 5–7%, and illegal direct payments are so negligible that they are virtually incalculable³¹. Therefore, it is planned:

4.1 To design a strategy concept for the reduction in volume of direct legal payments in the healthcare sector,

4.2 To design a strategy concept for the elimination of direct illegal payments in the healthcare sector,

4.3 To design a strategy concept for the limited application of partial-payment in the healthcare sector.

5. The stipulation of the role and responsibilities in the healthcare sector of the LSG bodies and their participation in healthcare financing.

³⁰ 1. “Экономика здравоохранения, учебное пособие”, под редакцией И.М.Шеймана, Москва, 2004,324стр
2. „Реформы системы здравоохранения в Европе: Анализ современных стратегий”, Р.Б.Салтман и Дж. Фитейрас, Москва, 2000

³¹ 1. The World Health Reports, WHO, <http://www.euro.who.int/data/>
2. „Основы политики, Финансирование здравоохранения: альтернативы для Европы”, Elias Mossialos, Anna Dixon, Josep Figueras, Joe Kutzin, European Observatory on Health Care Systes, N 4, 2002,

As international experience shows, LSG bodies play a significant role in healthcare financing. They should be motivated to participate in protecting the health of their communities.

With this in mind it is planned to:

- 5.1. Make necessary changes and additions to the RA laws “On Local Self-government” and “On the budget system”
- 5.2. Plan corresponding articles and programs in annual budgets
- 5.3. Make corresponding changes in RA Ministry of Health orders and other legal acts
- 5.4. To plan and realize the following costs in LSG bodies’ budgets: the maintenance of the functioning doctor’s surgery in the given community, and certain services in the sanitary-hygienic supervisory and ambulatory-policlinic link.

6. Introduction of social (compulsory) medical insurance

Taking into account the social-economic situation in Armenia and bearing in mind the limited resources of the state budget, the phased introduction of CMI is proposed, beginning with the insurance of in-patient treatment for certain illnesses, considering it to be a specific variant of insurance against the financial risks of other unpredictable healthcare incidents.

With this in mind it is planned:

- 6.1 To review “The concept for introduction of medical insurance in RA³²”
- 6.2 To make necessary changes and additions to the RA laws “On insurance”, “On compulsory social insurance”, “On income tax” and “On profit tax”
- 6.3 Conduct a broad advocacy campaign
- 6.4 Implement a test project
- 6.5 It is essential to simultaneously inscribe the basis for corporative insurance, as a social guarantee for the employed.

Taking into account the underscored social orientation of compulsory insurance it is proposed that it should be realized through a foundation created by the state. It is proposed that it be determined that the social (compulsory) insurance premiums should be developed with the participation of the state and employers and hired personnel. Moreover, premium rates and the proportion of participants included in them can be differentiated according to individual economic sectors and based on the specificity of different social strata of the population. The main emphasis is on the fact that the social (compulsory) insurance program should ensure services (accessibility, affordability, range and quality) and equal coverage for those insured. With the introduction of social (compulsory) insurance, the state will ensure the citizen’s constitutional right for medical care at all phases of the service and will represent the practical guarantor of the rights of the citizen in this sector.

7. The realization of an optimal pricing policy (which will also stimulate the development of the system) in a market economy.

Taking into account market relations in the country’s health care sector, the trend towards voluntary medical insurance development, and also the imperative to introduce social (compulsory) medical insurance in the short-term future, it is proposed to raise the role of the state in the regulation of free-market relations.

In this respect it is planned:

- 7.1. To draft and introduce a system of medical-economic standards within the timeframes defined by this strategy
- 7.2. To make necessary changes and additions in the RA tax and economic legislature so that the pricing mechanisms for direct payments and tax exemptions in the healthcare sector are defined.
- 7.3. Define the calculation and pricing mechanisms for the services being implemented in the healthcare sector according to developed medical-economic standards and where necessary, the prices for individual services.

³² “On the concept of the introduction of medical insurance in the republic of Armenia”, RA government protocol decision No. 33, 10 October 2000

Quality of medical care

With the aim of realizing the strategy, based on the pivotal principles and issues mentioned in section IV of this document, it is necessary to design and implement targeted programs aimed at resolving the proposed issues.

In particular, it is essential to introduce a successive chain of logically linked processes beginning with the establishment and progress of EBM in the medical community, followed by the establishment of a clear system for the drafting of clinical guidelines where content determinants in clinical practice will be defined and concluding with the practical introduction of those clinical determinants at the level of medical establishments.

1. **The institutionalization of EBM in everyday medicine, which is one of the main issues in Armenia's healthcare.** Initially, this requires wide ranging work for the development of awareness and capacity in medical personnel, and also the overcoming of limitations hindering the introduction of EMB.

The training interventions aimed in that direction must be accompanied by measures aimed at raising the accessibility of EBM resources (literature, internet resources) to medical personnel. Otherwise, even after the corresponding training, it will be difficult to avoid the risk of a return to previous methods of working.

On the other hand, at present the absence of readily understandable resources of EBM for Armenian medical personnel remains the most serious issue; the present resources are accessible to those specialists who have a command of English who unfortunately make up a very small proportion of our medical personnel.

2. **Design and apply clinical "best practice" benchmarks (including the effective use of medicines) based on EBM.** With this aim it is essential, at the highest level of management to:
 - 2.1. Select the primary characteristics of quality of medical care and accordingly review/define the national medical care indices and their borderline criteria according to medical care service type (ambulatory and in-patient), level (primary, secondary, tertiary) and field of specialization.
 - 2.2. Define and approve the types of benchmarks in clinical practise (clinical guidelines, records, brief procedures etc.) and their standardized formats.
 - 2.3. Define the procedure for selecting the thematic priority list for benchmarks that are subject to design and/or update.
 - 2.4. Define a single model of methodology and procedure(s) for the development of clinical benchmarks (including for the securing of correspondence with the requirements of EBM)
 - 2.5. Decide and approve the benchmark developing organisations and structures (including specialized units and institutes) and clearly define their role and responsibilities in those processes according to the types, levels and specialized spheres of the medical services
 - 2.6. Define the procedures for approval and periodic review and updating of the benchmarks
 - 2.7. Define the procedure and sources of financing for clinical benchmark development
3. **Define a procedure whereby new and/or reviewed EBM approved clinical benchmarks must be included in medical specialized education and also in continuous education programs.** In the framework of continuous medical education the content of benchmarks, quality indices and modern methods of teaching quality improvement must become the inseparable link for the processes of improvement of medical care quality in medical care establishments.
4. **Design and strengthen the organisational-structural base for medical care quality improvement and develop processes supporting supervision and effective feedback** in different levels of the healthcare system: central, marz and medical establishments. For this purpose in the primary health care sector, it is more appropriate to use quality improvement councils already existing in large primary healthcare establishments (having three or more doctors) and the quality coordinators' institute already prepared in all marzes. But in small primary healthcare establishments (having less than 3 primary health care doctors) and the hospital sector, such supporting supervisory structures and human resources (sufficient number of quality coordinators) still have to be formed.

5. **Developing and making the system of monitoring and analysis of the activities of the medical services more flexible**, which will permit the assessment and feedback on the performance of medical establishments and medical personnel as compared to the defined quality indices and benchmarks.

The data concerning the quality of medical care should be integrated and analysed on-line in Armenia's healthcare data automated system (at present MIDAS3). The reports generated by it should be accessible to all interested circles involved in the improvement processes.

On the other hand, it is essential to develop the capabilities of the Ministry of Health, State Healthcare Agency and marz healthcare departments for the purpose of analysing and efficiently applying the data received from quality performance analysis

6. **To introduce and develop motivating mechanisms for medical establishments and medical personnel, to stimulate stable, continuous improvement in quality**

6.1. The information received concerning improving quality performance from the healthcare information system must be linked to the financing of medical establishments and the salaries of medical personnel. The financial stimuli and reimbursement given in return quality medical care should be acceptable to the stakeholders and motivating.

6.2. As well as financial stimuli, non-financial methods of encouragement of quality should also be developed.

6.3. From the point of view of stable improvement of quality it is also possible to stimulate the motivation of medical establishments using mechanisms such as licensing, the inclusion of corresponding requirements in state contracts for purchasing state guaranteed services, and also by accreditation and appreciation awards and other similar methods.

7. **Introduce and strengthen the mechanisms of continuous improvement in medical care quality at the medical establishment level**, including the active detection of the main problems in quality and the operative application of their resolutions, the monitoring of quality indices, internal self-assessment of medical care personnel, clinical audits, assisting supervisory visits and feedback mechanisms.

An inseparable part of the efforts of medical establishments in improving quality must be the inclusion of the opinions of users of the services: the patients. This can be achieved by questions in different formats, the inclusion of representatives of the public in quality improvement councils. The application of patient satisfaction feedback methods will allow on the one hand, the assessment of the health needs of patients and on the other hand it will make it possible for medical personnel to become accountable to the population.

It is essential to train, actively introduce and ingrain methods of improvement in medical care quality such as Root Cause Analysis (RCA), Find-Organize-Understand-Select (FOCUS), Plan-Do-Study/Check-Act (PDS/CA), and Failure Mode and Effect Analysis (FMEA).

8. **Differentiate, supervise and simultaneously develop systems for provision/supervision of the quality of medical care and improvement in quality.** It is necessary to negotiate and de-centralize, to an acceptable level, the responsibilities of the Health Ministry in relation to the securing/supervision of quality. The marz healthcare structures and medical specialized units should be included in those processes. In particular, the latter can assume a specific role in licensing and state tendering, the definition of benchmarks and the supervision of the process of their execution. Within the functions of improvement of quality, medical establishments should be granted more independence in their choice of methodologies for the discovery and resolution of issues in quality. The governing structures and specialized medical units of marz healthcare must assume the primary responsibility for assisting in issues of improvement in quality.
9. As a basic issue in the development of quality improvement processes, it is necessary to develop and **introduce a system of accreditation of medical services/establishments into Armenia's healthcare system.**

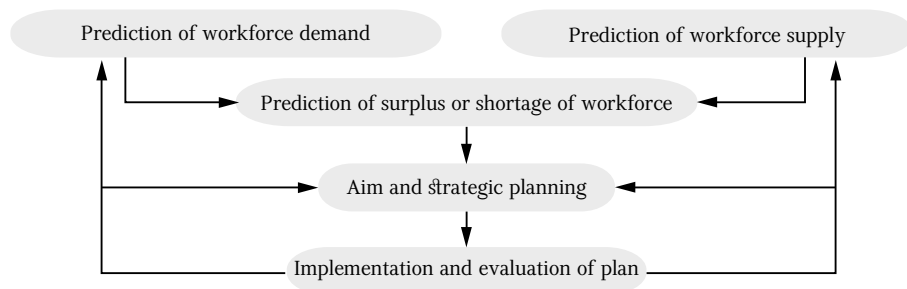
10. The base of all improvement measures must ensure the ultimate approach that **the benchmarks of quality and the performance indicators must be the same in clinical guidelines/procedures, professional education (including continuous education), licensing and accreditation, procurement of state guaranteed services contracts, the healthcare information system and statistics, and also in the inter-organizational processes of quality improvement.**

Human resources and continuous professional development

It is essential to begin the improvement of the management of human resources by firstly introducing mechanisms for the efficient planning of these resources. This will allow the rectification of the gap between the present situation described above and the true strategic needs.

11. **Draft and introduce an efficient human resources planning process which must include complex functions of predictability, aims and strategic planning,** such as is represented in diagram 4. The planning should be applied according to the class of work (doctors, nurses, junior medical personnel) and professional or functional groups, taking into account the current condition of the system or organization and analysis of future projections.

Diagram 4. Planning of human resources



Direct or indirect methods of prediction can be used for the purposes of predicting the workforce demand, such as statistical (“historic”), and normative and/or logical methods. The workforce supply predictions must take into account the current supply, the possible loss of demand and the expected supplementary influx.

Further, interested/appropriate bodies and department such as, for example, the ministry of education and sciences and the civil service council, should be involved in the planning of the supply of personnel.

The detailed healthcare human resources planning program, including methodology and implementation plan, must be developed and approved as a normative document, as a regulatory system for all medical establishments and relevant structures.

The healthcare human resources planning program, among the basic strategic issues, must also in particular, find resolutions for the following priority issues:

- The creation of a comprehensive computerized healthcare human resources data base which must contain statistics and provide information on all medical personnel in Armenia, beginning with their basic professional education, including all phases of their career, accreditation and development, including continuing medical education.
- The definition and implementation of the inclusion of medical personnel from distant and rural regions in the system of incentives encouraged by the state.
- The planning of admissions into all educational establishments in the healthcare sector carrying out specialised education, independent of the form of their ownership, as part of the overall human resources plan.

12. **Develop, and introduce into medical establishments, human resources programs which must include an efficient combination of training and practise.** In reality a single, superlative and universal program for personnel development does not exist.

To decide which development program is the most suitable for the given organisation or functional subdivision, its peculiarities must be taken into account.

In practise when preparing personnel development programs it is important to bear in mind the following methods (this list does not claim to be the most complete and comprehensive):

- Introduction, orientation and initial practical training for new employees of organisations
- On-site education (including invited lecturers and advisors)
- Seminars and practical studies
- Formal education (advanced courses) in specialised educational establishments (universities, institutes, colleges)
- “Horizontal” mobility, reciprocal work- exchange and cross tasking
- Self-education (literature, computer, audio and video education)
- Special tasks, which require new knowledge and skills
- Inclusion in committees and targeted working groups
- Tasks of lecturing and training others
- Tasks of coordinating and assisting in various programs
- Temporary tasks in branches of the organisation or other organisations
- Stand-in for absent workers

13. Draft and introduce regular processes for performance appraisal. The regular appraisal of work must become an inseparable part of, and basis for, the development of human resource programs.

The performance of personnel must be regularly studied and periodically evaluated in order to decide whether the situation needs correction or whether any measures directed at development need to be undertaken.

Moreover, each organisational subdivision/service and each worker must have the aims and issues of their activities previously defined as well as clear benchmarks on which it will be possible to decide the fact and level of achievement of those aims.

In this context it is necessary to develop and apply job (position) descriptions in all medical establishments. With this aim, it is essential to draft and approve job (position) description templates for all basic categories of personnel, which will serve as bases for the medical establishments to create job (position) descriptions for their employees. These will serve as the bases for their performance appraisals.

The program for performance appraisal must also define the appraisers and their competence (for example, manager, colleagues, consumers, the worker himself), methods of appraisal (for example, evaluation of the workers’ personal characteristics, evaluation of work conduct, evaluation of work results) and forms (for example, checklists, and interview).

In general, performance appraisal can be presented in its full context in the following schematic form (Diagram 5)

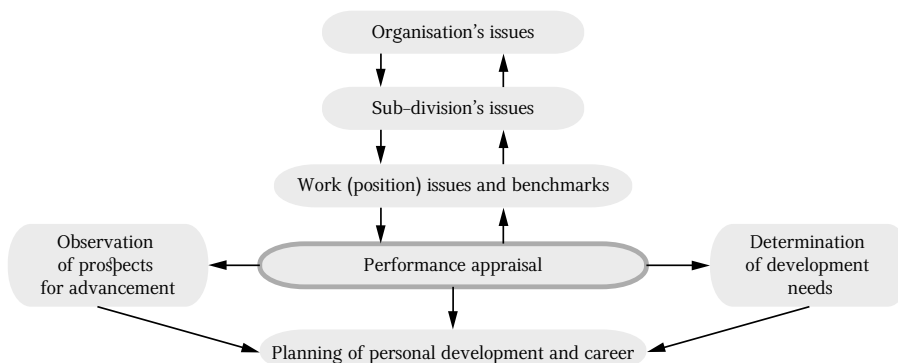


Diagram 5. The context of performance appraisal

14. Draft and introduce a program for improvement of CME including the following basic measures:

- Review the RA Ministry of Health 23.04.2004 Order 417-A concerning post diploma medical education credits, and define a united credit system for CME, with clear benchmarks and normative requirements, regulated procedures for awarding credits, and clear definitions of mechanisms of competencies, responsibility and supervision in that sector.
The CME credit awarding structure or organisation must be unbiased, have no conflict of interests in the CME sector and possess appropriate professional resources, to make informed decisions. From that point of view it is essential to look at the involvement of specialized medical units.
 - Introduce a unified model of methodology and procedures to ensure the compliance of the quality of medical educational programs and corresponding training packages and the drafting, evaluation and approval of benchmarks of clinical practice with EBM requirements (see also chapter V of this strategy, section “Quality of medical services” 2.2-2.4 clauses).
 - Plan and procure resources for increasing the volume of state financing for CME.
 - Draft and introduce programs for the development of capacity of the teaching staff in establishments realizing CME, specialized units, and also the MOH education and science department, with the aim of raising the accessibility in that sector of modern medical approaches and their practical application.
15. **Review the legal-regulatory bases of licensing of medical activities in Armenia** with the intention of drafting and introducing a system of checking and (re)approving the professional accreditation of medical personnel, with the involvement and active participation of corresponding specialised units.

Pharmaceutical Policy

For the purpose of realization of the strategy, based on the pivotal principles and issues noted in section IV of this document, the drafting and implementation of the following programs and measures is proposed³³:

1. Regulation and securing of quality

- 1.1 Guided by the guarantees of the WHO and EU and based on the results of current monitoring of existing legislation, the RA legislation referring to the drug circulation sector will be reviewed and improved. The document “National drug policy” will be approved. The new RA law “On drugs” will be approved. Legal normative Acts will be made to correspond to them. Criminal responsibility for the production and distribution of drugs not corresponding to quality standards and counterfeit drugs, and fines and penalties for professional infringements threatening the quality of drugs and the health of the patient will be set in the RA legislature.
- 1.2 The issue of the subordination of the “Drugs and medical technologies experimental centre” CSC, the drug supply regulatory organisation in the structure of the RA MoH will be reviewed. It will work with the status of an independent organisation and will be accountable to the RA government. Its independence and financial independence will be legislatively reinforced. Subsequently it will be reorganised as the “Drugs, medical technologies and food agency.”
- 1.3 A system will be created to inspect and supervise the activities of businesses realizing pharmaceutical activities. The system for evaluating the professional activities of pharmaceutical organisations will be reviewed, the results of which will be used to regulate the future activities of those organisations, for the purposes of encouragement or penalisation.
- 1.4 The system for registering drugs circulating in Armenia will be improved, based on the criteria of effectiveness, safety and quality.
- 1.5 The requirements for appropriate activities (appropriate laboratory work, appropriate clinical activity, appropriate distribution activities, appropriate activities in pharmacies etc.) in the pharmaceutical sector will be approved and introduced. The application of these requirements will be under constant state supervision.

³³ Material drafted by the RA “Scientific center of Drug and medical technology” CJSC has been used

- 1.6 The work of the pharmacovigilance system will be improved, activating the monitoring of side-effects of drugs and involving healthcare sector professionals and consumers.
- 1.7 Official, objective, reliable and up-to-date information on the drugs in use in the country will be provided. An information centre for drugs will be created.
- 1.8 The system for supervising drug advertising will be improved.

2. Affordability of drugs

- 2.1. The introduction of a concept of essential drugs will greatly benefit the accessibility of drugs.
- 2.2. Criteria for the location of pharmacies will be drafted and introduced for the purpose of providing physical accessibility to drugs and in particular providing essential drugs for the population in rural, distant and border regions.
- 2.3. Effective mechanisms accepted and applied in international practise for the regulation of drug price, will be introduced to ensure the affordability of drugs. Amongst them, first and foremost is the reinstatement of the VAT privilege on the sale of drugs in circulation, and the limitation on the size of wholesale and retail additional charges. Other mechanisms will be applied in parallel to these.
- 2.4. The state financing for the provision of drugs for priority illnesses and the vulnerable section of the population will be reviewed and increased year by year.
- 2.5. “The procedure for provision of drugs free of charge or under privileged conditions” will be reviewed making it as fair, free of corruption risks and flexible as possible, so that those who receive free or subsidised medicines receive in full the drugs prescribed by the doctor and are not forced to spend additional unforeseen financial means to acquire the necessary drugs for their treatment. The provision of drugs to individuals who are entitled to drugs free of charge or under privileged conditions will be realized chiefly by prescription provided by the local polyclinics. These polyclinics will have contracts signed with those drug companies and their accompanying licensed retail outlets, which have gone through the centralized procurement procedures and won tenders for pharmaceutical procurement.
- 2.6. The monitoring of prices of drugs, firstly those included in the “List of essential drugs”, will be realized.
- 2.7. A national information system will be introduced for the compilation, processing, summarising, analysis and publication of data on the circulation of drugs.

3. Systems for provision of drugs

The provision and distribution of drugs in the republic will take place by means of local drug production, state procurement, import, wholesale and retail sales systems and donations. In this framework:

- 3.1 The demand for essential medicines for the population of the republic will be decided according to the “List of essential medicines”
- 3.2 Wholesale distributors will obtain, maintain, and distribute medicines in an appropriate manner in compliance with the approved requirements in Armenia.
- 3.3 The local production of essential medicines, based on the use of local resources, will be encouraged.
- 3.4 The provision of medicines to the population will take place only in licensed pharmacies and for treatment of in-patients, medicines will be provided from hospital pharmacies.
- 3.5 Pharmacies will sell medicines acquired from licensed wholesalers and medicines prepared in-pharmacy and registered, according to the requirements approved in the republic for appropriate activities in pharmacies.
- 3.6 In order to ensure effective provision of medicines, pharmacies will be distributed according to the approved principles and criteria for their location.
- 3.7 The destruction of expired and utilised or ineffective drugs will be implemented in the prescribed, harmless manner.

4. The effective use of drugs

- 4.1 The concept of efficient use of medicines will be introduced and advocated at all levels of the healthcare system.

- 4.2 The creation and further improvement of optimal schemas of drug-treatment based on evidence and handbooks differentiated for various levels of healthcare, for the more widespread illnesses in the republic will continue.
- 4.3 Appropriate requirements for drug prescription will be introduced.
- 4.4 Standards for the assessment of effective prescription of medicines and their use will be drafted and studies on the use of medicines will be undertaken periodically.
- 4.5 The creation of hospital drug-treatment committees will be encouraged. Supervision of their activities will be determined.
- 4.6 The “Introduction and development of a national traditional/alternative medicine” will be drafted and realized.
- 4.7 The “Self-medication regulatory national program” will be drafted and realized. Within this framework, and for the purpose of making the self-medication activities of the population of the republic more controllable, the criteria for selection of over-the counter- drugs; the periodic review of over-the counter drugs list and its publication will continue and the provision of accessibility to the population of corresponding information concerning those drugs; an informational journal on over-the counter drugs will be drafted and periodically re-published for patients and the responsibilities of pharmacologists in the management of self-medication will be clarified. The population’s level of education on drugs will be raised.
- 4.8 The process of monitoring, gathering of data and analysis of the side-effects of drugs will be expanded.

5. Preparation of personnel and research

- 5.1 The state will ensure the planning of the numbers of pharmacologists and pharmacists, and their education. The minimum educational requirements for specialists of each category will be defined.
- 5.2 A list of names of specialisations and qualifications for accreditation for pharmacologists and pharmacists will be established, and educational programs corresponding to present-day requirements will be licensed.
- 5.3 Scientific research promoting the development of a national drugs policy and pharmaco-economic and pharmaco-epidemiological studies, will receive state support.
- 5.4 Research on the quality, effectiveness and safety of traditional medical means in Armenia will be encouraged with the aim of their justified application.

Chapter 5. Anticipated Results

The complete implementation of this strategy will allow improvement in the regulation and financing of healthcare, raise the quality of healthcare services being provided and realize the rights of the population and medical personnel, which will ultimately improve medical care and the overall health of the population.

Management and regulation

The transparency and improvement in accountability of management will create more effective management in all sectors of the system. The efficiency of the management system will have an immediate effect on the optimal levels of organisation, accessibility and affordability of the healthcare services, ensuring the social orientation of the system.

Financing

The complete implementation of this strategy will enable improvement in the efficiency of the management and financing of healthcare, raise the level of quality of the services provided, promote the realization of the rights of the population and medical personnel, which in the end will improve the results and quality of the medical care and will benefit the improvement of the condition of the health of the population through the affordability of healthcare services.

The following results are anticipated as the aim of the realization of this strategy:

- To raise the level of state financing by the end of the mid-term period to 2.5% of the GDP, as opposed to the present 1.66%, and/or 10% of the budgetary means, as opposed to the present 6.4%.
- To raise the level of state financing by the end of the long-term period of 2021 to 5 % of the GDP and /or 13-14% of budgetary means.
- By the end of the mid-term period of 2015, to raise the level of budgetary financing in primary healthcare of preventative and medical measures being implemented to 50% of total financing as opposed to the present 38%.
- By the end of the long-term period 2021, raise the level of budgetary financing in primary healthcare of preventative and medical measures being implemented to 60% of total financing.
- Raise the average salary of healthcare sector personnel, attaining by the end of the short-term period of 2015, at least three times the minimum RA consumer budget as officially announced. By the end of the long-term period of 2021, this will be at least five times the RA official consumer budget.

The quality of medical care

As a result of the implementation of reforms proposed for the improvement in quality of medical services, it will be possible to achieve an increase in the level of correspondence of the activities of medical workers to EBM benchmarks, a decrease in medical errors, an increase in patient satisfaction, a more efficient use of healthcare resources and in the end, an improvement in the state of the health of the population.

Human resources and continuous professional development

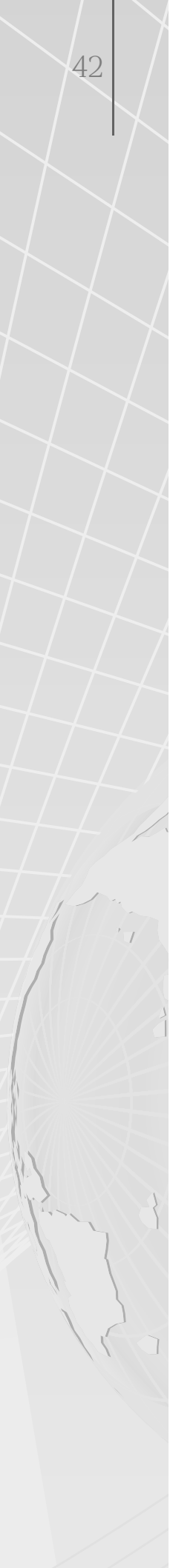
As a result of the implementation of the reforms proposed in the management of the human resources sector, the provision and rational distribution of healthcare personnel and their state of compliance with the current requirements of steady professional development and accreditation will be improved.

Pharmaceutical policy

The complete realization of this strategy will enable the implementation of a national pharmaceutical policy corresponding to international standards, which will increase the availability and affordability of medicines, organise the circulation of effective and safe medicines and increase the effective use of drugs, thus resulting in the prevention and treatment of illnesses, the strengthening of health and improvement in the quality of life of the population.

The following is anticipated as a result of the aim to implement this strategy: a continuous increase of the population which is provided with affordable essential drugs on a sustainable basis³⁴.

³⁴ The 46th indicator of the 17th target of the 8th goal “Develop a Global partnership for development “ of the UN “Millennium Challenge”



THE PROVISION OF HOUSING IN ARMENIA

“Everyone shall have the right to a standard of living adequate for himself/herself and for his/her family, including housing as well as improvement of living conditions. The state shall take the necessary measures for the exercise of this right by the citizens.”

Article 34, RA Constitution

Introduction

According to Article 25 of the UN Declaration of Human Rights, the provision of housing is a universal right which, together with other human rights, is one of the guarantees of an adequate standard of living and well-being¹.

The building of a prosperous society is the base upon which the policy for the provision of social housing is formulated. It takes into account the objectives and tools of a broader social security policy, which is aimed at achieving comprehensive prosperity for all and also takes into account the role of the market and the state.

However, the provision of housing is not only a social, but also an economic issue. The utilization of this factor can stimulate the development of the economy and increase the standard of living of the population. At the same time it will allow the resolution of numerous issues such as demography, urban development, environmental protection and the proportionate development of regions.

The need for a comprehensive housing system in the Republic of Armenia is beyond doubt. The combination of the following principles is important: such a program must take the decades of experience of different countries into account; it should be realistic and arise from the challenges confronting the country and of course must correspond to the traditions formed in Armenian society and to the peculiarities of the organisation of its domestic and social life.

The current situation in Armenia, as well as international practice in the provision of housing including that of Germany, the Netherlands, France, Israel, Jordan, the United States, Canada, Australia and corresponding programs implemented by dozens of other countries and international organizations, were studied for the drafting of this work.

However strange it may seem, despite the existence of the constitutional requirement, and the present critical situation, 20 years after independence the Republic of Armenia has still not drafted or begun implementation of a comprehensive housing provision program.

This study aims to fill that gap to a certain extent and to create a suitable environment and preconditions for the drafting, adoption and realization of a comprehensive provision of housing strategy in Armenia.

Chapter 1. The Fundamental Issue of Housing Construction and Provision in Armenia

The peculiarities of housing problems and the study of the existing housing stock (according to levels of deterioration, region and other categories)

Prior to Armenia's independence, the state policy of housing provision was directed towards the improvement, construction and provision of housing for rent for the population living in dwellings of 5 or less square metres (m^2) per capita in urban areas using state resources.

¹ Source: The Universal Declaration of Human Rights, adopted on December 10, 1948 by General Assembly of the United Nations, article 25, www.un.org/en/documents/udhr/index.shtml

The constructed state housing resources were not by their nature totally social as the income of the population was not taken into account when the housing was allotted: the houses were allotted as a social good. Moreover, priority of allocation was decided according to certain factors depending on the services rendered to the state by the citizens (for example, World War veterans, heroes of the Soviet Union and Socialist Work and so on).

This approach of providing housing as a social good had led to a situation where the demand for housing was not decreasing and according to 01.01.1987 statistics the number of families registered for improvement in housing conditions was 85,398. The increase in that number in subsequent years was conditioned by the inclusion of families left homeless as a result of the earthquake.

Table 1. The number of families in the cities and country towns of the Republic on the waiting list to receive housing; those who received them and those who had improvements in the condition of their housing 1986–1990

Date	Number of families allocated housing or improved housing	Number of families on the waiting list to receive housing
1986	12,336	85,398
1987	11,973	88,271
1988	10,076	75,019
1989	10,020	113,204
1990	11,938	141,623

Source: RA Housing Stock Statistics compilation, Yerevan 1991, RA State Statistics Committee.

Beginning in 1991, the problems of provision of housing to homeless families compounded a series of other issues in the republic.

According to the RA National Statistics Service, the total surface area of the country's housing stock on January 1, 2001 was 86.5 million square metres: 45.7 million m² (52.8%) in urban communities and 40.8 million m² (47.2%) in rural communities. The average overall surface area provided to one resident from the housing stock in the republic was 26.7 m² which corresponds to 22.0 m² in urban areas (19.8 in Yerevan) and 35.0 m² in rural communities.

Over half the population of the republic live in multi-apartment residential buildings, 89.4% of which were built before 1990 and, after the review of seismic requirements in the republic, do not comply with present seismic norms. Amongst them, the number of buildings in which the belated elimination of existing defects requiring routine repair could lead to the buildings' unsatisfactory technical condition, subsequent condemnation and thus irrevocable loss from the housing stock (which represents a national resource) is not small². Around 4% of the multi-apartment housing stock is in an unsafe and unsatisfactory technical condition³. As confirmed by urban development professionals, there are no formal standards or other criteria for the time limits envisaged for the usage of multi-apartment buildings. However, under normal conditions, it is possible to consider that the term for useful service for multi-apartment buildings is not less than 50 years.

In the Soviet period, the housing stock was formed by state resources and those of housing construction cooperatives, state enterprises and the population. From 1986–1990 the volume of housing realised by state resources was about 530.0 million roubles or about 85.5% of the overall resources directed towards housing. Each year, around 840,000 m² residential space, or around 12,000 apartments were handed over for use.

² RA sustainable development program.

³ "On the approval of the measures of the RA Government Activity Plan 2008–2012" Government decision number 878 –N of July 24, 2008.

Table 2. Capital investments directed to construction of housing and the number of residential buildings put into operation from 1986-1990

Sources of financing	Capital investments, Million roubles	Total surface area of residential buildings set into operation Thousand m ²	Number of apartments in operational residential buildings Thousand units	Average size of apartments m ²
Total	3,100	6,490	83.6	
<i>Among them, by:</i>				
State resources	2,641	4,182		
Housing construction co- operatives' resources	92	413	66.7	69
Population's resources	367	1,895	16.9	112

Source: Data from National Statistics Service

It is important to note that a sharp increase in housing construction was recorded after the December 7, 1988 earthquake. However, the rates of construction using state resources in the subsequent years dropped sharply: in 1999 only 9000 m² were put into operation, in contrast to 894,000 m² in 1999.

The drop in construction rates brought about the freezing of state resources invested in housing construction. As a result, 4,646 buildings remained unfinished, of which 4,565 had been started with state funding, and the remainder, on a cooperative basis. Moreover, of the total number of unfinished residential buildings, 1,867 were multi-apartment buildings with 3,622 apartments. Of these, 2,122 were those stipulated by decisions approved by the executive committees of former district councils for families registered on waiting lists for housing improvement.

In the absence of a united and comprehensive program, the government was dealing with housing issues with disjointed methods and justifications. This did not allow a basis to be laid, not only for the resolution of the fundamental issue but even for partial issues.

The main measures aimed at providing housing for families with housing problems are:

1. The resolution of housing problems for residents of houses unsafe and subject to demolition (except in residential areas of the earthquake zone). RA Government Decision no.682 of 25.10.2000.
2. The resolution of issues of citizens deprived of dwelling space by the requisition of land for state or public needs. RA Government Decision no.683 of 25.10.2000.
3. The first stage program for improvement of the housing conditions of residents of houses damaged by bombing in border communities. RA Government Decision no. 343 of 25.04.2001.
4. The resolution of housing issues of the residents of Voghjaberd village in the landslide zone of Kotayk marz. RA Government Decision no. 1088-N of 25.07.2002.
5. The resolution of housing issues of the forcibly displaced citizens of Artsvashen village in the Gegharkunik marz. RA Government Decision no. 1408-A of 05.09.2002.
6. The resolution of housing issues of the residents Noyemberyan made homeless by earthquake. RA Government Decision no. 1274-N of 08.10.2003.
7. The housing issues of those individuals forcibly deported from Azerbaijan during 1988-1992. RA Government Decision no. 747-N of 20.05.2004.
8. The resolution of housing issues of the resident of 66 houses damaged during the June 1968 earthquake in the Kapan region of the Syunik marz. RA Government Decision no. 1607-N of 11.11.2004.
9. The protection of the safety of inhabitants in the most dangerous rockslide zones of the Shatin village in the Vayots Dzsor marz. RA Government Decision no. 1419-N of 09.09.2004.
10. The program for resolution of the housing problem of those individuals who are identified by the RA Government Decision no. 1419-N of 30.10.03 in accordance with the provisions of the RA law "On social protection of children left without parental care."
11. According to the RA law "On those unlawfully imprisoned during the purges," provision for those who need housing, of ownership of a plot of land as defined for the purpose of building a home, through long-term privileged loans (resources for privileged loans are foreseen in each year's state budget law).

12. The issue of the improvement in the housing conditions of the families of freedom fighters martyred and disabled from 2002–2005, according to the RA law “On social security of servicemen,” giving priority to homeless families.
13. The improvement in the housing conditions of residents of around 2,260 houses in border communities in a comprehensive program of development of the RA border regions.
14. The issue of the elimination of the after-effects of the Spitak earthquake, particularly the issue of provision of housing to homeless families, from 1988 to the present.

As a result of the realisation of the above listed programs, according to the data of the RA Ministry of Urban Development, as of January 1, 2009 obligations towards more than 14,000 families, of which more than 11,000 are homeless, have not been implemented.

According to the data of the RA Ministry of Labor and Social Affairs, of 100,000 families included in the family poverty benefit system, around 20,000 families need housing. If we assume that the problems of one portion of the mentioned families will be resolved in the frameworks of the adopted programs, then the resolution of the provision of housing for at least 15,000 families (5,000 of which, in rural communities) is waiting for additional regulatory alternatives.

At the same time, if we take into account that, according to the 2001 census, the number of families in overpopulated apartments (4 or more people in one room) is around 33,000 (8,717 of which, in rural communities) and 2,000 families live in communal residences (734 of which are in rural communities), then we see that even the most modest calculation shows that the number of needy families is around 65,000 (see table 3).

Table 3. The approximate structure of the demand for housing in Armenia

	Total	Urban communities	Rural communities
Total	64,494	47,600	16,894
Of which:			
Homeless families	26,199	19,100	7,099
Families needing improvement in housing conditions	38,925	28,400	10,525
Families included in current state programs	14,471	10,900	3,571
Of which:			
Homeless families	11,199	8,000	3,199
Families needing improvement in housing conditions	3,272	2,800	472
Homeless families included in the family poverty benefit system, outside the frameworks of state programs	15,000	10,500	4,500
Families living in overcrowded dwellings	33,110	24,393	8,717
Families living in communal dwellings	1,913	1,179	734

If we take as a basis the 3.2 million drams⁴ spent from 2001–2008 by the state per family on the provision of housing, or corresponding improvements in condition, then over 200 billion drams are needed for the resolution of the inventory of issues listed.

Table 4. Basic indices of the housing stock as of January 1, 2010

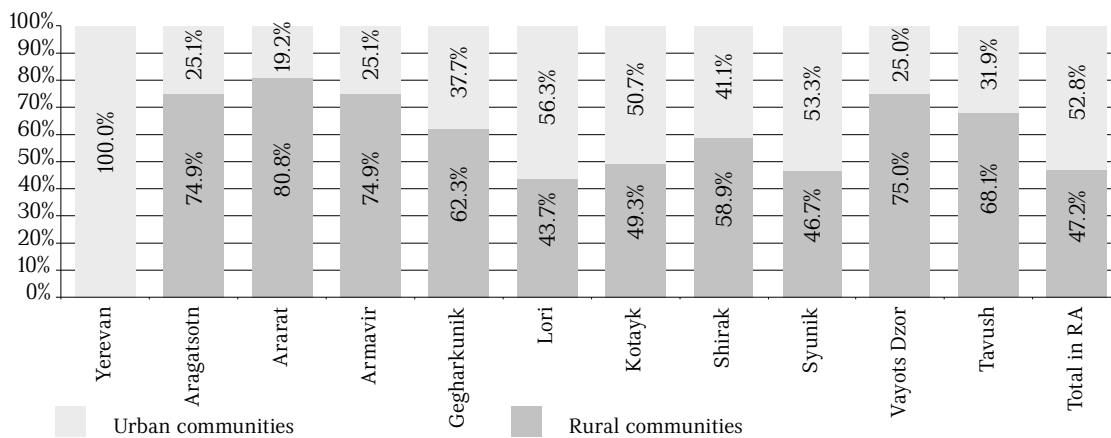
Multi-apartment buildings			Residential houses (detached)		
Number, units	Number of apartments, units	Total surface area, thousand m ²	Number units	Total surface area, thousand m ²	Provision of total surface area per residence m ²
21,750	430,693	27,107.7	401,982	59,063.6	26.7

⁴ Calculated on the basis of the realisation indices of the state assistance programs aimed at the resolution of housing issues.

Table 5. The distribution of the housing stock according to RA regions (marzes) and Yerevan, according to urban and rural communities, as of January 1, 2010

	Total surface area ⁵		Of which:		Rural communities	% of rural communities
	Total Thousand m ²	% of total	Urban communities	% of urban total		
Yerevan	22063.3	25.5	22063.3	48.3	-	-
Aragatsotn	4605.0	5.3	1155.9	2.5	3449.1	8.5
Ararat	8430.0	9.7	1615.6	3.5	6814.4	16.7
Armavir	10738.9	12.4	2695.7	5.9	8043.2	19.7
Gegharkunik	7090.7	8.2	2674.6	5.9	4416.1	10.8
Lori	8936.5	10.3	5029.6	11.0	3906.9	9.6
Kotayk	6633.6	7.7	3364.3	7.4	3269.3	8.0
Shirak	7831.9	9.1	3218.0	7.0	4613.9	11.3
Syunik	3593.5	4.2	1913.7	4.2	1679.8	4.1
Vayots Dzor	2176.7	2.5	543.5	1.2	1633.2	4.0
Tavush	4392.9	5.1	1399.3	3.1	2993.6	7.3
Total in RA	86493.0	100.0	45673.5	100.0	40819.5	100.0

Diagram1. The proportion of the total surface area of urban and rural community housing stock to the total surface area of the housing stock according to RA marzes and Yerevan, as of January 1, 2010 (%)



There is no system for the united and universal classification of individuals and families in need of housing and consequently also no comprehensive registration system. Perhaps only in the earthquake zone are separate activities taking place in this direction with homeless families.

At present 96% of the housing stock of Armenia is privately owned. The prices for apartments in the private sector are not affordable to low and middle-income families. According to calculations, the number of families in need of housing in Armenia is as high as 70.000. According to assessments by various specialised structures, this number is growing year on year, because of the fast process of deterioration of the housing stock, demographic developments and work migration⁶.

1.2. Study of groups with housing issues included in different programs

From 2001–2008, within the framework of state assistance programs, 65,670 million drams has been directed (about 15 programs) toward solving housing issues. During this time, 20,332 families have been provided with living space or improvements in their housing conditions, through the aforementioned programs. This means that in the given 8-year period, an average 3.2 million drams has been spent on

⁵ Including 49.0 m² temporary residential space (in administrative buildings, schools, kindergartens etc.) and 272.7 m² dormitory stock. These are not calculated in the housing stock under the administration of the communities.

⁶ http://www.shf-armenia.org/index.php?option=com_content&view=article&id=23&Itemid=13 (20.05.2011)

the provision of housing or improvement of corresponding conditions for each family. In the same program, as of 01.01.2009, the needs of 14,471 families have still not been satisfied.

Based on the RA legislature and the approaches and definitions of separate targeted programs, the main target groups with housing issues are identified below (the references in brackets relate to the status of the corresponding group and legal acts relating to housing issues).

The families of RA Ministry of Defence servicemen (“On the provision of housing for RA Ministry of Defence servicemen” Government decree no. 384-N, March 7, 2007).

The families of RA Police and National Security servicemen (“On the provision of housing for servicemen of the RA Police and RA National Security attached to the RA government” Government decree no. 805-N July 24, 2008).

Young (newly formed) families (Strategy of the demographic policy of establishment of a state focused program, “Affordable housing for young households” of the RA Government decree no. 98-N January 29, 2010).

Young scientists and lecturers (“Affordable dwellings for young scientists and members of creative unions” program, “On the donation of property to the YSU Graduates Union NGO” Government decree no. 856-N July 8, 2010).

Families left homeless as a result of the earthquake and living in the earthquake zone: (RA government decisions, “On establishing the procedure for out-of-sequence provision of housing for citizens living in the earthquake zone “ No 432 of 10 June 1999; “On resolving the housing issues of individuals left homeless as a result of the earthquake and making additions to the RA government decision no. 309-N of February 24, 2005”, No.200-N of 22 February, 2008; and “On the registration, and establishment of the procedure for priority provision of housing for families left homeless in rural communities of the disaster zone as a result of the earthquake” No. 1337-N of 13 November, 2008).

Out-of-sequence residential plots are allocated in the disaster zone communities according to the order of priority of social groups as listed in Article 18 of the procedure set by RA government decision N432 of June 10, 1999. Overall there are 29 target groups listed here, beginning with individuals with first degree disabilities as a result of the earthquake, up to workers and employees with 15 years or more service in production.

At the same time, according to Article 19 of the RA government decision No. 1337-N of November 13, 2008 “On the registration, and establishment of the procedure for priority provision of housing for families left homeless in rural communities of the disaster zone as a result of the earthquake”, the list of citizens entitled to housing improvement within the framework of the housing provision program consists of the following priorities in housing provision:

1. Families with 3 or more minors.
2. Families whose family members were victims of the earthquake.
3. Families with members who have first-degree disabilities as a result of the earthquake.
4. Individuals who have adopted double orphans
5. Families with minors who have lost one of the bread winners.
6. Single elderly persons.
7. Families with members who have second-degree disabilities as a result of the earthquake.

Moreover, according to the above-mentioned decision, applications are not accepted after December 15, 2008. In the case of individuals not having applied for registration for housing improvement within the deadline, the execution of the state’s obligations of assistance concerning the provision of housing in rural communities of the disaster zone towards those individuals who have not presented their applications in the prescribed manner, are considered terminated. This clause demands appropriate legal examination as it may contain an element of the infringement of the citizen’s constitutional rights.

Families of refugees⁷: (1300 refugees live in Yerevan, according to registration carried out by the municipality). This target group, in its turn, is sub-categorised by corresponding legal normative acts

⁷ The situation today is that around 12, 5 thousand families (almost 37 thousand people) do not as yet have permanent housing. Unfortunately, state capital investment for housing development is negligible and the solutions to the issue are being at present implemented through UNHCR and individual donor countries’ resources. The State Department for Migration and Refugees drafted a program for the provision of housing for those individuals forcibly deported from Azerbaijan in 1988-1992, which has received government approval. (<http://www.dmr.am/HIMNAX-1/Paxhimn.htm>, (20.05.2011))

into families of refugees included in priority and out-of-sequence lists (“On the establishment of the procedure for the registration and provision of residential areas to refugees in need of housing in RA” RA government decision No.330 of 9 October, 1997).

Homeless single elderly persons: (RA government decision No. 670–N of 24 August, 2010 “On the establishment of the program–timetable of the measures to be implemented during 2010–2013 for the creation of an interdepartmental committee to coordinate the processes of organising and managing of a social housing complex in Maralik and its activity rules and also to ensure the implementation of the concept of the creation of a housing complex for the provision of housing for homeless single elderly persons in RA and other social groups in need of housing”).

Children left without parental care: (RA government decision No. 983–N of 23 July 2003, “On approving the procedure for the provision of housing to children left without parental care”).

The absence of coordination between the legal acts regulating communities in the housing code, the dispersion of chronological and coordinating links, and the differing definitions of status of the target groups (families, individuals) for provision and improvement of housing, are substantial factors hindering the implementation of citizens’ constitutional rights.

1.3. Fundamental issues in housing in the legal field and strategic programs

Today in Armenia there are over a hundred (often mutually contradicting) laws and sub-legislative acts on the regulation of housing issues or related matters.

The right to housing is stipulated in Article 34 of the RA Constitution: “Everyone shall have the right to a standard of living adequate for himself/herself and for his/her family, including housing as well as improvement of living conditions. The state shall take the necessary measures for the exercise of this right by the citizens.” According to Article 48 of the Constitution, the basic tasks of the state in the economic, social and cultural spheres are, in particular: to protect and support the family, motherhood and childhood; to foster housing construction, to contribute to the improvement of every citizen’s housing conditions; to pursue an environmental protection policy for present and future generations; and to ensure a decent living standard for the elderly.

As far as the laws are concerned, according to the RA law “On Urban Development” the government ensures the implementation of the state policy in the urban development sector, approves republican and marz programs of residential urban and regional development, develops the policy for economic stimulation of urban developmental activities and implements it within the framework of its jurisdiction, and provides the accessibility of residential, social and industrial buildings and structures, for the disabled.

LSG authority and jurisdiction as far as communal and urban development issues are concerned are stipulated in the RA law “On local Self-government.” According to Article 37 of the law, the head of the community has considerable authority in urban development and utilities, from the drafting of town and village community plans up to organisation of the maintenance and exploitation of residential homes and non-residential areas, dormitories, administrative buildings and other buildings considered to be the property of the community.

Besides obligatory powers, the head of the community also realizes a series of voluntary powers, including the building, fundamental renovation and construction work of other residential and social structures and organising the maintenance and preservation of resorts and so on.

Within the framework of their jurisdiction, different state bodies such as the RA Ministry of Urban Development, RA Ministry of Labour and Social Affairs, and others are involved in this issue.

The Armenian legislative field in the housing construction and provision sector consists not only of the state policy and the obligations it has taken upon itself, and the legal acts defining the powers of the corresponding state structures, but also of a series of decisions taken over different years by the government concerning the provision of housing in the disaster zone, and also legal acts concerning the provision of housing to servicemen in the Defence, National Security and Police Departments.

The RA government decision no. 401–N of June 7, 2006 “On the creation of a coordinating council for the implementing activities of housing programs, and the confirmation of its structure and regulations”

should have played an important coordinating role in the normative legislative acts of the housing construction and provision sector. The specific importance of this decision is that it was approved in 2003 according to the requirements of the Activity Plan of the RA government, with the aim of ensuring the execution of state obligations in the housing sector. In line with this decision, the RA Minister of Urban Development should have submitted for government consideration, proposals concerning issues needing regulating relating to the creation and conduct of a housing register.

Of the so-called “high status” state comprehensive programs including terms relating to issues of housing provision, it is possible to set apart the Sustainable Development Program, programs from different years of the government’s activities, and so on.

The **Sustainable Development Program**⁸ stipulates that according to the accepted international definition social security is that totality of operations of state and non-governmental bodies which is directed to broadening the possibilities of households and individuals in withstanding certain risks or satisfying needs.⁹ The purpose of the state policy of social security is the management of these risks by the state, with the intention of regulating and reducing them. Hence, all those risks or needs which are the issues of social security, according to internationally accepted methodology, are categorised in the following groups:

1. Bad health
2. Disability
3. Old age
4. Survival/Loss of relatives
5. Unemployment
6. Family/children
7. Provision of housing which includes different mechanisms of state care directed to supporting the solution of the housing problems of households and individuals.

The program proves that the level of poverty is highest in Armenia’s towns (with the exception of Yerevan). Of the approximately 29 thousand homeless families in the republic, over 19 thousand, deprived of even the most basic housing conditions, are town dwellers living in temporary huts, dormitories and public facilities.

The Plans of Action of RA governments have also one way or another reflected on the problem of provision of housing. Thus, in 2008 there was a provision concerning the resolution of the problem of families who had been made homeless by the earthquake by providing them with housing purchase certificates.

In 2009 the same method of resolving the housing issue was also observed, for those individuals deported from Azerbaijan in 1988–1992. Using resources from the RA Ministry of Sport and Youth Issues, it was planned to realise the state directed program “Affordable housing for young households.” The 2010 program incorporated a desire to provide solvent youth with housing at close to cost price. During implementation it turned into a loan interest rate financing policy for those young families of higher than middle income. In other words, it transformed from a social program to a support program for the financial market and financially secure youth.

The ineffectiveness of the measures are proven by the fact that, in contrast to international experience, the target groups for provision of housing sometimes stand out not with the minimum income as with the threshold maximum and also that to date the solution to issues which arose decades ago are still being drafted. These in their turn are postponed year by year. The realization of housing provision programs inherited from years ago is foreseen in the 2010–2011 program measures, for example, the provision of housing for those residents forcibly deported from the village of Ardzhvashen in 1992 as a result of military operations.

Although measures are indicated separately for each year in the RA government’s 2008–2012 activity plan, nevertheless in the program of measures for each year, as for the corresponding period, there are no stipulations for improvements in housing or the provision of housing to needy families, the volume of housing or state support, or any other indices which would make it possible to assess the progress of the government in this area or assess its performance. The only exception is the Ministry of Defence, which is planning to:

⁸ Approved by RA government decision no. 1207-N of October 30, 2008

⁹ *The European System of Integrated Social Protection Statistics Manual*, EU, Eurostat, 1996.

- a. Allocate 3 billion drams each year from 2008–2011 to the provision of housing and improvements in housing conditions of 2,320 families of martyred, first, second and third degree disabled servicemen. In the 2012 program it is envisaged to provide financial compensation (taking into account the tendency for growth).
- b. Year on year improve the provision of housing for servicemen by means of service, and free of repayment, housing development (by annually increasing the 5 billion drams foreseen in 2008 by 10%).

The Activity Plan¹⁰ of the RA Urban Development Ministry was approved based on the RA President's order no.37-N of February 7, according to the provisions of the RA national security strategy. The Plan particularly mentions regional development and planning, the creation of essential conditions for the resolution of issues relating to the maintenance of multi-apartment buildings by the development of management systems, the provision of seismically sound structures and the reduction of seismic risks. The plan mentions the problem of provision of housing to families homeless since the first year of independence, 1991. The reasons for this are:

- The 1988 Spitak earthquake,
- The influx of refugees from Azerbaijan as a result of the military action,
- The inherited problems from the Soviet period (families made homeless by problems in realization of the housing stock, those who were being resettled due to dangerous geological occurrences, and those living in housing subject to demolition, etc.),
- The 1997 Noyemberyan earthquake.

Around 28,000 families left homeless as a result of natural and man-made disasters are included in the framework of the programs being implemented. Of these, from 2000–2006 about 15,000 families have been given the opportunity to improve their housing conditions through measures implemented with state assistance.

However, according to that program, the housing problems of those socially unprotected families, not left homeless as a result of earthquakes, who are not included in the above mentioned programs and do not have the resources to secure the most basic living conditions for themselves, remain unresolved.

Moreover, about 16,000 of those families registered in the system for assessing the social unprotectedness of families, and entitled to family benefits, are homeless. Of these, around 30% are from rural communities. Thus, the number of homeless families in the republic living in shacks, public facilities and so on is around 29,000. Of the total number of homeless, 10,000 are from rural communities.

The plan emphasises the establishment of a social housing stock institute which will represent, especially for those living in dormitories, an important means towards full integration into society.

According to the plan, the situation in the marzes of Tavush, Vayots Dzor, Syunik, Gegharkunik, Kotayk and Lori has become strained due to incidences of increased landslide activity.

In the final part of the plan, it is stipulated that:

“The continuation of this trend of urbanization constitutes a threat to the national security, as it results in a pattern of overly compact inhabitation and settlement in the areas prone to seismic activity, a deterioration of the demographic balance in rural areas, and a depopulation of border villages.”

As we see, concerns exist in different program documents about the provision of the citizen's constitutional right to a dwelling. One of the basic characteristic features in existing programs is that they do not in practice include long-term strategic solutions and do not create the potential for development. At best they present local and temporary solutions for social problems (such as for instance minimal and not particularly justified financial benefits, which do not present opportunities for the development of human capital, not even for its reproduction). At the same time a series of cases exist where the provision of housing has taken on a personal approach.

As a rule, these programs are not correlated, in certain cases have chronological and other inconsistencies, are devoid of consistency, do not contain any mechanism for performance evaluation, and do not arise out of provisions of more comprehensive and systematic documents (such as, for example, the Concept for Provision of Housing, which has not been approved by the government as yet, could be).

¹⁰ RA government decision no.384-N

Chapter 2. International Experience in Housing Provision

2.1. Models of provision of social housing

The examples of European countries

The study of the construction of housing in European countries conflicts with one major principle “unity in diversity.” It is problematic to compare European countries to each other, as the indices and methods of calculation being compared are different.

In the NIS countries the index for assessing housing is the living space, which is not used much in European countries. Instead, especially in the EU countries, the number of rooms and number of residents in the dwelling are frequently used.

We studied the corresponding data on the provision of social housing sector of the 2009 EU European committee by taking as an example the statistical information on the provision of social housing in 30 European countries, and presenting the distribution of housing according to the categories of housing¹¹, status of ownership¹², degree of overburden¹³, degree of housing deprivation¹⁴, and the overburden of housing costs according to the status of ownership¹⁵.

The fact that European countries are difficult to compare to one another is proven by the statistical data. In each case both a completely different situation exists, and a different solution model exists for the basic problems in housing arising from that situation.

Thus, 66.2% of Latvia’s population live in apartments, whereas only 3.1% do so in Ireland. In Hungary 67.6% of the population live in detached houses while in Malta, 6.4%. In the Netherlands, 61.4% live in two-roomed houses, while in Slovakia, 1.4%. Romania has the highest specific weight of private ownership of houses, 95.3% of the population, while the lowest is the Netherlands with 9.2%. Italy has a large specific weight of numbers of private social apartments, which have been acquired through loans or at low interest, 70.6% of the population, and the smallest specific weight is that in Romania, 1.2%. Poland has a high specific weight of rented social housing at 29.1% of the population, and the lowest are Sweden and the Netherlands at 0.5%. The highest index of rented housing is in Denmark at 33.7% of the population and the lowest is in Romania at 0.8%. Romania and Bulgaria have the highest indices of housing dispossession while the Netherlands and Finland have the lowest.

Table 7. The share of provision of social housing in a series of European countries.

Countries	Private ownership (%)	For private rent (%)	For social housing rent (%)	Number of units of social housing
The Netherlands	54	11	35	2,400,000
Austria	55	20	25	800,000
Denmark	52	17	21	530,000
Sweden	59	21	20	780,000
Great Britain	70	11	18	3,983,000
France	56	20	17	4,230,000
Ireland	80	11	8	124,000
Germany	46	49	6	1,800,000
Hungary	92	4	4	167,000

¹¹ Eurostat, <http://appsso.eurostat.ec.europa.eu>, Distribution of population by degree of urbanisation, dwelling type and income group

¹² Eurostat, <http://appsso.eurostat.ec.europa.eu> Distribution of population by degree of urbanisation, dwelling type and income group (Sept. 15, 2011)

¹³ Eurostat, <http://appsso.eurostat.ec.europa.eu>, Overcrowding rate by age, gender and poverty status - Total population

¹⁴ Eurostat, <http://appsso.eurostat.ec.europa.eu>, Severe housing deprivation rate by age, gender and poverty status

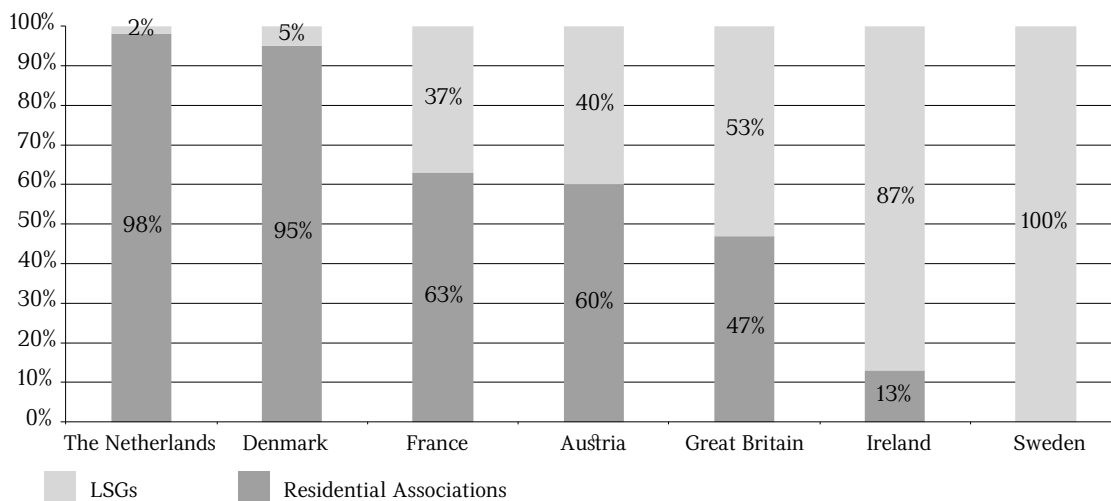
¹⁵ Eurostat, <http://appsso.eurostat.ec.europa.eu>, Housing cost overburden rate by age, gender and poverty status

In another study it has been calculated by the number of residents in a dwelling, that in 2008 the lowest indices were Sweden, 2.1, Latvia, 2.4, while in Spain and Ireland that index was 3.3. The average numbers of rooms per resident was highest in Denmark, 2.1, and lowest in Latvia, 1. The average number of rooms in housing in Belgium was 4.1 and in Austria, 3.2.¹⁶ The fact that the number of residents in a single dwelling was highest in Spain and Ireland is conditioned by the Catholic tradition of living in large families. In Finland and Sweden, on the contrary, that index is small.

In general according to 2009 data, over a quarter of the population of 27 EU member states live in privately-owned social dwellings which have been acquired by loan or at low interest. However, almost half live in housing occupied by the owners without deeds. Almost two-thirds of the population or 73.6% live in their own dwellings, while 13% live in housing rented at market rates and 13.5% in housing rented at low rates or rent-free.

Less than 10% of the population of 12 EU countries live in housing rented at market rates. Less than 20% of the population of the member states live in housing rented at low rates or rent-free. Modelled on the OSCE member states, based on OSCE 2007 calculations, the movement of the population¹⁷, the reasons for the movement¹⁸, the management of rent rates in the rental market¹⁹, the regulation of renters and owners²⁰, and housing supply sensitivity indices²¹, were observed. The mean effectiveness²² of the population movement policy was based on the assessment indices of the efficiency of these factors²³.

Picture 2. Subjects providing social housing in Western European countries



Source: "Social housing in Europe: now and tomorrow" Kath Scanlon, LSE/SBi, Paris, 22 November 2007

The provision of social housing first developed in Finland. In 1909 wooden houses were built in Kirstinkuja for four working class families. Subsequently, it became widespread in other European countries. At present the level of provision of social housing in Western European countries is highest in the Netherlands, Iceland and the Scandinavian countries. In some countries a united official definition of provision of social housing does

¹⁶ Source: Table "Жилищные условия в странах ЕС в 2008 году", *Housing model in the post socialistic countries on the example of Latvia*, Riga Technical University, 2010, page 2

¹⁷ OECD calculations based on 2007 EU-SILC Database, on HILDA for Australia, AHS for the United States, SHP for Switzerland.

¹⁸ Ibid.

¹⁹ Calculations based on OSCE housing market questions.

²⁰ Ibid.

²¹ OSCE assessments.

²² OSCE 2007 calculated indices. EU-SILC Database, on HILDA for Australia, SHP for Switzerland and AHS for the United States.

²³ OSCE calculations based on 2007 EU-SILC for European countries, 2007 HILDA for Australia, 2007 SHP for Switzerland and 2007 AHS for the United States.

not exist. The definitions relate to: the owners, mostly NGOs and LSG bodies, such as in the Netherlands and Sweden; building implementers as in Austria and Ireland; rent rates lower than market levels, as in Ireland and Great Britain; the flow of financing or subsidies as in France and Germany; and the target group for provision of social housing. As far as the latter is concerned, if it is accessible to all in Austria and Sweden, then in the remaining countries there is a clear limitation: priority is given according to the income of the families. Picture 2 represents the comparison of the social housing providers. In the Netherlands 98% of the sector is provided by housing associations, while in Sweden it is entirely covered by the LSG bodies.

Let us present the experience in provision of social housing of Western Europe and then that of some other countries in other regions.

Germany

In Germany the provision of social housing is directed firstly to individuals with low income. Their numbers are diminishing, due to the privatization of housing. If in 1987 there were about 3,900,000 social houses then in 2001 the number was 1,800,000.

In the structure of the provision of housing system 45% have private owners, 49% private rent, and 6% social housing.

Table 8. The housing stock indices in East (E) and West (W) Germany.²⁴

Number of residents	82.4	Million residents (2007)
The average number in each household	39.9 (E: 8.9; W:31.1) 2.1 (E: 2.0; W:2.1)	Million households Residents per household
Age of structures	14 (E: 24; W:11)	Building % 2006
	14 (E: 20; W:12)	Before 1918
	46 (E: 30; W:51)	1919-1948
	13 (E: 12; W: 13)	1949-1978
	13 (E: 12; W: 13)	After 1991
Portion of leased housing	58.4	% (2006)
Average size of housing	90.2 (E:76.5; W:94,9)	Square metres
Average area of housing per person	42.9 (E:38.6; W:44)	Square metres (2006)
Portion of social housing provision in housing stock	6	%
Cost of leasing in provision of social housing compared to provision of non-social housing	Leasing index**	
	Main rent 4.84	Euro/m ² /month
	Cost of non-heated portion 1.41	Euro/m ² /month
	Cost of heated portion 1.04	Euro/m ² /month (2006)
	Provision of social housing 9-15 % less than main rent	(2005)

** varies according to region

In Germany there are three levels of provision of social housing: federal and state subsidising of rents (not operational in some states), and LSG bodies – subsidies offered for purchase of housing. The federal government decides the total level of costs for provision of housing while the states and LSG bodies take on the responsibility for their realization. The structure of housing provision, which the LSG bodies manage with the state's authorization, is national.

The structure of activities in the provision of social housing in West and East Germany is presented in table 8. The owners of subsidised rented housing provide housing for residents in vulnerable groups. The main target, individuals of low income, must apply to WBS to obtain a certificate of entitlement for provision of housing to rent or buy a subsidised dwelling. In Germany they have calculated the basic indices of economic analysis for the provision of social housing.

²⁴ Source: "Key Figures on Social Housing and energy poverty-Germany", Project no EIE/07/146/SI2.466277, FinSH (Financial and Support Instruments for Fuel Poverty in Social housing), December 2007-May 2010

With the 2001 law, the legislation and programs for provision of social housing changed with fundamentally new support procedures. Currently the three principles for implementation of support are:

- Principle of subordination: problems are regulated at the lowest level. The LSG bodies draft the programs independently.
- Principle of joint payment: the end-users must pay their share, in completion of the local, state or federal payments.
- Principle of local priority, according to which no housing units must be built as state or federal property.

In place of traditional provision of social housing the “Support for provision of housing” law was introduced in Germany, in which political reforms concentrated on six basic clauses.

1. The provision of social housing radically changed for broad strata of the population. It was already focused on the target groups of low income citizens, families with children and the single elderly.
2. Subsidies are to be realised in the existing housing stock as newly constructed houses are much more expensive.
3. The acquisition of ownership of housing is encouraged. Formerly rented property is sold to the tenants. The government anticipates a more homogenous leasing structure in the provision of social housing complexes.
4. The reforms in the policy of provision of social housing are interlinked with urban development programs. More subsidies are offered for densely housed neighbourhoods.
5. The responsibility for the utilization of subsidies is changed towards federal states and towns. This policy will guarantee a more flexible concentration on local needs.
6. A new form of targeting for cooperation between provision of housing organisations and well-being organisations. In particular, building and servicing programs for housing for the elderly is one of the aims of the new regulation.

In 2006 the number of subsidized social houses was 35,307. Limitations of income: Households of one person with an income of less than 1,200 Euro could acquire certificates for provision of social housing, as could two-person families, when their monthly income did not exceed 1,800 Euros.

The Netherlands

The target groups for provision of social housing are: those who receive a low income, unemployed families, the mentally or physically challenged and homeless residents. Although a low income is an evaluation criterion, nevertheless the provision of social housing in this country has traditionally been accessible also to middle-income individuals. The subjects of provision of social housing are associations or unions.

The provision of housing consists of three sectors: social leasing, private leasing and personal property.

The social leasing sector includes the housing belonging to social associations. The private leasing sector is those houses that belong to private and institutional investors such as social foundations and insurance organisations. Personal property is those areas occupied by the owners, which belong to the residents.

The social housing leasing system has two features: the owner does not seek personal profit and it is administratively allocated according to need. The government provides the houses to individuals with a low income. In recent years the portion of privately owned housing has gradually risen in Western European countries. However, in comparison to many other European states, private ownership is still limited in the Netherlands. Instead, the Netherlands has the largest social leasing system, as the corresponding data in Table 8 shows.

Despite the large numbers of houses being constructed in the Netherlands, the demand for housing is still large. This is due to the growth in the population and the large volume of immigrants. The population is predicted to reach 17.9 million in 2030. Also, the demand for housing is conditioned by the longevity of the population and the divorce rate. However, the social housing in the Netherlands strictly maintains the requisite quality, based on the rules set for the relevant state bodies and housing unions (*Besluit Beheer Sociale Huursector, BBSH*):

1. Provide high quality housing,
2. Guarantee the financial stability of the enterprise,
3. Lease first and foremost to groups needing special attention,
4. Involve the lessees in the management and policies of the organisation,
5. Invest in the development of the quality of life of the neighbourhood and community,
6. Invest in the provision of housing for individuals.

The associations present an annual report to the Ministry for Housing of the Netherlands.

As well as maintenance and management costs, the interest rate and loan repayments are included in the expenditure for house building.

In leasing the house, the association incurs expenses which occur in the following directions:

- Payment of interest: The association obtains money from the market for the purpose of construction. In this way, the association is obliged to pay interest and payment on the loan each year.
- Maintenance/management: A house must be maintained. In this sense, maintenance costs are variable, including taxes, management and insurance.

2 billion Euros in subsidies was given to almost one million lessees in the Netherlands in 2006. The mean individual monthly sum for each household was 150 Euros. Currently 500 housing associations operate in the Netherlands, which also include associations belonging to LSG bodies. The average association has 4,500 housing units, and the largest has 50,000 – 80, 000 units.

Ireland

The provision of social housing in Ireland is directed to low-income households and the support of the socially insecure in the population. The main implementers of the provision of social housing are the LSG bodies but the role of not-for-profit volunteer housing associations and cooperative housing unions is broadening. Currently 87% or 105,000 units of the structure of the social housing stock belongs to LSG bodies and 13% or 23,000 units to volunteer or cooperative housing unions.

The majority of households in Ireland have private housing. The social housing fund envisaged for leasing is small compared to other western European countries. From 1961–2006 the number of private homes grew from 50%, reaching almost 70%. In that same period, local authority houses for lease and those of the private sector decreased from 20%, to 9%.²⁵

The legislative basis for the provision of social housing is very strong in Ireland. It is regulated by many laws introduced over 50 years ago and currently operating.

The following ten programs function in the provision of social housing system of Ireland:

1. Mortgages offered by LSG bodies: for those of low income.
2. The purchase of houses by the tenants: the purchase of housing belonging to LSG bodies, at discount prices.
3. Low-cost plots of land: giving low-income individuals and volunteer and cooperative associations the opportunity to construct, at discount prices, residential buildings on land belonging to LSG bodies.
4. Mortgage payments: simplifying the purchase of private housing by the tenants in LSG-owned housing.
5. Shared ownership: supporting those with low incomes to purchase housing, together with their LSG body, paying the mortgage loan and the LSG body's portion of the payment, over a period of 25–30 years.
6. Rent subsidies: supporting the payment of the rent of the rented portion of the dwelling.
7. The provision of affordable housing: the sale by LSG bodies of houses at lower than market prices, in more expensive areas.
8. Mortgage subsidies: the provision of subsidies for payment of a certain part of the monthly mortgage payments.
9. The sale of housing and plots of land at affordable prices to those with low incomes and those in need of housing (whose mortgage repayments exceed their yearly income by 35%).

²⁵ Source: *Housing Tenure in Ireland 1961–2006* (Source: ICSH publications), *Housing in Ireland*, [www.icsh.ie/eng/housing in Ireland](http://www.icsh.ie/eng/housing%20in%20Ireland)

10. To create the conditions for the construction of 10,000 affordable housing units on state owned land. Of the above-mentioned programs, the first, second, fifth and eighth are more widespread.

Sweden

In Sweden, provision of social housing is accessible to all except those childless families between the ages of 29–65. This sector's share in the provision of housing system is 22%. There is no housing stock intended for special or low-income individuals. Pensioners, families with or without children, whose incomes are quite low, are entitled to the provision of housing. The provision of social housing in Sweden is offered by local housing organisations but with central government financing.

From 1965–1974 the “Million Program” was applied in Sweden. The aim was to provide every resident with housing at an affordable price. The aim of the program was to provide numerous residents with housing over ten years (1,600,000 houses). The main concern of the authors of the program was the integration of different social groups of society. The constructed houses were on the whole of the same size, 75 m², three roomed and intended for families with two young children. The main shortcoming in these buildings is considered to be the uniform, unsightly external appearance. They allowed the concentration of large numbers of the rural population into urban communities.

The Swedish leasing management system includes annual discussions between the tenants and the owners.

France

Low income is the main criterion for provision of social housing in France. The share of the latter in the housing system is 18%. Currently for families without children the limiting maximum size is almost twice the set minimum wage, while for those families with two children it is three times the minimum wage. Dispossession and the provision of houses for the poor are also important factors in the provision of social housing. The following schemas function for the provision of social housing:

1. Public loans for social housing.
2. Support for those households that receive housing permission: young, childless, married couples and individuals with disabilities.
3. Support for the elderly, disabled and those who have been unemployed for a long time.

The income criteria are at the base of all the schemas: whether the incomes are sufficient to cover the owners' expenses as well as those of the tenants.

The provision of social housing in France is implemented by different volunteer housing agencies through national government financing. The authorizations for the provision of social housing are directed by the central government.

Great Britain

The major part of the provision of social housing is realised by LSG bodies and registered social owners. Financing is realised by the central government which allocates subsidies for that purpose. This sector forms 18% of the overall housing provision system. The local authorities usually consider the provision of housing within the framework of social vulnerability. The requirements set by central government give priority to families with children and those families living in bad domestic conditions. Low incomes do not represent basic qualifications for the provision of housing, but usually resources are directed towards families in need of housing with the aim of supporting private leasing or home ownership. In other words, there is no limit as far as low incomes are concerned in Great Britain, on a national level. However, owners may include it in their criteria and may assume that the provision of social housing could be accessible to those for whom it is not affordable to buy or rent on a private basis.

Denmark

The provision of social housing is universal in Denmark, independent of the income level. The cost of renting, depending on expenses, is lower than the market level of rental payment. Housing is provided based on housing registration lists. A fourth of the uninhabited houses are distributed for social purposes

through LSG bodies. At present these are only provided to the elderly. Social housing is provided by non-profit associations: 760 organisations and also cooperatives which are constructing new apartment buildings. The Danish model of provision of social housing is based on the law “On the democracy of residents” according to which the residents have management participation. In 2004, all the problems of provision of social housing and renovation of towns were included in the framework of the authorization of the ministry. The ministry separated out some priorities, which include the provision of housing to all young families in large cities, and the provision of social housing to low-income households.

Belgium

The provision of housing in Belgium is created to supply high quality housing at high standards which are affordable to low-income residents. LSG bodies, state organisations, foundations, and non-profit organisations work in this sector. Social housing is provided based on the combination of income levels and target groups. The provision of social housing was de-centralised in 1980 into three regions: Flanders, Walloon and Brussels. Applicants in the Flanders region must register with the local providers of social housing, based on their income level. This region has the largest share of social housing intended for sale. Applicants in the Walloon region must register with LSG bodies, based on income levels, number of members in the family and proof of absence of housing. In the Brussels region it is based on a computerised waiting list which however does not exclude the possibility of special extraordinary situations. The sale of social housing is forbidden in the Brussels region. Currently the priorities in Belgium for the provision of housing are: social housing development by the state sector within the framework of the previously identified regions, improvement in the existing housing stock, increase in the supply of housing at “social” prices or rents, increase in the role of LSG bodies, and monitoring and evaluation. Tax privileges are applied in this sector in Belgium.

Eastern European countries

The provision of social housing was formed in 1945 in Eastern Europe. However, it was not widespread as it contradicted the Soviet ideology with the concepts of “dispossession” and “poverty.” Two kinds of housing were prevalent: public (belonging to the state) and private (personal). Together with reforms, the idea of the provision of social housing was slowly imported. In some countries, provision of social housing policies were developed based on the Western European experience. Those countries created corresponding financial, legislative, and institutional tools both for the provision of affordable housing and for the maintenance and management of the existing housing stock.

USA

In the USA “Provision of social housing” is expressed as “Provision of public housing.” The first construction programs in the USA for provision of public housing were started in 1936 at which time the old buildings and slums were demolished and new buildings were constructed. The provision of public housing in the USA is not as crucial and important for the country’s social policy as it is in the Western European countries. The data for the last two decades shows that 67% of households in the USA are private owners, 31% are private sector rental and the public housing stock is 2%. The US provides public housing to those households that have low incomes. As a rule, their number is limited. To be considered a low income, the limit is an income which does not reach the middle income set in the country.

Of the American public housing provision programs, the New York state *Mitchell-Lama Housing Program* is well known. It was initiated by the 1955 (*The Limited Profit Housing Companies Act*). The aim of the program was to develop and construct affordable housing for middle-income residents. In the USA, the provision of housing is considered affordable when it does not exceed 30% of the household income. The government agencies providing the mentioned houses are HUD, USDA, and the Federal Home Loan Bank. The provision of public housing and leasing system is provided at the local level by community development non-profit corporations. However, it is managed by the federal government. The rents are differentiated and subsidies, which are also differentiated, are usually provided by the government. The sub-division of households according to income: those getting a reasonable income (receiving 80-120% of

average incomes), those getting a low income (receiving 50–80% of average incomes) and those receiving very low incomes (receiving up to 50% of average incomes) are the base of the subsidies.

The federal government plays a chief role in the low-income housing policy sector, although the role of LSG bodies has grown over recent years. There are 3 kinds of federal rental housing support, none of which represents a social security program. The first is the provision of public housing which is governed by the LSG bodies but is financed by the federal government. The second are those programs which are private or non-profit and receive subsidies from the government. The third support private housing development with housing permits and housing certificate programs, on a rental basis.

Canada

Homelessness has increased over the past years in Canada. The level of provision of social housing is low, constituting 6% of the total housing stock, whereas the private leasing system is calculated at 32% of the total housing stock. Provision of social housing is realised by federal and state bodies which provide social housing, together with local agencies. The latter manage housing development programs with LSG bodies. The provision of social housing in Canada was formed from 1974–1986. The beneficiaries were defined as low-income residents. From 1986 the criteria were change. According to these, the basic definition of the need for housing was considered to be the general criterion. Housing neediness is evaluated by the condition of the housing presented, and also by the level of housing costs which exceed 30% of the income. Differentiated rents operate in the leasing sector. These reach up to 20–25% of incomes. In the 1990s the Canadian housing policy was focused on reducing the deficit and cutting down federal involvement. Currently the main implementer of social housing provision in Canada is the Social Housing Services Corporation which was formed in 2002 in Ontario to provide group services for social housing providers (public housing, non-profit housing and co-operative housing organisations). The cooperative model of house provision has been functioning for around 27 years in Canada, proposing a simple housing model for low and middle-income residents.

Australia

The most important criterion for the provision of social housing in Australia is low income. The level of private housing in Australia is high and constitutes 71% of the total housing stock. Instead, the social leasing sector is quite small, constituting 6% of the housing stock. The responsibility for the provision of social housing is divided between the national federal and state management bodies. The provision of social housing in Australia is managed by the states, however two-thirds of the financing is implemented by the federal government, which is completely responsible for leasing. Certain details are different at government and state levels, however in all the schemes, households are entitled to provision of social housing if the level of their income is lower than the necessary limits. All evaluations are given in gross income. In certain states the gross income of households are taken into account. In other states, the sum of the income of the different members of the family is taken into account, including the incomes of the younger members of the family. The income level and the capital investment differ from state to state.

A differentiated rental scheme of provision of social housing is operational in Australia.

Social housing subsidies are being reduced along with the reduction in new construction. In 1995–1996 they were reduced by 71.4% as compared to 1989–1990. The rent for provision of social housing constitutes 20–25% of incomes. The average rent in social housing is less than the 1/3 the cost of private rental units.

New Zealand

The distribution of housing in New Zealand begins with the lowest-income households. The provision of social housing sector constitutes 5% of the total housing stock. The specific weight of private housing is 71%. A differentiated scheme applies in the rental sector. The majority of provision of housing in New Zealand is managed by the governmental agency.

The administrative structure of controls and permits for social housing in the above-mentioned countries is presented below.

Table 9. The administrative control and housing permits of provision of social housing

Country	Provision of social housing	Housing permits
Australia	Federal and regional governments	Federal government
Canada	Provincial governments, together with the LSG bodies in some regions	Provincial governments with certain federal assistance
France	Housing Associations	Central government
Germany	Universal federal supervision, with state and LSG body responsibility for provision in some areas	Federal scheme, managed by LSG bodies on behalf of the regions
Great Britain	Mostly LSG bodies, also with the assistance of registered housing owners	LSG bodies, with central government financing
Ireland	LSG bodies, with some central authority assistance	Regional Health Committees
The Netherlands	Housing associations	Central government
New Zealand	Central governmental agency	Central government
USA	Locally managed but with federal regulation	Locally managed but with federal regulation

Israel

From the beginning of its creation, the provision of social housing has been a primary issue in this country. From 1948–1952, Israel provided housing on a private ownership basis to around 600,000 immigrants, mostly from Europe and the East (Iraq, Yemen, and Egypt). The second large wave of immigrants was over the period of 1953–1970 of which a large part came from North Africa, in particular Morocco. The Israeli authorities provided them with affordable housing, mostly on a rental basis.

The legal regulation of provision of housing programs began in 1998 when the Israeli parliament approved the corresponding law. The law permitted long-term tenants living in public housing to buy their houses at reduced prices, calculated on the basis of the period of leasing. According to that law, the leases were changed into private ownership contracts. With this law on public housing development the provision of social housing in Israel was directed towards the real development of weak and needy social groups.

In recent years the policy of provision of social housing in Israel has been conditioned in particular by the plan approved in Tel Aviv whereby affordable housing must be built by LSG bodies in the city for the target group which must be mainly young, employed families with children. It is being managed by a specially created committee. 70% of the affordable housing in this program is being allocated to young couples whose monthly budget consists of 12,000 shekels (NIS: currency of Israel) or 3,200 USD. The rent for these apartments must not exceed 2,800 a month or 784 USD (calculated at today's mean exchange rate 1 USD = 0.28 NIS).

The provision of social housing in Israel is the provision of affordable housing to social groups. Two of the most important requirements of both these programs are Israeli citizenship of at least 3 years and having served in the Israeli army. Today in some administrative regions of Israel social housing development is being realised with buildings equipped with solar panels, which is the latest innovative model in this small country. The provision of social housing AMIDAR (Housing Authority) program has been started by the national organisation for the provision of social housing (National Housing Company Amidar). This was of revolutionary importance as it used the roofs of buildings belonging to organisations for the installation of solar panels. This organisation has 72,000 housing units in Israel. A large percentage of these are buildings in south Israel, where conditions for solar energy are marvellous.

Jordan

The provision of social housing has a history of almost forty years. The government invested in this sector for the first time in 1965, creating a Housing Bank with the aim of providing subsidised loans for socially vulnerable target groups. In 1980, the government established the Urban Development Department to develop and provide services for low income residents in the abandoned areas in Amman, Zarqa and Aqaba.

In 1989 the Jordanian government prepared and approved a National Housing Strategy which covers all the activities realised over the past twenty years. The mentioned strategy stresses the importance of the provision of housing for all income groups. One of the primary issues of the strategy was the shaping of mortgage loans. Extending the housing loans repayment period up to 30 years was important. Article 13 of the law “On Housing and Urban Development” which was approved in 1992 states that Jordanian citizens of 18 or over who do not benefit from other similar programs and do not have appropriate financial resources to build houses for themselves can be the beneficiaries of the provision of social housing.²⁶

The Housing and Urban Development Corporation is considered to be the main provider of housing development in the provision of social housing sector. An importance function of the former is the provision of housing development for low-income families, and the adoption of special standards for low-income housing development. 170 programs being implemented by the organisation include 42,000 dwellings directed at 400,000 households. The program for development of the infrastructure in Jordan’s poor and abandoned areas began in 1996 and continues to this day. In 2007 the Jordanian authorities invested 7 billion USD for the provision of social housing for low-income inhabitants. Currently there are different sectorial agencies for the provision of housing in Jordan, such as the Defence Housing Corporation, Teachers’ Housing Fund, Universities housing foundations, housing cooperatives and the private sector etc.

Bahrain

Bahrain has been investing and implementing provision of social housing programs for quite some time now. However the noted social fundamental problem continues to be foremost. It is sufficient to note that the waiting lists for the provision of housing are very long now: 53,000. Sometimes in Bahrain, are on the waiting list for 17 years. At present one of the programs being implemented by the Ministry of Housing is the provision of social housing, addressed to the chronic lack of housing. 20,000 houses are to be built in this project for those with low-incomes.

Income levels are the priority in the provision of housing in Bahrain. Social housing in Bahrain is offered to those families whose income does not exceed the equivalent of 1,060 USD per month. It transpires that 53,000 residents fall below that level; this, when the total number employed in Bahrain is 138,000. The cost of land is high in Bahrain; 225 m² land costs approximately 132,610 USD; the subsidy for mortgages offered to middle-income individuals is 106,088 USD. The high prices for land are conditioned by their concentration in the elite housing sector. The Bahrain government is currently investing large amounts in the construction of 50,000 social houses within the coming five years. The annual construction of 3,000–4,000 houses should reach 15,000–20,000 newly constructed houses over the next five years. The imbalance of supply and demand in the property market in Bahrain has led to a large demand for affordable housing development. According to the most recent information from the main social insurance organisation (Gosi), 60% of the citizens of Bahrain and 90% of those without citizenship receive a monthly income of less than 1,060 USD. This constitutes 86% of the total population insured. 12,200 new houses were constructed in Bahrain from 2003 to 2009.

Hong Kong

The government is carrying out the provision of public housing in Hong Kong through the “Home ownership scheme” with houses for rent and private ownership (for sale) at lower than market prices. These houses are being constructed and managed by the Hong Kong Housing Authority and Hong Kong Housing Society. Almost half of Hong Kong’s population lives in public housing and benefits from various subsidies. Rents are cheaper than in the private sector. These are subsidised by the income from rent on parking spaces or the shops. There are special organisations such as the Hong Kong Housing Authority that carry out special public housing construction.

²⁶ Source: Law of the Housing and Urban Development, Article (13), This law is called (the law of Housing and Urban Development for the year 1992) and is considered official from the date of publication in the official Gazette, www.hudc.gov.jo/en/node/1

Singapore

The majority of social leased housing in Singapore, where almost 85% of all tenants live, is state owned. They are mostly on 99 year contracts. With special assistance from the government, “HDB houses” (which are managed by the Housing and Development Board) are widespread in Singapore as privately built houses. These houses are built in districts with schools, supermarkets, medical centres, shops, and recreational and sport infrastructures. The requirements of needy citizens for the provision of social housing are:

- Singapore citizenship: At least one of the members of the family must be a resident or citizen of Singapore.
- Must be over 21 years of old at the time of acquiring the house.
- At the time of buying two-roomed, three-roomed, four or more roomed apartment, the overall monthly income of the buyer (family or household) must not exceed 2,000, 3,000 or 8,000 Singapore dollars (SGD) or 1,600, 2,400 or 6,400 USD respectively (1 SGD is equivalent to 0.8 USD). If the buyer wants to buy the property with his relatives (for example, his parents), the upper income limit is 12,000 SGD or 9,600 USD. Singapore has no land therefore the provision of public housing is not considered a sign of a low income or poverty, as it is in other countries. The prices of the smallest apartments are frequently higher than the prices of private city apartment property in other countries.

2.2. The experience of international structures in the provision of social housing sector

There are large, well-known international structures such as Habitat for Humanity International, Council of Europe Development Bank (CEB), European Committee for the Provision of Social and Cooperative Buildings CECODHAS HOUSING EUROPE (CHE), as well as the Dutch International Guarantees for Housing (DIGH), The Building and Social Housing Foundation (BSHF), and the Dutch Woonbron organisation which construct housing within the framework of social humanitarian projects in numerous countries and provide housing for the most vulnerable, and most needy individuals. They provide social housing for low and middle income families on a leasing basis and affordable social housing on privileged conditions for those middle-income families with a steady income.

Habitat for Humanity International functions in 91 countries in all 5 regions of the world: USA, Canada, Latin America and Caribbean countries (17), Europe and Central Asia (20), Asia and the Pacific (25), and Africa and the Near East (27). For the most needy families, the organisation constructs, restores and repairs houses, together with the families who are the owners of the houses (as “partners”), volunteer workers, and with financial donations and materials. The organisation’s building expenses as well as the style of the houses differ depending on the climate, location, labour, land, material and ancillary development costs, and construction standards. The buildings are sold for no profit and their sale is financed by affordable long-term loans. Low interest rates can be offered for a period of 4–30 years although the majority are for 6–8 years. Apart from that, the beneficiaries put all their energy into the building of their own homes. In the case of the necessity for additional labour, volunteers from different organisations, schools, churches etc. come from different countries. The organisation implements its activities through resource centres located in different regions which render building services, training programs, disaster response and housing micro-financing. They are independent, locally-run, non-profit volunteer groups which secure the construction plots, organise numerous issues relating to construction loans and help restoration work.

- While implementing its activities, Habitat for Humanity International closely cooperates with local public and state organisations, through which it realises the main problems of water supply and bathrooms in the houses being built. The organisation’s three principles of housing are:
- Simple: the houses being built are of modest size, quite spacious from the point of view of the needs of the owners, yet quite small in order to make the construction and other costs as affordable as possible.
- Decent: the organisation uses quality, affordable local building materials. The training group directs the building and teaches the volunteers and cooperating families.

Affordable: the labour force consisting of the organisation’s volunteers and cooperating families, efficient building methods, the modest size of the houses, and the non-profit, no-interest loans calculated for amortization, make it affordable to low-income families.

In its 2001 report, “Habitat for Humanity International” presented information on its activities.

Table 10. The work implemented by “Habitat for Humanity International” per year²⁷

Year	Unit	Number of unit
2006	House built	30,621
2007	Families served	49,039
2008	Families served	55,278
2009	Families served	61,170
2010	Families served	74,960

On average each family is comprised of five members. Habitat also helped 6,335 families legally obtain a house or land, and technical support, from legal assistance to building advice or training was given to 46,964 people. The organisation intends to serve 100,000 families in 2013.

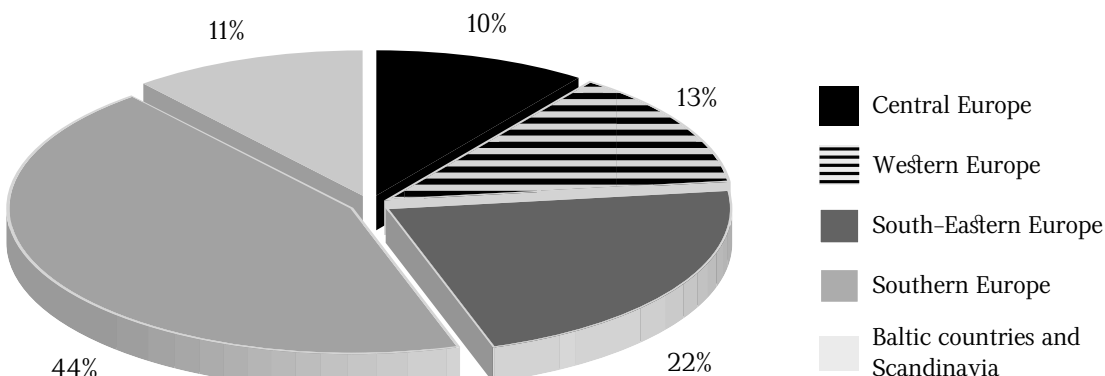
“Habitat for Humanity International” began operating in Armenia in 2000. Another organisation “Fuller Centre” split off in 2009. Based on Habitat in Armenia, it is very active in Armenia remaining faithful to “Habitat for Humanity International’s” adopted policies and principles. The “Habitat for Humanity International” office in Armenia provides housing for low-income families, implements housing, not-for-profit renovation programs or provides housing renovation loans. The organisation is occupied with attempting to eliminate poverty in Armenia by various means including affordable housing development, completing half-finished housing and involving volunteers in housing development.

“The Habitat for Humanity International” Armenia office cooperates with volunteers, the Diaspora, social awareness organisations, the Armenian Apostolic Church, government bodies and hundreds of low-income families.

Council of Europe Bank, (CEB) One of the largest European financing structures established in 1956 and located in Paris it provides social housing in Western, Southern, South-Eastern, and Central Europe and also Scandinavian countries, for low income families and the vulnerable population. From 1957 to 2009, around 16 billion euro has been directed to the CEB provision of social housing and urban development programs in the following directions:

- The solution of problems in provision of housing for low-income families in France, Portugal Romania and Serbia,
- The realization of provision of housing programs for the vulnerable population in Albania, Moldova, Slovakia and Turkey.

Picture 3. The regional distribution of 16 billion euro financing by the CEB 1957-2009,

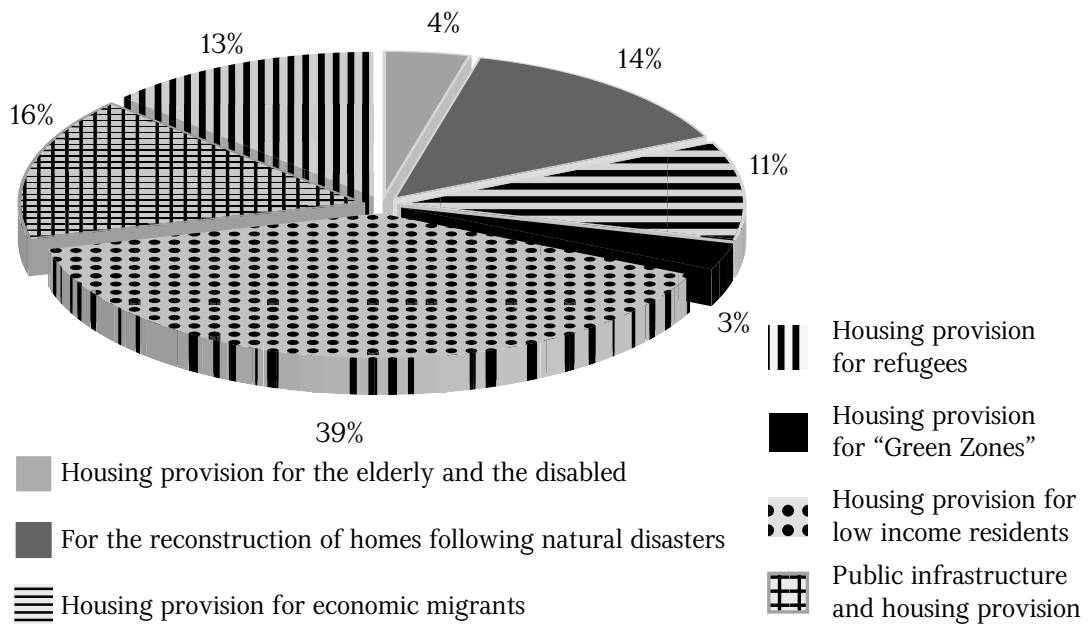


As the above mentioned picture shows, basic costs have been directed to southern European countries where the issue of provision of social housing is more acute.

In the picture below the distribution of the financing sector of the organisation is presented.

²⁷ Source: “What we build” Habitat for Humanity International Annual Report FY2010, July 1, 2009 – June 30, 2010, page 7

Picture 4. The sectorial distribution of the CEB financing assistance from 1957 to 2009.



As picture 4 shows, social provision of housing for low-income inhabitants, having a clear social orientation, has been financed with 39% of the total budget while the least, 4%, has been directed to provision of housing for the elderly and disabled.

European Committee for the provision of social and cooperative buildings CECODHAS HOUSING EUROPE (CHE) is a national and regional network of provision of housing federations comprising of 4,500 public, provision of housing voluntary organisations and 28,000 cooperatives. *Forty five regional and national federations, which together represent over 39,000 public, voluntary and cooperative social housing enterprises.*

Through this organisation, 25,000,000 (21,000 million homes) houses are managed in EU countries. It is a not-for-profit organisation created in 2000 in Brussels whose mission is to provide access to decent and affordable housing for all in communities which are socially, economically and environmentally sustainable. The organisation has three sections: public, cooperative, and non-profit; three working groups: sustainable urban, internal market and social affairs; and three structural departments: policy making and lobbying, communications and research.

Nineteen EU member states (Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, the Netherlands, Poland, Portugal, Spain and Sweden) are members of this international social housing organisation. Two other countries, Norway and Switzerland also cooperate. In Norway the Norwegian Federation of Co-operative Housing Associations comprises 74 cooperative housing associations, 790,000 individual members, and 257,000 housing units. In Switzerland. The Swiss housing federation comprises 1,000 members: cooperatives, and nonprofit foundations and 140,000 housing units.

The Building and Social Housing Foundation (BSHF) is an independent research organisation established in Great Britain in 1976. It encourages fundamental development and innovation in the housing sector through cooperative research and exchange of knowledge. BSHF is active in Great Britain and the international sphere, identifying innovative housing solutions, publishing the results of surveys and working at the local level.

The **Woonbron** Dutch organisation offers the purchase and leasing of housing. The organisation offers various methods. It offers housing for rent in the Netherlands in the cities of Rotterdam, Spijkenisse, Delft, Diks and Dordrecht (over 50,000 houses). This organisation cooperates with other regional housing cooperatives. It provides discounts of 25% of market prices for existing houses and for newly constructed ones, 33.3% discounts.

Dutch International Guarantees for Housing. Credit guarantees are provided by DIGH in the following manner. For example, the balance sheet of the housing association providing housing construction in South Africa constitutes 1 billion Euros. According to the agreement of 0.03% (see below) the association can distribute up to 300,000 Euros loans annually so that interest rates and principal payments are guaranteed. The project implementer can obtain a loan of 2,400,000 euro from DIGH for 10 years at 5% interest, which is enough to build 120 houses. According to the accepted standards in the Netherlands, the Ministry can guarantee 30–40 million Euros annually based on public housing development being implemented abroad, for which the conditions are 0.03% of the upper limit of the balance sheet and only “A” category organizations can give financial assistance. Projects implemented by this organisation are:

1. 2006. The first local microfinance project in Nicaragua for the building of 36 houses.
2. 2009. A housing development project in Kape in South Africa, realised through loans provided by the organisation.
3. Housing restoration program in Latvia.

Currently DIGH is seeking guarantees to realise new building programs in Armenia; affordable housing development for low income groups in Paramaribo, Surinam; the building of 1,215 houses in Johannesburg, South Africa; and housing construction programs in several large cities in Nicaragua²⁸. Projects implemented by the organisation include “Viable Community the Length of Europe,” program and the “Viable Housing Solutions in the World” program. Currently it is implementing the “Viable Urban Environment: Models and Tools” and “The Creation of Viable Communities in the United Kingdom: Certain Critical Challenges” projects²⁹.

Chapter 3. The Strategic Fundamentals of the Provision of Housing in RA

3.1. Housing development and the substance of provision of social housing

In Armenia, as in the rest of the world, housing development is an important constituent of the market economy, as it is an important requisite for ensuring man’s viability. Housing development is the building of residential areas, their expansion, and fundamental improvement, which is realised in the Republic of Armenia through the resources of the population (66.2%)³⁰, organisations (22.8%) and the state budget (10.9%) and humanitarian assistance (0.1%). The RA legislature does not contain the concept of social housing development. However, taking into account international practise, the peculiarities of the fundamental housing issues in the country, the beneficiaries included in projects aimed at solving them and the essence of the problem, it is possible to define **social housing development as a measure aimed at satisfying the housing needs of low and middle-income families, and also those of socially vulnerable groups which, particularly in Armenia, is also a constitutional obligation of the state.**

In other countries, social housing stock is created within the frameworks of state and community assistance programs by means of the building of housing or residential houses (unfinished construction, rebuilding, new construction) and acquisition from the market (purchasing, leasing). If the share of social housing development in housing development in European countries is for example, 34% in the Netherlands, 20% in Sweden and 18% in Great Britain, then in Armenia it constitutes 2.5%³¹. An important element of social housing abroad is the institute of social leasing which, it can be said, is absent in Armenia. The main criteria abroad for selection of target beneficiaries for social housing is the level of income and as a rule the corresponding systems of provision of social housing stipulate the upper limit of the household’s (family’s) income.

²⁸ Source: www.digh.nl/project

²⁹ Source: Research Programs, www.bshf.org/research/sustainable-future.cfm?lang=00

³⁰ The average index as calculated from the RA data over the last three years, which have formed the following specific weights, respectively according to year:

2008– population’s (72.2%), organisations’ (23.4%) and state budget (4.4%) resources, humanitarian assistance (0%)

2009–population’s (80.4%), organisations’ (17.1%) and state budget (2.5%) resources, humanitarian assistance (0%)

2010–population’s (46.1%), organisations’ (27.7%) and state budget (25.9%) resources, humanitarian assistance (0.3%)

³¹ Source: Social housing development, 21 April 2011, www.shirakcentre.org/index.php

As we saw, the housing development implemented in our country over the past years has solved only a very small part of the problem of provision of houses for those families who need them. Today, over 60 thousand families are in need of housing, while at the same time there is unoccupied housing stock (especially in Yerevan). It is difficult to give a true assessment of the latter's size, but it is possible to briefly list the reasons for this part of the housing stock not being exploited:

- The cost of property which is not affordable to those in need.
- The elite class of some of the housing, which is disproportionate in volume to the demand
- The unsafe condition of suitable houses
- Houses built for the purpose of investment
- Old and new Houses with communal living issues (these are present both in Yerevan and in the marzes. Moreover, they also exist in newly-constructed building, mostly due to the unconscientiousness of the builders and sellers.

Based on the above, two main directions are indicated for the **provision of housing**:

1. Regulation of the existing housing stock, and
2. The creation of a new (social) housing stock.

It is expedient to create a **RA provision of housing strategy** for the resolution to these issues.

Taking into account the country's strategic-military, socio-economic and demographic situation, we do not consider the provision of housing as a broader concept, and the operation of the proposed strategy, as merely a social issue, subjecting it to the imperative resolution of numerous fundamental issues and challenges.

The principles of the strategy of provision of social housing (hereafter, also Strategy) are:

Constitutionality. The use of the Strategy should make the implementation of the relevant provisions stipulated in Articles 34 and 48 in the Constitution, possible.

The principle of social justice. When implementing the strategy for the provision of social housing, the housing needs of the poor and socially vulnerable in society should be taken into account the most. This refers in particular to those taking advantage of housing provision for the first time who spend a significant part of their income on resolving their housing issues.

Purposefulness. The aims of the provision of social housing strategy must arise from the basic objectives directed towards ensuring national security. Its actions must help the resolution of the conceptual issues of the country's development (demographic, urban developmental, environmental, proportionate regional development and economic growth).

Completeness. All low and middle-income families, their registration and proposals for differentiated approaches to the provision of houses for them should be in the purview of the Strategy. All existing and future projects and sub-projects relating to housing issues, regardless of their departmental subordination (employees of the armed forces or law enforcement bodies) or the status of their target groups (the elderly, refugees or young families) must be listed and classified. The registration system must be based on the characteristics of previously targeted groups. The LSG bodies, and the RA Ministries of Territorial Administration, Education and Science, Urban Development, Diaspora, Labour and Social Services and Sport and Youth Affairs must play their respective roles in this system. The system must comply with standards of clarity and transparency.

Continuity. The functioning of the above-mentioned projects and mechanisms must be of a permanent nature irrespective of the internal political situation or pre-election periods³². The registration of corresponding target group families (individuals) must proceed continually and the registration databases must be regularly updated.

State-private-public sector cooperation. the implementation of the Strategy must proceed through the investment of resources and efforts of the state (including territorial and community), the private sector (including corporate and financial) and public (including overseas) bodies.

Economic management. The drafting and assessing of the programs beginning after the approval of the Strategy must be based on the most rational and economic solutions. This means that for example,

32 See: the trend towards changes in the proportions of residential areas initiated according to financing sources

social housing development projects must be linked to urban development and environmental³³ projects. Their location must, as far as possible, be guided towards communities close to cheap land and building materials and their architectural-engineering plans must be of an economic nature.

3.2. The targeting of the provision of social housing policy

THE MAIN DIRECTIONS OF THE STRATEGY

The broad target groups for social housing may be:

- Needy families with purchasing power
- Needy families without purchasing power
- Particularly vulnerable social groups such as large families and those with disabled members
- Families who represent a “demographic value”
- Families who have a “proportionate regional developmental potential”

At the same time, when drafting projects based on the strategy it is essential to study in detail and analyse a series of positive and negative factors, and to assess their weak and strong points, in order to exclude undesirable risks such as activation of the trend towards migration of the population from village communities towards towns or the accumulation of poor inhabitants in separate areas, as has been noticed in other countries, as a result of the implementation of similar projects.

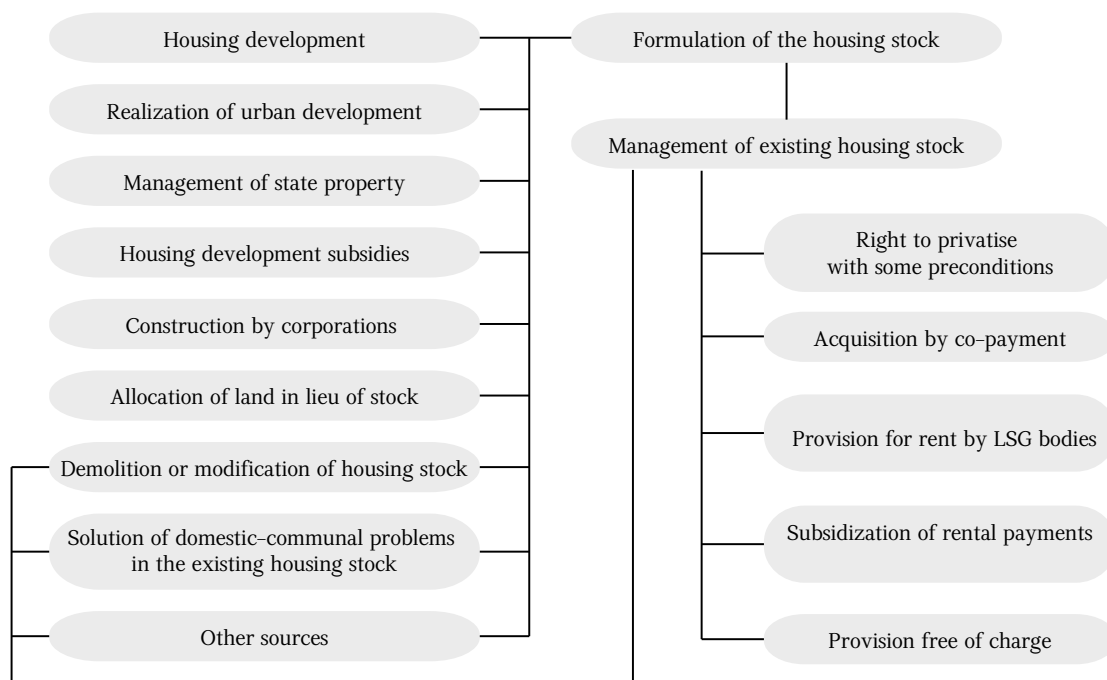
The cataloguing of existing uninhabited housing in the republic, particularly in urban communities or other corresponding plots of land, which could be used as a base to create new housing.

The presence of plots of land in rural areas or at the disposal of individual households whose owners want to use them for housing development (for example, providing dwelling space for newly-wed youngsters in the family).

In this way, the following model of provision of housing could represent the foundation for a provision of housing strategy. It will take into account both the already mentioned international practice (to the extent that it is applicable to Armenia, the present situation in the country and also the attitudes formed by tradition).

The proposed model of provision of housing assumes the solution of problems on the following levels:

3. The realization of measures aimed at the creation of a housing stock,
4. The management of the existing housing stock,
5. The application of provision of housing schemas.



³³ See: In particular the example of Israel presented in chapter 2 of this work.

1. Housing construction should be realised systematically, within the framework of a united government-LSG departments-private sector policy. Social housing construction should provide the solutions for corresponding urban developmental and domestic issues and the provision of infra-structures. The model construction, the application of the principle of economic efficiency, the utilization of unattractive new areas, their combination with potential economic growth zones and the systematization of all projects being implemented may, under circumstances of efficient use of resources, allow for incomparably greater results than at present when departmental separation exists, systematization is lacking, and socio-economic policy priorities and the issue of proportionate regional development are not taken into account.
2. The realization of appropriate urban development programs in particular by LSG bodies, will open up new possibilities for making regions more attractive and support at the government level, in particular for immigration and re-settlement projects, will attract investment not only from local, but also foreign sources.
3. The efficient management of government property, the change in profile of use of property and the consideration of it from the point of view of the general provision of social housing, will reveal new possibilities for its efficient management, including use as housing stock or land for housing development.
4. The application of a system of subsidies for building housing will raise the trust of individual citizens in the sector and will encourage the involvement of household savings in private construction.
5. There are a series of large companies operating in Armenia which are implementing or are in a position to implement large social projects. Such projects could include construction aimed at solving the housing issues of the organization's employees. The calculation and application of that resource, together with motivating steps by the government, can be a serious driving force both for companies to direct their profits, within the framework of corporative social responsibility, towards provision of housing and housing development for their workforce and also for the mobilization of the members of such a workforce to contribute their own savings in such projects.
6. Although budget resources are created by the privatization of state or LSG body owned real estate, and the granting of housing development on that land, they are not focused. *The directing of land allocation resources to a focused fund* and also the allocation of land in return for housing and their provision to the more vulnerable groups may help avoid those negative phenomena which can be seen in other countries: the springing up of poor neighbourhoods and the formation of separate life-styles for citizens of different social strata. This phenomenon can already be seen in Armenia. As a result, not only does poverty intensify, but the level of mutual intolerance also increases and from the urban development point of view, prosperous neighbourhoods develop years later, as do areas inhabited by the poor, which are deemed unattractive. The prevention of this fundamental issue may save us from other difficulties in the future.
7. Even the demolition of the existing housing stock will encourage the creation of a housing stock. It is obvious that in conditions of dilapidated and outdated housing stock, the necessity for some housing stock demolition and new urban development solutions in those areas has already arisen. The appropriation of new plots of land in circumstances where there is housing stock subject to demolition can be classified, from the point of view of efficiency, as a highly debatable solution.
8. The lack of attractiveness of some existing housing stock and also areas in Armenia is due to domestic and communal issues. The restoration, development, and reconstruction of the infrastructures and provision of new infrastructures will completely change the perception and interest of the population in such housing stock.
9. There may be other sources under various circumstance passing housing stock into the ownership of LSG bodies and also other cases such as donations, and benevolent or assistance projects, etc.
10. The general principles of the management of the new social housing stock to be created must be their registration in the community prior to their being transferred (sold) to the corresponding target group families. The relevant communities must regularly direct a certain part of their income to social housing provision (assistance, building, servicing and joint financing).
11. The awareness of the public, especially in the initial phase of the implementation of the Strategy and management of the housing stock, the accountability towards the former and the elucidation of the process by the mass media, are considered of particular importance.

12. **A compulsory stipulation for acquiring social housing must be residence in the house and the prohibition of selling it for a specific amount of time (for example, ten years).** Prior to the set time, the resident may only return the housing, in return for corresponding compensation.
13. Those families in need of housing who do not need to purchase a dwelling as yet, or are not in a position to solve that problem, must receive housing from the rental housing stock.
14. The subsidization of rent payments will be of more importance not just for the vulnerable, poor or special target group families but also when encouraging resettlement, within the framework of proportionate regional development.
15. Families waiting for improvements to their housing can also avail themselves of the rental or rental subsidies program.
16. In the case of increase in the incomes of renting families, they must have first right of purchase (ownership) of the house they are renting.
17. The housing stock being formed may secure housing provision in several directions. Thus, in several, particularly European, countries the provision of housing is perceived in the form of provision of rental housing. However in Armenia, housing provision is also needed by those social strata that, although are not considered poor, do not have sufficient income to solve the housing issues by themselves in free market conditions. At the same time it is worth noticing that in the case of widespread privatization of the housing stock, owning a house is more attractive than renting.
18. The registration of families in need of housing (houses, supplementary dwelling spaces) in the communities, as represented below in terms of needy target groups, is the starting point for the implementation of the strategy and the precondition for corresponding adjustments. These activities will be implemented directly by the communities, the administrative regions of Yerevan, systematized and the results will be summarized in the marz municipalities and Yerevan city hall.

THE COST OF THE STRATEGY AND THE STRUCTURE OF THE MAIN SOURCES OF FINANCING

As was mentioned above, the following is the list according to size of the larger sources of financing of current housing construction taking place in the republic:

- Through residents' resources
- Through organisations' resources
- Through state resources
- Through humanitarian resources

According to data on state budget expenditure for 2004–2011, the sum allocated for provision of housing was around 100 billion drams or an average annual 12.5 billion and in the last three years, an average annual of 20 billion dram.³⁴ These are quite substantial figures and if we take into account the potential of other financing sources (private, banking, overseas) then after the approval of the Strategy together with the increase in the level of efficiency of existing and future projects, one can aim at ambitious volumes of social housing construction, for example no less than 4000 houses per year. This is a realistic figure, if working within the framework of the Strategy. The state budget and RA national statistics service indices are at the base of its assessment as are the indices of the two local social housing development organisations.

Based on the general criteria for neediness proposed in this text, the results of the registration of target groups will most probably result in a smaller number of beneficiary families than current expert assessments, the 64,500 included in the presented table of the approximate structure of the housing demand in Armenia. However, taking into account that the implementation of the strategy is viewed over an average 20 years perspective, and based on the peculiarities of the sector and target groups and the presumption that the emergence of corresponding needy groups and changes in the groups are dynamic processes, the solution of the housing issue for 64,500 families in the mentioned 20 year period is considered a necessity.

³⁴ See: costs envisaged by the 2004–2011 RA Laws on state budget for housing construction and provision of housing sector

Currently, in Yerevan, the average market cost-price of one square metre of a finished house in Yerevan is about 320,000 drams.³⁵ As the starting point for an *optimistic* calculation of the approximate cost of implementing the proposed Strategy, the average state expenditure in all the 2001–2008 housing provision projects for one family of 3.2 million drams³⁶ and the mathematical average of the cost of a 55 m² apartment calculated at today's market price, which comes to 10,400,000 drams $\{(55 \times 3,200,000):2\}$, is taken.

In this way, for the implementation of the strategy, we have:

- Approximate cost: 670,800,000,000 drams
- Number of beneficiaries: 64,500 Families
- Cost of one apartment (55 m²s): 10,400,000
- Cost of one m² of social housing fund 189,000

When divided equally over 20 years, 33,540,000,000 drams are necessary. Of this, if the present rate of financing is sustained, the state investment may constitute over half (20 billion drams annually) or around 60%.

The sum of the overall expenditure, 42.9 billion drams³⁷ envisaged in the Articles of the state budgetary laws for 2008–2010 “Housing Construction” and “Provision of Housing” and also the data from the NSSRA concerning the 161,869 m², surface area financed through the state budget and provided for use, are taken as the starting point for a *moderate calculation* of the financial cost of implementing the strategy.

At the same time, community budgets, where on average 10% of expenditures (until 2009, the average was 23%) are on housing stock, should also foresee steady investments within the frameworks of projects of the strategy, which however are not included in the state joint-financing of 12.5 billion drams. The calculation of financing values for the implementation of the strategy may be deemed “optimistic-realistic” in that sense.

As a result, for the implementation of the strategy, we have:

- Approximate cost: 940,087,500,000 drams
- Number of beneficiaries: 64,500 Families
- Cost of one apartment (55 m²s): 14,575,000
- Cost of one m². of social housing fund: 265,000

When divided equally over 20 years, 47,004,375,000 drams are necessary. Of this, if the present rate of financing is sustained (20 billion drams annually), the state investment may constitute over 40%.

At the same time, community budgets, of which housing stock expenditure constitutes an average of 10% (Average 23% up to 2009),³⁸ should also anticipate stable investments within the framework of the strategy which, however, are not included in the 12.5 billion drams state joint financing mentioned above. In that sense, the calculations for the financial values of the implementation of the strategy may be considered “realistic-optimistic.”

The above-mentioned figures of course do not take into account, in the case of the implementation of the complete strategy, of such possibilities as the increase in efficiency of: model designs, the effect of scale, the concentration of similar activities in the same location etc., which will permit a sharp decrease in expenses made. All this will allow the cost price of one m² to be maintained at around 190,000 drams,³⁹ which is also evidenced by the social projects being implemented (project for provision of housing for young scientists and lecturers).

The construction of 4,000 houses per year (in particular in the beginning years), will require up to 42 billion drams, of which:

- 30–40% through state resources,
- 10–20% through corporations,
- 20–40% through citizens' resources,
- 20% through community resources, and

³⁵ 800 USD divided by 400

³⁶ It appears that the value of bathrooms and kitchen equipment in individual dwellings must be included in certain cases

³⁷ According to the costs envisaged by the 2004–2011 RA law on state budget for housing construction and provision of housing.

³⁸ See: <http://www.mta.gov.am>

³⁹ The realization of a systematized policy and a consistent Strategy make the realization of the optimistic or moderately optimistic scenario, by the maintenance of the present indices, realistic. Some housing provision measures will require smaller amounts than are envisaged for the construction of one new social dwelling (for example, property alteration, and reclassification).

- Up to 5% through benevolent resources.

The resources of citizens and construction organisations which played a major role in the housing development implemented over the past years are also an important resource during the implementation of the Strategy. According to the proposed model, it is anticipated that corporative organisations which have a large work force (potential beneficiary groups) and financial resources will be involved in the social housing development projects.

Within the framework of the Strategy, the implementation of a series of activities in different directions are proposed by the state with joint financing of up to 20 billion from the state budget and around 5 billion drams from community budgets:

1. Allocation of land to construction and building organisations.

This applies to both community lands and also to land outside the administrative territories of communities which are suitable for providing to the Strategy projects.

2. Investment (joint financing) in corporative projects

The following financing structure is proposed:

- Beneficiary worker investment: 50%
 - Employer company investment: 30%
 - State or community financing or assistance: 20%
3. Co-payment for acquisition of housing
 4. Co-payment for rent
 5. Financing for provision of housing for certain target groups
 6. The modification of state and community properties of different classifications and their reclassification as housing stock (semi-constructed, unused or incorrectly used areas in urban and rural communities, dilapidated and outdated former industrial and trading areas or areas of other classification which are suitable for converting into housing stock).
 7. The creation of social housing stock in areas where commercial buildings are being built. In newly built areas, management by the community of a specific proportion of the housing stock, in return for certain allocation of land or building permits.
 8. The provision of commercial areas in residential districts formed by state and community financing in return for corresponding payments. For example, the receipt of permanent income from businesses using the infrastructures resulting from the implementation of points 5 and 6 of the program, for the financing (utilization of areas and maintenance) of social housing projects.

After registration the main regions and zones for the implementation of the Strategy must be clarified, defined more accurately and pointed out in advance. Furthermore, certain risks and possible advantages exist which should also be taken into account at the start of the Strategy and the individual projects. These are:

- The purchasing power of the RA dram as compared to major foreign currencies, and also the inflation rate.
- The economic growth rate
- The growth in income of the population
- The volume of private money transfers, etc.

In the coming years, many things will depend on the socio-psychological environment and, both by optimistic and moderately optimistic calculations, the necessary financial resources, potential and willingness of the other financiers (inhabitants, organisations) to make corresponding investments.

THE GENERAL DEFINITION OF NEEDINESS

(Who is eligible for social housing or housing provision?)

In the framework of the proposed model, the family⁴⁰ eligible to take advantage of the social housing system must simultaneously fulfil at least the following criteria:

1. At least one member of the family must be a citizen of the RA.

⁴⁰ For the purposes of the strategy, a family is considered to be of two or more individuals constituting co-habiting relatives or spouses or single elderly person.

2. No one in the family should have filed a property and income declaration according to the RA law, in the previous three years.
3. The given family must be living:
 - In an area with less than 15 m² per inhabitant, or
 - In a dangerous house (apartment, unfinished dwelling), subject to demolition, and not subject to renovation from both the technical and economic point of view, or
 - With an individual with a *serious, chronic illness*.
4. No member of the family should have sold a house or property corresponding to the value of a house, in the past five years.
5. In case of necessity, it must correspond to the set requirements concerning incomes.

In the case of these requirements satisfying the corresponding income criteria, the acquisition of a social dwelling is possible. Other types of provision of social housing assume that parallel to these five compulsory conditions, additional conditions must be met (maximum income threshold and the priority of needy target groups).

PRIORITIES

(Neediness target groups)⁴¹

Group 1: Homeless family⁴² (priority within the group is first to families with many young children and then to families with pensioners).

Group 2: Families living in dwellings with less than 5.5 m² area per person.

Group 3: Families with 3 or more young children (priority within the group is to families with the most children and families with one deceased parent).

Group 4: Families of teachers and doctors in the marzes (priority within the group is to families with the most young children).

Group 5: Young families living in the border communities (priority within the group is to families with the most young children or the most elderly).

Group 6: Families made homeless by natural disasters (phenomena) (priority within the group is to families with the most young children, then families of reproductive age).

Group 7: Alumni from children's homes (priority within the group, families where husband and wife are both from children's homes, then families with the most young children).

Group 8: Families with family members disabled in military action (priority within the group, families with the most young children, then families of reproductive age)

Group 9: Families with disabled family members (priority within the group, families with the most young children, then families of reproductive age).

Group 10: Families of participants in WWII and the Artsakh war of liberation (priority within the group, families of martyred freedom fighters).

The indicated priorities are applied (entered into force) from the time of stipulation of the family's corresponding status by the community, according to the above-mentioned registration system.

Prioritization is, as a rule, applied in the process of social housing provision through state and community resources while, for example, during the realization of projects implemented through investment of corporative or individual resources (including workforce) the size of the respective target group (personnel of corporations, families who have invested), the necessary housing stock size and the priorities of regional development are taken into account. For example, in projects being implemented in the framework of the strategy it is possible to see the housing construction provision for families, particularly in the marzes and rural communities which, satisfying the general definition of neediness, can at the same

⁴¹ As a result of registration, we must have this picture according to the marzes and Yerevan.

⁴² That family who according to the law, has been provided with, received or refused a dwelling or construction resources or housing certificate, is not considered homeless.

time supply correspondingly qualified (skilled) workforce (from the needy family and/or the latter's relatives) for housing construction.

THE MAIN TYPES OF SOCIAL HOUSING PROVISION

(Directions according to the income⁴³ and priority of target group families)

Taking into account the social housing provision practise at home and abroad, the present RA nominal average wage of 108,000 drams, the 2011 first quarter consumer basket of 62,640⁴⁴ drams and also the average monthly income of 137,000 drams for families receiving assistance from NGOs implementing separate social housing provision projects, we propose the following forms of housing provision:

Provision type 1. The monthly income per head, in order to buy a social house, in the case of satisfying the general definition of needy (at least five requirements needed to be included in the housing provision system):

- In Yerevan: 80–100 thousand drams,
- In communities other than Yerevan: 60–80 thousand drams,
- In border communities: no income limits.

Provision type 2. The monthly income per capita, in order to buy a social house with subsidies, in the case of satisfying the general description of needy and belonging to any one of the priority target groups:

- In Yerevan: 60–80 thousand drams
- In communities other than Yerevan: 40–60 thousand drams
- In border communities: up to 40 thousand drams

Provision type 3. The monthly income per capita, in order to rent social housing in corresponding areas, in the case of satisfying the general description of needy:

- In Yerevan: 60–80 thousand drams
- In communities other than Yerevan: 40–60 thousand drams
- In border communities: no income limits.

Provision type 4. The monthly income per capita, in order *to rent* social housing *with subsidies* in corresponding areas, in the case of satisfying the general description of needy and belonging to any one of the priority target groups:

- In Yerevan: 40–60 thousand drams
- In communities other than Yerevan: 20–40 thousand drams
- In border communities: up to 20 thousand drams

Provision type 5. In the case of the existence of a plot of land in **corresponding areas of the program adopted within the framework of the Strategy**, and also the full workforce estimated for construction, building, and fundamental renovation or repair (communal-domestic or infrastructural) by the family (families) satisfying the criteria of neediness, regardless of the size of their income, construction materials or privileged financing for the **construction** of social housing corresponding areas are provided.

Provision type 6. In the case of the existence of construction materials and the full workforce estimated for construction, building, and fundamental renovation or repair (communal-domestic or infrastructural) by the family (families) satisfying the criteria of neediness, regardless of the size of their income, the provision by the community of a plot of land in **corresponding areas of the program adopted within the framework of the Strategy**, for the **construction** of social housing.

For some types of provision, the absence of the minimum income threshold does not mean that individuals who have no income whatsoever are eligible.

⁴³ They have had a stable source of income over at least the last three years at the level of income proposed for the corresponding type of provision.

⁴⁴ http://armstat.am/file/article/sv_03_11r_6300.pdf

Priority must be given according to registration location or the target centres (regions) for social housing provision projects. In other words, either solutions to the housing provision of registered families are given in the territory of the community of registration or focused programming is realised, arising from the provisions in the Strategy, making other, suitable, previously planned areas available.

The application of certain kinds of planned measures of encouragement for the above-mentioned types of housing provision will increase the private sector's participation in the general realisation of the Strategy in a short period of time (in particular the involvement of private individuals' savings), raising the specific weight of the financing from the initially anticipated 20-40% share to 60%.

The government should form the geographic demand for housing based on the above conditions according to region and community, taking into account national security aims, in particular the previously noted issues of proportionate development of the country, and also the results of the registration of needy target groups as mentioned in this section.

Of course a corresponding fund (Housing OR Financial) must also be formed at the expense of the above-mentioned projects, which must be used for the provision of housing to appropriate vulnerable, families with five or more children and those needing special attention (**provision of free housing**).

THOSE RESPONSIBLE for the realization of the strategy for provision of housing and concrete projects:

The government is the main responsible party for the realization of the Strategy. In particular the former defines the registration system and methodology either by itself or through an authorised body, decides on the geographical areas for the realization of the projects within the framework of the Strategy, selects actual communities and zones, approves each year's projects, confirms model plans and estimates, and supervises the implementation processes of the projects and the quality of construction.

Local self-government bodies are the immediate executors of housing provision projects. In particular, they implement the registration of target groups, organise tenders for construction organizations and in appropriate cases, allocate land and supervise the construction.

The marzpets (regional governors) coordinate the relevant works being carried out by the communities in their region and are the responsible parties for the quality of registration (general indices) of the target groups and the information presented, summarise current issues and proposals received from the communities and present them to the collegial body.

The collegial body is formed with representatives from the National Assembly, Government (Territorial Administration, Labour and Social Affairs, Sport and Youth Affairs and Diaspora Ministries), and international and public organizations. The collegial body reviews complaints, clarifies the registration procedure, plans and proposes annual projects for social housing provision to the government, according to the volume and sources of financing and the inclusion of regions and specific communities. It follows the elucidation of the course of the Strategy and presents corresponding proposals to the mass media. It coordinates the activities for the determination of the general definition of need, by the circulation of information between the republican departments of the executive body and the territorial and local self-governing bodies.

3.3. The positive effects of the social housing policy

The assessment of the social effect

The social effect is first and foremost dependent on the improvement in the social condition of the target groups, the maintenance of health, and from the cultural point of view, by the activation of social interaction and the raising of efficiency. At the same time importance is placed on the socio-psychological effect of the realization of such a broad scale and, in essence, unprecedented strategy. This depends on the registration (on waiting lists) of families included in corresponding target groups, the inclusion of local community inhabitants and community units in corresponding communities in social housing development and the clarification of the process and the presence of annual recorded results. The implementation of such a strategy, with the inclusion of thousands of citizens and families and periodic accountability and coverage of results will also result in the improvement of the moral-psychological atmosphere in the whole of society.

The assessment of the economic effect

The focused use of the resources allocated within the framework of the strategy, which is today estimated at around 15 billion drams, assumes the use of mostly local raw materials for construction, and the inclusion of needy communities and families in the projects being implemented, thus providing employment for those precise target groups and the activation of the housing market and in some cases, the stabilisation of unsubstantiated high prices. The housing market will be regulated, the use of greater potential in this sector will be encouraged, and it will become competitive, reducing prices. The application of a series of schemas and the realization of measures will bring the resources and savings of both organisations and individual citizens into the market, promoting construction, and the production of construction materials and also the development of the financial market. The inclusion of territories in this project through the involvement of the LSG bodies will benefit the proportionate development of the marzes.

The assessment of the environmental and urban developmental effect

The realization of long-term planned work assumes that current and future environmental and urban developmental issues will be more thoroughly resolved. Such a long-term strategy on such a scale must become the central urban developmental and population plan around which all urban and rural community development projects in the republic must be planned. At the same time, this project is a good opportunity to introduce renewable energy and alternative technologies present in Armenia and in the world into households, thereby preserving the rational use of natural resources, keeping the emission of dangerous substances to a minimum and reducing, as much as possible, the use of non-renewable resources in housing construction. A systematised policy with one united aim will view housing construction and the provision of housing as not just the provision of housing space, but also as the formation of infrastructures and the provision of vital conditions for human activity and life. The priority is not supernormal profit but the achievement of the main aim of the strategy, which will make it possible to avoid all those abuses and distortions which took place in the last few years, when there was a sharp increase in construction.

The assessment of the demographic effect

The demographic effect with the commencement of the strategy for each individual family is linked to the planning of the family, choice of area for living and with the existence of more realistic possibilities of being provided with housing. At the same time, the strategy assumes that at the time of shaping of the target groups, special focus will be directed to young families of reproductive age.

The assessment of the proportionate regional development effect

One of the principles for the drafting of the Strategy must be support for proportionate regional development. The links with regional development projects, and also the inclusion of community resources in social housing development projects, and the various approaches to housing provision are a guarantee of the effect the strategy will have on proportionate regional development. From this point of view, it is important to assess the accountability of all the participants in the drafting and implementation of the processes of social housing provision.

Assessment of the political effect

The realization of the strategy aims to become a long-term sustainable state project – independent of the alignment of the political forces. At the same time, the successful course of the strategy will undoubtedly reflect positively on the prestige of the government, the political elite and the corresponding structures. It will promote social and political harmony and stability. The project will inspire citizens with hope and faith towards their own, and their children's futures.



EMPLOYMENT SECTOR POLICY STRATEGY FOR THE REPUBLIC OF ARMENIA

Introduction

The main objective of a state's employment policy is to create conditions to ensure full and effective employment through increased economic activity of the population. This document is aimed toward that objective.

This employment sector strategy policy paper for the Republic of Armenia (henceforth: Employment Strategy), developed for the effective implementation of the systematic and focused reform of the employment sector, is comprised of an introduction and two chapters. The International Labor Organization's (ILO) methodology has served as a guideline for the content structure of the employment strategy.

The place and role of the employment sector within the general domain of social protection of the population is presented in the introduction. It includes the place and role of the state regulating subsystem of the employment sector within the present system regulating the labor and social security sector of the population of the Republic of Armenia (RA), and includes the social-demographic structure of the circle of beneficiaries; the institutional subsystem of the current operating state regulating system; the main aim, issues and adopted principles of the policy; the general assessment of an employment policy for a social state from the point of view of a preferable model for Armenia, and the necessity to develop an employment strategy and its structure.

The first chapter looks at the evolution of state policy regulating the employment sector and analyses the condition of the domestic job market and the particularities of the changes since independence.

The second chapter tries to reveal the challenges facing the employment sector, the fundamental issues of the development of the strategy and also the model of the proposed policy, its aims, problems, priority directions, principles and evaluation mechanisms.

The employment strategy has been drafted taking into account the RA constitution, the conventions and recommendations of the ILO concerning the employment sector, the requirements of the European Social Charter and also the current social-economic situation and developmental challenges, the fundamental issues of state regulation and the objective possibilities of their phased resolution. It includes new strategic and tactical approaches to the drafting and implementation of subsequent reforms in the employment sector in the direction of the realisation of institutional and structural changes, the current (short-term and medium-term) and perspective (long-term) state regulation of the domestic job market, and the introduction of new methods and mechanisms aimed at raising the efficiency of state regulation in the employment sector.

The present state regulatory and management institutional structure, at different levels of management, is presented here.

Within the general framework of state regulation of employment of the population, the **RA government** realizes the balancing of the supply and demand of the workforce and the corresponding structural regulation through relevant authorised bodies. The employment, labor and wages, business, financial-crediting, regional development, investment, customs, education, and demographic policies being conducted by the Republic of Armenia are aimed towards that purpose. The authorised bodies in the above-mentioned areas are the RA Labor and Social Affairs, RA Economy, RA Education and Science, RA Territorial Administration and other ministries.

The **RA Ministry of Labor and Social Affairs** develops and realizes state policy in the employment sector, based on comprehensive domestic job market studies and analyses, by cooperating with relevant

ministries, departments, civic society organization and others; supervises and assesses the process of execution of projects being implemented within the framework of that policy, develops a national occupations classifier which is an essential tool for the efficient regulation of relationships between employers and employees, presents financial justifications and makes corresponding financial expenditure forecasts. If necessary, it also brings in supplementary financial resources for the implementation of new programs aimed at the development of the employment sector and ensures widespread public awareness in the country about the employment policy and also its active participation in that policy. The Ministry of Labor and Social Affairs cooperates with international organizations in the employment sector, on behalf of the government.

The state regulation of the employment sector in Armenia is realised by annual employment regulation programs which are developed each year by the RA Ministry of Labor and Social Affairs and are implemented by the State Employment Service Agency (SESA) operating within its structure. The RA Ministry of Labor and Social Affairs annual state employment regulation programs for the public and the conclusion concerning them drawn up by the federal agreement committee is presented to the RA government to be included in the consolidated budget and presented to the RA National Assembly. The SESA covers the whole territory of the Republic of Armenia through its 10 marz (province/state) and 41 regional centres. Regional and federal agreement committees are set up by the SESA. The three sides of the social partnership: representatives of the state, employees and unions, are included in equal numbers in the latter.

Apart from the above-mentioned marz and regional centres, according to RA government decision no.1915-N of 14 December, 2006, the “Youth Professional Orientation Centre (YPOC)” has been created in Yerevan. Its main objectives are to raise the competitiveness of youth and the realization of professional orientation in order to select professions appropriate to the demands of the job market; the provision of the necessary counsel; the discovery and assessment of the abilities, professional capabilities and propensity for work of the youth; and to support the shaping of necessary abilities for beginning work. According to RA government decision no. 408-N of April 15, 2010 a “Professional and Work Rehabilitation Centre for the Disabled” has been created in Gyumri. Its main objectives are the raising of the competitiveness of disabled persons (including youth) in the job market and professional orientation for the purpose of selecting a profession corresponding to job market demands, the realisation of investigation and analyses of their involvement in the job market, and the measures aimed at the realization of the social adaptation, and professional and work rehabilitation of the disabled.



These intend to benefit the employment sector by resolving fundamental issues of disproportionate regional development through the stimulation of the country's proportionate and stable development.

The RA Ministry of Economy (RA MoE) drafts and implements the main directions of the economic policy, including projects aimed at stable economic development, the development of small and medium enterprises, which can immediately promote the creation of new work places and reduce the level of unemployment through maintaining existing workplaces.

The RA Ministry of Education and Science (RA MoES) develops and implements programs which, based on current and perspective demands of the job market, aim to promote the guarantee of the efficient balance of supply and demand in the internal job market by raising the professional education and accreditation of the population.

The RA Ministry of Territorial Administration (RA MTA) develops and implements

projects aimed at the social-economic development of the different regions of the Republic of Armenia and the equalization of their levels. These intend to benefit the employment sector by resolving fundamental issues of disproportionate regional development through the stimulation of the country's proportionate and stable development. The resolution of issues relating to labor migration, which is of the most importance in the development of the job market, are directly connected to the State Migration Service which functions within the RA MTA management sector. Its objectives and issues are the drafting and implementation (within the limits of its jurisdiction) of a state regulatory policy on migration processes; the coordination of the functions of other bodies having jurisdiction in the migration sector, including the drafting of the migration policy and legal acts securing its application; the realization of the authority stipulated by the RA legislature on the granting of asylum to citizens of other countries and those without citizenship; the drafting and implementation of the policy for integration into society of refugees deported from the Republic of Azerbaijan from 1988-1992 and other displaced individuals; the drafting and implementation of corresponding programs with the objective of preventing illegal migration, together with the relevant RA ministries, diplomatic representations and international organizations; and the drafting and implementation of a state policy encouraging the repatriation of RA citizens.

Within the framework of the organization of the RA budgetary process, **The RA Ministry of Finance** calculates and assesses the possibilities of financing from the RA state budget for state programs aimed at the regulation of employment, and implements the budgetary financing of those programs.

Other **RA Ministries and Offices**, within the framework of their authority, draft and implement programs in the youth, sport, cultural, health and other sectors, aimed at the resolution of issues closely linked to the solution of issues in the employment sector.

The **RA Territorial Administration and Local Self Government Bodies** which, in the cases and manner prescribed by the law, coordinate both the state and community budgets of the RA and also, by other methods not forbidden by the RA legislature, implement the social-economic development of the given regions, including programs stimulating employment.

The **Confederation of Trade Unions of Armenia (CTUA)** and the **Republican Union of Employers of Armenia (RUEA)** which, together with the RA government, (hereinafter, main sides of the Partnership) define the additional guarantees of the regulation of social-labor relationships in the contract (hereinafter, Collective Contract) signed on April 27, 2009 within the framework of the social-labor partnership and are obliged to realize joint operations in that direction in order to secure the stable development of social-work relationships in Armenia. These must be accompanied by a rise in the level of employment and the strengthening of social solidarity. The main sides of the Partnership are also obliged by the Collective Contract to jointly assist the stable development of the labor and social security sector including the drafting and implementation of the employment strategy and its measures. According to Article 16 of the RA law "On employment of the population and social security in the case of unemployment," the representatives of the main social partners, as members of the federal agreement committee, discuss the plan of the annual state population employment program and present their conclusion to the RA Ministry of Labor and Social Affairs.

According to the RA legislature, one of the fundamental principles of the state policy is considered to be the social partnership, the legal bases of which are defined in Chapter 9 of the RA Labor Code. Federal and territorial agreement committees have been formed for the realization of this principle. A federal tri-lateral committee has also been formed in agreement with the Collective Contract, the work of the committee has been defined, and the program of measures arising from the federal Collective Contract has been confirmed. The latter also includes a separate section aimed at the promotion of employment.

Non-governmental organizations providing work placement services also operate in Armenia, but their efficiency is very low, which is due to the fact that they have been almost completely left out of the framework of state regulation of employment of the population.

The subject of the employment strategy is: employment, as the social status of the individual (citizen) which depends on the social-economic developmental conditions of the country and also on the corresponding behavior of the individual. The subject of the employment strategy includes:

- Securing the comparison of the supply and demand in the domestic job market, as a constituent of market processes,
- The guarantee of internationally accepted standards of dignified work,
- The efficient guidance and provision of appropriate supervision of the processes of exporting the workforce not in demand by the domestic job market, including the legality of those processes, must be the effective protection of the rights and legal interests of migrant workers, and also for the flow of work emigration, with the objective of ensuring a positive effect on social-economic and human development in the country.

The implementation of the employment strategy must be considered as continuous, but in phases, the implementation of which must undergo simultaneous monitoring and assessment through the realization of the defined objectives and a comprehensive assessment system reflecting their indicators.

This strategy can serve as a foundation for the comprehensive state regulation of the sector, in particular the annual regulation of employment programs, and also for the systematic drafting and realization of employment programs financed by international organizations and other donors.

The job market and the employment of the population are those sectors where the chief prerequisites for the formation of social-economic relationships between a social state and civil society are created, because only citizens who have the opportunity to obtain the necessary blessings of life through productive employment can be truly free and fight for the state to guarantee that freedom, and the development of society. In this sense, it is important to present the general picture of the employment policy of a social state as a preferable model for Armenia. The basic principles forming the basis of the concept of a “social state” are reflected in a series of important documents on international rights, in particular the UN International Declaration of Human Rights of 1948, in ILO conventions and guarantees, and the ILO declaration and activity program approved at the Copenhagen Summit in 1995, etc. As a result of the comparison of the mentioned documents it is possible to isolate the general features of a social state. The concept of a social state, in general, assumes:

1. The political and legal regulation of life of the public based on humanitarian principles,
2. The comprehensive execution of the social security functions of the population,
3. The creation of conditions for the development of a civil society (CS),
4. The implementation of a social policy based on the principle of multiple subjects which means that the state is the central but not sole subject of the social policy.

The highest aim and purpose of a social state is the establishment of peace and harmony in society, the development of institutions of social cooperation, and the guarantee of the regulation of protection from social and professional risks for all groups of society throughout the country.

Despite the differences, separate models of social states have certain general and compulsory components. In particular, a proclaimed social state:

1. Cannot be a passive observer of the consequences of self-regulating relations in any sector of public life (particularly the economy and social security of the population), leaving everything to the discretion of the omnipotent market.
2. Cannot exist without democratic public political relations and the rule of law, since it is in exactly that trinity of a democratic, legal, and social state that the basic principles of people’s harmonious co-existence –freedom, justice, equality and prosperity – are combined.
3. Assuming the responsibility for the social security of the individual, it realizes two, at first sight opposing functions; on the one hand, it provides the social security of the population and justice and on the other hand, it does not impede the natural development of market relations.

According to the RA constitution, Armenia is proclaimed a democratic, social, legal state (Article 1) where fundamental human rights and freedoms are guaranteed by the state, including the protection of social rights in conformity with international principles and norms (Article 3.) The constitution also proclaims everyone’s right to a standard of living adequate for himself/herself and for his/her family, including housing as well as improvement of living conditions. (Article 34), For the realization of this, it defines the freedom of choice of occupation, the right to fair remuneration of an amount no less than the



This strategy can serve as a foundation for the comprehensive state regulation of the sector, in particular the annual regulation of employment programs, and for the systematic drafting and realization of employment programs financed by international organizations.

minimum set by law, as well as the right to safe working conditions (Article 32).

The RA National Security Strategy proclaims that the creation of a social state and the implanting of social justice is the first important route towards reaching the objective of ensuring a high standard of living for the population of the Republic.

The Revised European Social Charter, ratified by Armenia, defines everyone's right to earn from a freely chosen occupation; just, healthy and safe work conditions; sufficient remuneration to have a decent standard of living, etc.

A comparative analysis of different models of social states shows that the social-economic development model adopted by a state should be in harmony with the given nation's traditional philosophical worldview, otherwise the efforts

aimed at introducing foreign systems cannot produce the desired results. As a rule, the social security systems prevalent in the world bear the stamp of some religious ideological system or another; in particular, the Asian model: Confucianism; the Anglo-Saxon: Protestantism; European: Catholicism; and the Islamic model: Sharia. There are of course models built on the basis of the comparison of the above-mentioned models.

The Armenians, being under the domination of foreigners for centuries and not having statehood, have automatically left the issue of the creation of a national social-economic model out of their developing public consciousness. After gaining independence, at the start of the 1990s Armenia also adopted the so-called "shock treatment" as a measure for transitioning from a planned economy to a market one. As a result, the state almost totally refused the function of economic regulation, leaving it completely to blind market powers. In essence, the situation existing in those years was reminiscent of the Anglo-Saxon model with one difference: here, clear legislative regulation was absent. As a result of this, individuals and different social groups, wittingly or unwittingly, were pursuing their own interests outside of the legal field. However, the social-economic experience of the Armenian nation in the XXth century has been mainly linked to a socialist state where a super-paternal approach to the social security of the population existed. Several generations of Armenians living in the Soviet period have learnt to feel socially protected by a super power. Therefore today the idea of a "socialist state" as a social ideal is fairly firmly seated in the conscience of a considerable part of our public.

According to a large group of experts engaged in the study of the fundamental issues of a social state, Armenia as a transitional country has serious problems in building a social state in the sense that the cultural, psychological, legal, political, and economic prerequisites do not as yet exist. The present financial and geo-political situation does not correspond to the preconditions for the creation of a social state, which is due to:

1. *Contradictions in historic development*, particularly:

- a) The absence of a state-building, uniting, united value system,
- b) The ego-centric national psychology which has been shaped,
- c) The absence of democratic traditions and democracy as a spiritual-cultural value system,
- d) The formation and activity of political parties not directed ideologically but towards situational expediency,
- e) The distortion of the institutional system.

2. *The absence of real counterbalances between the different wings of the authorities*, in particular:
 - a) The ostensible nature of the separation of powers,
 - b) The absence of counterbalances between the economic and political systems,
 - c) The distortion of the concept of economic freedom,
 - d) The prevalence of the principle of “Ruling authority for the sake of ruling authority.”
3. *The instability of the prerequisites of economic development*:
 - a) By the continuing and deepening dependence of the RA economy on the economic systems of other countries (in particular, that of the Russian Federation),
 - b) By not selecting market model(s) which most correspond to the historic developmental peculiarities of our country,
 - c) By the non-compliance of the education system to the demands of contemporary developments,
 - d) By the insufficiency of wages, as the basic means for the adequate reproduction and upward development of productive forces,
 - e) By the high level of a shadow economy, the existence of a financial-oligarchic system and the endangered state of the establishment of a civil society and social state.
4. *The geo-political factor*, in particular:
 - a) the existence of the most complex issues of overcoming the different types of influences on the social-economic, political and cultural life in the RA,
 - b) The increase in state expenditure related to the choice, under the pretext of war, of an enforced model of centralised government system based on the over-strengthened role of the power structures,
 - c) The complexities of integration with international political and economic systems, etc.

The creation of the necessary prerequisites for the establishment of a social state in Armenia and, in the sense of the selection of an expedient model for RA social-economic development, the experience of those other countries which, with the scarcity of natural resources, the national approach to improvement in the standard of living and with comparative advantages formed over time, have created original social state models and today have reached success in the global economy, such as the development policies and the corresponding processes for the formation of social policies of the economies of Israel, Ireland, and Singapore, is interesting.

In the opinion of different sociologists, in order to shape a social state in Armenia as an institutionalized mutual assistance system, the above mentioned impediments must be removed or the following necessary prerequisites for the establishment of a social state must be created.

In particular, it is necessary to:

1. Raise the level of civilization, which means not only the existence of the institutions of faith, tradition and moral norms, but also their efficient functioning,
2. Shape the foundation of a social state: a civil society which is based on diverse perceptions of freedom, justice, equality and prosperity,

◀◀ The economic development of the country, and the economy of a social state must be directed towards the provision of at least the minimum conditions of prosperity for all citizens.

3. Establish and legitimize the institutional subsystems at the base of the creation of a state and legal affairs system,

4. Shape real counterbalances between the economic and political systems. In the process of social selection, the dominance of either one of the economic or political sides inevitably leads to the implantation of totalitarian principles in all sectors of human activity.

5. Establish a political and economic model ensuring the application of the principles of social justice, which in its turn assumes the presence of the following conditions:

- a) The guarantee of the rule of law,
- b) Not only the protection of property and assets, but also their rational distribution,
- c) The creation of necessary conditions for the realization of the right of work, because the level of employment is not only an index of the macroeconomic stability of a country, but also of the assessment of social justice,
- d) As the main source of income, the guarantee of a sufficient wage level,
- e) The shaping of an acceptable level of social polarisation, which assumes the realization of an efficient transfer policy aimed at socially unprotected groups.
- f) The ensuring of priority development of the scientific, educational and health sectors which are of strategic, pivotal significance to the country. This is not possible to realize through the implementation of only liberal market principles.

The economic development of the country, particularly in the sense of the conduct of the job market and employment policies, and the economy of a social state must be directed towards the provision of at least the minimum conditions of prosperity for all citizens, in other words, it must have social orientation. The realization of this issue assumes the existence of work and in that sense, the factual guarantee of work for each adult citizen, job security, and also the creation of a system of guarantees to ease the serious consequences of disability, are very important. It is only possible to provide people with a dignified life in our country with scarce resources by adequately remunerated work.

In the opinion of some sociologists:

- The non-realization of the constitutional norm on the creation of a social state in real life is pointing the majority of citizens towards the past, resuscitating the spectre of the former command-administrative model of a social state.
- In the social-economic macro-policy being conducted by a social state, the theory of stable development and approach of balanced regional development must be preferable to the concept that the market has unconditional priority.
- A clear social orientation in the state expenditure policy is necessary for the realization of one of the most important functions of a social state: man's basic social rights.
- The social policy conducted by a social state is called upon to protect and realize the economic, social and legal guarantees of man's rights and freedoms. In other words, the essence of such a policy is the regulation of social risks and the objective is to reduce them.

The employment and wage regulation policy, which regulates the social risks linked to employment and job incomes, together with social assistance and social insurance, represents one of the three main directions of the state policy aimed at regulating social risks, which controls the social risks related to employment and labor income.

Chapter 1. The Situation of the Job Market in the Republic of Armenia and State Regulation of the Employment Sector; the Main Trends in Development Since Independence

Subchapter 1. The phases of development of the RA state employment policy since independence

In the Soviet socio-economic system the regulation of the economy was based on command-administrative methods. The state realized guaranteed employment policy at all costs. Work was compulsory for all employable citizens of working age. Almost all graduates of higher education and mid-level professional education institutions, and also technical colleges, which were aimed at preparing tradesmen and craftsmen were employed in state enterprises, organizations and establishments. In the 1980s, job placement offices were created in Armenia by the Armenian State Committee which was part of the same-name Soviet State Committee for Labor. The former were, on the whole, occupied with the registration



After 1997, reforms in the employment sector were also directed to the realisation of an active policy of employment which aimed at the provision of effective and stable employment for the economically active population.

of school graduates, the provision of job orientation counselling, the securing of students for professional colleges, the enrollment and transportation of workforces for other Soviet states. Subsequently, the State Committee for Labor was united with the RA Ministry of Labor and Social Security and the Ministry was renamed RA Ministry of Labor and Social Security.

The history of the state employment policy, including the process of state regulation of the job market, which is a derivative of the social-economic development processes of the country, can generally be divided into four main phases, arising from the dynamic of the formation and development of the domestic job market.

1992-1996 can be considered the **first phase** of the shaping of the RA job market or employment state regulatory processes. This phase started in 1992 with the adoption of the RA law

“On the Employment of the Population,” which was directed towards the regulation of relations in the employment sector of our country which was faced with the imperative of working independently from the industrial-economic system of the USSR. This law also defined the legal bases of the regulation of the employment of the population including the realisation of the right to freedom of choice of work; and the social security guarantees given by the state in case of unemployment; and also the state employment regulatory institutional system, by the stipulation of state employment service bodies and their authorisation. Cases of mass dismissals from work and their restraining mechanisms were defined. The issue of the drafting of the state employment policy and the participation of the employees in its realisation was legislatively regulated, paying importance to the role of social partnership. The process of employment services provided to the population by non-governmental organizations was also regulated (through licensing). For the purpose of application of the mentioned law, the RA government reserved the authorisation of state regulation of the employment of the population to the RA Ministry of Labor and Social Security. The employment bureau operating within the structure of the latter reorganised as regional employment centres, forming the state employment service system (SESA). The basic statutory issues of the newly created state employment service were the systemisation and organization of employment issues of the population, the regulation of supply and demand of the workforce, the provision of work and assistance in professional training for unemployed citizens and the provision of social security for the unemployed. Regional state employment services bodies were created in Yerevan and 41 regional administrative areas and towns. Here, citizens looking for jobs were registered and available jobs positions were recorded. In other words, a start was made in the state regulatory processes for the supply and demand of the workforce.

Programs implemented from 1992-1996, were mostly oriented towards the resolution of basic social issues of the unemployed. This demonstrates that a passive employment policy was being realised in the first phase of state employment regulation. Thus, in 1992 and 1993 resources allocated to state employment programs were completely spent on giving benefits and financial assistance to the unemployed, and in 1994 resources directed to active employment programs were 0.1%; in 1995: 0.01%; and in 1996: 0%. Such a social policy could no longer be in keeping with the logic of economic developments. It demanded the realisation of active programs in the employment sector and a transition from a passive social policy to an active one. The necessity for legislative reforms, the organization of the system, improvements in the structure and the introduction of new regulatory schemas for financial flows had developed.

The **second phase** (1997–2005) is characterized as the shaping of social–labor relations, clarification of state employment regulation and the establishment of its implementing bodies, the drafting of state employment programs, the shaping of international cooperation, and the improvement of employment legislation; in other words, a period of clarification of the state employment regulation system. The commencement of this phase can be considered to be the adoption of the new RA law “On employment of the population” and a series of Acts ensuring its application. The State Labor and Employment Service (renamed the State Employment Service in 2001) was created by the RA government decision number 379 of September 15, 1997, functioning subordinate to the RA Ministry of Social Security (the ministry has been re-named several times since independence). It had to implement tactical managerial functions and issues. Strategic managerial issues such as the drafting and realisation of policies, improvement in legislation, realisation of supervision of the execution of RA legislature, the coordination of the activities of other departments in the employment sector and so on, were reserved to the RA Ministry of Social Security. In order to improve the service to the public, the Yerevan employment centre in its turn was split into 12 and then 10 labor and employment regional centres, as a result of which the SESA had 51 regional labor and employment centres. Up to 1997, the employment policy was directed mostly to ascertaining the true levels of unemployment, the final shaping of the employment system and also the improvement of the legal field. After 1997 reforms in the employment sector were also directed to the realisation of an active policy of employment which aimed at the provision of effective and stable employment for the economically active population, in particular the replenishment of vacant job positions, the promotion of the creation of new work places, and the protection of existing work places. The state employment programs drafted and implemented after 1998 served that purpose.

The **third** or job market development phase began when the RA law “On the employment of the population and social security in case of unemployment” of January 1, 2006 came into effect. The aim of this law is to promote labor, provide employment and, in the case of unemployment, to realise a just, social policy based on social partnership. The adoption of the law arose from the necessity for improvement of the RA legislature concerning the employment of the population and the introduction of a compulsory insurance system in cases of unemployment. In particular, becoming registered as unemployed was no longer linked to the citizen having years of insurance; it was only linked to the right to receive unemployment benefit. With the purpose of establishing a social partnership in the employment sector, the demands presented by the European Council towards conformity with the criteria of the European legislature in the social sector were also taken into account, to a certain extent, as were the Articles of several conventions adopted by the IOM and ratified by the RA. Arising from these, and at the initiative of the SESA, the law envisaged the forming of federal and regional coordinating committees, with the participation of social partners, with the objectives of coordinating decisions on drafting and implementation of regional and federal employment programs.

The **fourth** phase began in the last quarter of 2008 when the negative effects of the global financial crisis were being noticed in Armenia, from the point of view of comprehensive social–economic development. The adoption of the law “On making amendments and additions to the RA law on the employment of the population and social security in case of unemployment” by the National Assembly in December 22, 2010 was conditioned by the introduction of certain new active programs in the job market and the necessity for improvement of the functioning programs. Taking into account the chronic situation in the domestic job market and the continuing fundamental issues, the realisation of comprehensive fundamental and focused reforms in the state



The process of employment services provided to the population by non-governmental organizations was also regulated.

employment regulation sector has become an urgent imperative. This strategic document is aimed at the efficient provision of precisely that.

Although during the pre-crisis period the tension characteristic to the job market had lessened to some extent in Armenia, it was still characterised by a deep quantitative and qualitative misbalance, and as a result a true high level of unemployment.

Not only was there a significant reduction in work force demand and an essential change in the structure of branches of the economy during the transitional period, but the professional demands of the workforce also underwent pivotal changes, as a consequence of which the imbalance created between the demand and supply of workforce resulted in the creation and intensification of structural unemployment.

At present the level of unemployment is assessed by two different methods, as a result of which two different indices reflecting the level of unemployment are obtained. The first is the official unemployment level obtained from registrations at employment agencies and attained through the administrative calculation system, and the second is that obtained from the study of workforce choices in households being undertaken by the NSSRA, using US methodology.

Up to 1999 the official unemployment level had shown a tendency towards increasing, except in 1998, when as a result of the changes made in the law "On the employment of the population" the definition of unemployment was narrowed down (in order to be given the status of unemployed it was necessary to have at least one year of work experience valid for insurance). The official unemployment level from 1992-2000 rose from 1.8% to 11.7%, which was the highest official level registered in the previous years. Beginning in 2000, the number of unemployed began to drop annually on average by 10%. The recalculated level of unemployment within the economically active population, using the results of the 2001 RA census, shows that the 10.8% in 2002 had dropped to 6.3% in 2008.

Subchapter 2. The present status of the job market and its developmental trends

The bases of the analysis of the present status of the RA job market are the official data presented by the RA NSS, MLSA, SESA, and also alternative data such as the results of studies of the job market implemented in the given period by different organizations. The analysis period generally includes the past twenty years, where the period after 2008 is particularly emphasized, conditioned by the effects of the global financial crisis.

The macroeconomic situation and trends

After the collapse of the Soviet Union, Armenia faced a series of fundamental problems of a social-economic, geo-political and demographic nature. Previously unrecognized social phenomena such as unemployment and poverty emerged as a result of political, social and economic changes. The high level of unemployment, a fundamental social-economic issue previously almost unheard of, which is at the same a serious factor giving rise to, and intensifying, poverty, became a reality for a large part of the population of Armenia.

The characteristics of transitional countries are specific to the job market in Armenia. The most general and fundamental of these is the qualitative and quantitative disconnect between supply and demand, which in its turn is of a chronic nature and produces a true high level of unemployment. In Armenia, as in other transitional countries, the real level of unemployment is particularly high amongst the young, the disabled, and women, and in remote and rural communities.

In the first phase (1990-1993) of the economic changes, almost all sectors of the economy showed signs of decline. During that period of economic collapse and inflation, the mean annual GDP decreased by 22.3%, in 1993 constituting 46.9% of the 1990 level, which represented one of the highest indices of economic decline in the CIS countries.

Economic reforms and structural changes began in almost all sectors of the economy with the objective of overcoming the above-mentioned fundamental issues. The process of privatization of land in March 1991 may be considered the start of this phase, as a consequence of which villager farms and village



After the collapse of the Soviet Union, Armenia faced a series of fundamental problems. Previously unrecognized social phenomena such as unemployment and poverty emerged as a result of political, social and economic changes.

collective farms began forming on the foundations of about 1000 collective and Soviet farms and other agricultural establishments.

During the first two years more than 11,500 agricultural collective farms were formed in the Republic which later re-formed into agricultural economies. The privatisation of land continued from 1992 -1996.

In March 1995 the large-scale process of privatisation of small and medium enterprises began. In the subsequent 4-5 years, a large portion of these enterprises were privatized, as a result of which the specific weight of the private sector in the GDP began to show a stable trend towards growth – growing more than 6.4 times in 1990 compared to 1998, constituting 75% of the GDP. In the first phase of the registration of businesses in

1994 over 12,000 business entities were registered in the state register of enterprises. These included legal entities (over 5,000), private entrepreneurs (more than 7,000) the number of which increased 8.1 and 6.7 times respectively, in 1998. In the second half of the 1990s a certain amount of activity in the economy began to be recorded in the Republic.

In general from 1994-2001 the average annual GDP growth rate was 5.9%. The economic growth rate in Armenia intensified after 2001 and in the subsequent years, 2002-2007 the average annual economic growth rate constituted 13.1%.

The structure of the GDP sector incurred significant changes as a result of serious economic structural developments from 1990-2007. If from 1990-1993 around one third of the GDP, calculated for basic prices, fell to industry, then during 1994 the agricultural share in the composition of the GDP grew sharply, constituting 50.6% of the total (compared to 17.2% in 1990). The large specific weight of the agricultural sector was maintained until 2004 when a trend for steady and stable growth was registered in the construction, trade and food sectors.

Beginning in 2005, the share of the construction sector in the GDP exceeded the specific weight of the agricultural sector by 3.3 percentage points constituting 23.7%. After 2004, the tendency for steady growth of the primary economic sector, the joint specific weight of the industrial and construction sectors constituted 45.5% in 2007, in contrast to 51.8% in 1990 and 48.7% in 1991.

The composition of the income of households also underwent significant changes in the period noted, in the sense of the structure of the individual constituents. According to the complete study being realized on the standard of living in households, the specific weight of incomes from hired work already exceeded 50% of the gross cash income, in the case when in 1996 the specific weight of the income from wages constituted just 13.1%. In 2005 a significant decrease was registered in the specific weights of the production and sale of agricultural products and incomes in the form of money transfers from abroad, despite the increase of their volume, in terms of drams. The above mentioned tendencies testify to the changes in emphasis from private transfers to incomes in the form of salaries and social transfers allocated from the state budget.

During that period, the tendency towards growth was also manifested in the specific weights of the resources allocated to social security and social insurance which in 2006 constituted 10.8% of the total budgetary expenditure and 2.0% of the GDP.

According to the NSSRA 2010 national report on “The informal sector and informal employment in Armenia,” in 2008 construction was the main engine of Armenia’s economy, which provided 25.3% of the GDP. It was followed by agriculture, wholesale and retail trade and the processing industry at 16.3%, 11.6% and 8.8%, respectively. In conditions of a financial-economic crisis, in 2009 the volumes of the

Armenian economy decreased by 14.2%, and the informal sector share in the Gross Value Added (GVA) constituted 11.2%. According to the separate sectors of the economy, the highest share of the informal sector in the total volume of the GDP was in agriculture 22.35%. In other services it was 16.62%, in construction 15.43% and in wholesale and retail trade 14.82%.

For its part, the specific weights of agriculture, construction and trade dominated the total volume of the informal economy at 36.21%, 26.6% and 18.56%, respectively. According to regional administrative units, Yerevan with 38.82% has the largest share of the informal sector. This is followed by Ararat, Shirak, Armavir, Syunik and Kotayk with 12.08%, 9.13%, 9.13%, 8.81%, and 4.86%, respectively. According to the type of locality, the GDP of the informal sector is more focused in the urban communities (60.11 %.) The fact that smaller volumes of the informal sector are in the rural communities in Armenia is conditioned, it appears, by the dominance of subsistence farming.

The overall productivity of labor, which is measured by the ratio of total employment to the GDP, consists of 2376 thousand drams for one worker. In the formal sector, work productivity exceeds the corresponding index in the informal sector 4.83 times.

The demographic situation and trends

The large volume of emigration of the population following independence is one of the most serious factors having a negative effect on the RA demographic situation. According to the results of some of the studies, on which the formal explanations given by the authorities are based on the whole, the main motives for migration are the absence of jobs and the impossibility of earning the necessary means for survival. However, there are also other studies whose authors are of the opinion that the manifestation of all forms of social injustice in the country creates the prerequisites for a social and moral crisis, which first of all is expressed in the demographic situation, including emigration, and seriously undesirable developments in the reproduction of human capital and the public's value system. (*"Human poverty and pro-poverty policies in Armenia" report, Armenia, Yerevan 2005, page 9*).

The above-mentioned UNDP report also testifies that, independent of the reasons for emigration, compared to the total mass of the population such a large flow of emigration of the population continues to leave socio-demographic, socio-economic and other alarming effects on our social development which directly or indirectly effect both the situation in the job market and the employment issues of the population.

1. Socio-demographic effects. The obvious predominance of males of working and reproductive age in the emigration flows has resulted in the disruption of several proportions. In particular, the birth rate has fallen drastically (In 1990, 80 thousand babies were born in the Republic, and in 2001/2001 that index decreased 2.5 times. Only in 2003 did the tendency towards an increase in birth rate slowly start.) The number of marriages also decreased and conversely the number of divorces increased (the index of marriages as compared to divorces of 11.8% in 2003 reached 16.1% in 2007.) The specific weight of the elderly in the population increased sharply (the share of those over working age in the total number of the population reached 12%), including in particular single and abandoned elderly and disabled individuals. The birth rate in the Republic decreased in 2004 by 5 times the number in 1990.

2. Socio-economic effects. Poverty is becoming widespread in the country since the mass departure of

the more active and highly qualified individuals in the population slows the process of social development. The slow reproductive rate of the population does not ensure the necessary personnel for the army, or the provision of necessary students for the education system, resulting in a reduction in the number of institutions and personnel in the system, thus fostering an increase in unemployment. It also does not ensure a certain mass of consumers of products and services. Only in the case of their



It is obvious that there is a positive correlation between education level and economic activity.

existence would it be possible to have a certain efficient volume of infrastructures for production and service provision which would allow the circulation of necessary volumes of resources for the provision of socio-economic upward development, etc.

As of January 1, 2010 the number of permanent residents of the Republic was 3262.2 thousand persons. The urban and rural distribution of the population was 64% and 36 %, respectively and the following picture of gender distribution exists: 48.5% are males and 51.5% are females.

According to the data in the passenger registration system at the border crossings of the RA, the difference between those departing from the Republic and those arriving (migration balance) from 1992–2003 was negative at 750 thousand persons. Beginning in 2004 the number arriving began to imperceptibly exceed the number departing reaching 36.3 thousand between 2004–2006. However, beginning in 2007, the balance of migration flows from RA again became negative, showing an increase year on year. From 2007–2010 according to the data from the above-mentioned system, the negative migration balance in RA was over 81 thousand. In just the first four months of 2011, that number has reached over 47,600 people, exceeding the corresponding index in the same time period of the previous year by 12%.

According to the “Study of Armenia’s Work Migration “ implemented by the NSS RA in 2006, at the time of questioning, 24.8% of households had members working abroad. The average age of those members working abroad was 38.2: males, 38.6 and females, 36.1. Of those emigrating from the RA, those having general middle school (53.9%) higher education (18.2%) and middle professional (16.6%) levels of education prevailed.

Despite the fact that the birth rate began to increase in 2002 and, according to the results of 2010, it constituted 13.8 per 1000 population, nevertheless it is still at a low level compared to 22.5 in 1990 and 21.6 in 1991. This fact will, in the long-term, reflect negatively on the qualitative and quantitative indices of work force supply as well as on the demands of health, education and social services.

Despite the above-mentioned negative effects, the money transfers of work emigrants play an important role in alleviating unemployment and its negative effects, by raising the standard of living of households and reducing income imbalance.

The education level and composition of the work force

The characteristic phenomena of the transitional period also left their effect on the education system, resulting in a misbalance between the job market and the education system, which represents one of the main reasons for the present disconnect between job market supply and demand. The education system is still in the phase of structural, substantial and administrative reforms aimed at harmonizing the economic and job market demand with the creation of a professional education and training system.

The literacy rate is quite high in Armenia even though a gradual decrease in that index has been noticeable in recent years. A high level of inclusiveness is still maintained in the basic education system which, according to the integrated study of standards of living of households in 2006 consists of primary education system (7–9 year olds), 98.6%, basic general education (10–14 year olds), 99.8%. The relatively lowest inclusion index is in the higher schools (15–17 year olds), 89.6%.

As far as the vocational education system is concerned, as of 2011, 94 colleges and 33 preliminary professional (trade) training establishments, colleges and technical schools provide preliminary and middle vocational education. Despite the fact that, compared to 1991 (69 establishments) the number of middle level professional training establishments has increased by around 40%, the number of those studying there has decreased by around 23%, constituting 31,100 individuals.

Unlike the middle vocational education system, the number of higher education institutions and the numbers of students in them has increased considerably in the Republic. In 1990, 14 state Institutes of Higher Education (IHE) functioned in the Republic. In 2011 the number has increased to 65. The increase in IHEs has to a certain extent stimulated the education system by increasing the capability of reflecting the demands of the employers and conditions more flexibly. Nevertheless, in this sector the issues of the preparation of quality personnel corresponding to the job market, a review of professions, and also satisfaction in the quality of the education services, remain actual.

It is obvious that there is a positive correlation between education level and economic activity. According to the results of the 2001 census, there was significantly more employment of students with higher education (73%), than those with middle and preliminary professional education together (59%), and general secondary education (63%), (calculations were made in groups of over 15 year olds). Usually, those with higher education are better paid and stay unemployed for relatively shorter periods.

In the future, the above-mentioned tendencies in the education system will result in, on the one hand, the gradual expulsion from the job market of mainly tradesmen with middle professional education and older personnel and inadequate staffing with new, young personnel; and on the other hand, a surplus in professionals with higher education or the increase in specific weight of those within that group who are employed in jobs not corresponding to their qualifications.

The structure, dynamics and tendencies in employment

In essence the economic foundations of the shaping of a liberal job market were laid in the beginning of the 1990s as a result of the implementation of changes in economic relations. As of 1990 the number of the population employed was 1630.1 thousand persons of which around 60% were concentrated in the following large branches of the economy: 30.4% in industry, 17.4% in agriculture and 11.4% in construction. In the following transitional years, the dynamics of employment and structural changes were considerably uneven. Beginning in 1990 a continual decrease in overall employment was registered. The years 2003 and 2005 were exceptions as an insignificant increase was registered. The fall in the specific weight of industry and the increase in the share of services is also considered by official statistics to be another notable change in the composition of employment.

In the mid-1990s, as a result of the privatization of land and small and medium enterprises and the widespread reduction in jobs in enterprises, a significant part of the “surplus” workforce formed moved into the agricultural sector, as a result of which the proportions of numbers employed significantly changed in the agricultural – nonagricultural sectors. From 1990–2002, almost 645 thousand jobs were cut in the non-agricultural sector of the economy, the predominant part of which was “absorbed” by the agricultural sector. Consequently, in 2001, as compared to 1990, the number employed in agriculture almost doubled, constituting 570 thousand individuals. In subsequent years (based on the revised results of the index of the number employed, using the results of the RA 2001 census), the number employed in agriculture stabilized, ranging between 500–491 thousand from 2002–2009.

An analysis of the indices from 1990–2009 testifies that a reduction in employment was registered in almost all sectors of the economy, the largest reduction being in the construction, science and scientific activities and industrial sectors. An increase in employment was registered in the agricultural, trade and food sectors.

According to the indices recalculated using the RA 2001 census results, during the 2002–2006 period the number employed had decreased by an annual 0.1%. As a result of the optimisation processes being implemented, in 2007, as compared to 2002, the number employed in the education and healthcare sectors significantly decreased. Moreover, the number of those employed in healthcare and social services in 2009 constituted 45.7 thousand compared to 66.9 thousand in 2002 and the number employed in the education sector in 2007 was 100.6 thousand as compared to 117.7 in 2002. A significant drop was registered in the numbers employed in the construction sector where the numbers employed were 31.1 thousand in 2007, compared to 36.1 thousand in 2002. However, a sharp increase took place in 2008, to 60.4 thousand. The latter tendency however was not maintained in 2009, dropping to 49.5 thousand as a result of the international financial crisis. In 2009, as compared to 2002, the number employed increased in the trade, hotels and restaurants, transport and communication, financial activity, real estate transactions and also state management sectors. Moreover the number employed in the hotel and restaurant sector has grown almost five-fold.

As of 2009, the number employed was 1089.4 thousand, of which 45.5% are employed in the agriculture, hunting and forestry sectors and the specific weight of those employed in the processing industry constituted 7.7%.

Economic activity in 2009 was higher amongst the 30–45 age group and is characterized according to the level of education as general education (41.2%), middle professional (24.4) and higher (including post-graduate,) education (22.4%), which together constituted 88% of the total. A tendency towards stable growth has been registered in the specific weight of those with middle professional education, which is perhaps conditioned by the noticeable results in the reforms in that form of education. The picture is different in the case of the economically inactive population where 45.7% have general secondary education, 21.1% have middle professional, and 14.7% have basic general. Those who have higher and post-graduate education constitute 12.1%.

One of the peculiarities characterizing the job market is that the decrease in employment and increase in unemployment have not been equivalent in macroeconomic indices trends. From the analysis of official statistical indices it becomes clear that the stable economic growth registered in Armenia has been secured not so much by the increase in the level of employment as by the increase in the productivity of labor. On the other hand however, the results of economic growth have been reflected not so much in the increase in the level of employment as in the indices of increase in wages.

In the previous period, a movement of employment from the state sector to the private sector has been noticed. The specific weight of those employed in the private sector (without the specific weight of those employed in public and religious organizations) was 80.9% in 2009, as compared to 20% in 1990 and 30.1% in 1991.

Another characteristic of the modern job market continues to be the high level of informal employment. This index constituted 24.8% of the unemployed in the agricultural sector in 2006 (including workers hired by verbal agreements – 15% and employers and self-employed – 9.8%). From 2001–2006 it fluctuated between 22.6% to 26.9%. The decrease in informal employment is predominantly conditioned by the gradual decrease in the specific weight of the unregistered self-employed. If we also take into account that a significant section of those in the agricultural sector are also informally unemployed, then the mentioned index could reach 45–50%.

Nevertheless, it is anticipated that the registered employment level will show a tendency for growth which measures aimed at changes in the branches of employment in favour of the non-agricultural branches, the maintenance of the present low level of taxation of the workforce, improvements in the Labor code and measures to improve tax administration, will promote.

According to the NSS RA report, “The Informal Sector and Informal Employment in Armenia” 1.15 million persons were employed in the country in 2009 which is equivalent to 81.8% of the economically active population. 96.6% of the employed had one job; the rest had more than one.

According to the RA legislation, an individual can have several jobs in order to increase the income of the household. The number of jobs or total employment is assessed at 1.19 million. Private organization provided 70.7% of employment in 2009. This was followed by state organization with 25.7%. The remainder was distributed between employers representing LSG bodies, NGOs and international organizations.

The number of jobs created by small organizations constituted 72% of all the employed. Jobs for hired workers constituted 55.3%, just over half the total employment and 26.3% were self-employed, 17.8%

were family members in unpaid employment and 0.4% were employers.

The majority of jobs (52%) have been created in organizations in the formal sector, followed by those created in the informal sector and households at 37.8% and 9.8%, respectively. 52.1% of all those employed were considered informal which means that there are 621,700 informal (unregistered) jobs in the Republic.

Informal employment is more widespread amongst women than men, constituting



As a result of the optimisation processes being implemented, in 2007 the number employed in the education and healthcare sectors significantly decreased.

53.4% and 51.0%, respectively. It is more widespread in rural communities, constituting 82.1% of rural employment. Only a quarter (24.5%) of jobs in the towns is informal.

The highest level of informal employment (98%) is registered in the agricultural sector which is due to the weak regulation of legal-institutional work relations in the agricultural sector. Of the 704,400 jobs outside the agricultural sector, 20% is considered to be informal. Here informal employment is more widespread in construction (34.2%), retail and wholesale trade (26.9%) and the processing industry (11.8%).

Certain sectors of employment provide exclusively (100%) formal jobs, such as financial intermediation, state management, defence, social security and foreign organizations.

Although informal employment is usually linked to informal organizations (almost 76.2% of all informal jobs), nevertheless formal organizations and households are not exempt from similar relationships.

One of the most important issues of the employment policy is the creation of such employment conditions that can become a worker's main source for securing sufficient income for himself (including the members of his family). In this sense, the following situation exists in the Republic: in 2009, the average income was 66,511 drams. In general men were paid more than women (male hired workers received 86,450, and women received 56,572 drams). Male employers earned 22.9% more than female employers. At the same time, self-employed males earned twice more than their female colleagues. Workers with formal contracts, on the whole, were better paid than those who were informally employed. The formally self-employed earned 2.6 times more than the informally self-employed. In the agricultural sector, the average wage of formal hired workers was 30.0% higher than informal hired workers. In the non-agricultural sector, formally hired workers earned 20% more than their informally hired colleagues.

In 2008, 3.7 billion drams was allocated from the state budget to the state regulation program and 649.5 million drams was allocated for the maintenance of the SESA. With this, almost 4.350 million drams was allocated to the state employment regulation program. The staff of the SESA consisted of 405 personnel which, by 2011, was reduced by around 5%. During 2008, 145,900 individuals applied to the regional and marz centres of the SESA. Of these, 90,244 (40% of which had not wanted to be registered by the agency) individuals were registered as job seekers. The number of those who are included in the state employment programs and permanently employed as a result of it is 956, of which 459 were young people. 7,000 individuals (of which 1890 were young persons) were secured with temporary jobs (on average, 2 months) in the "Paid Public Works" program.

In 2009, 4221.2 million drams were allocated from the RA state budget for state employment regulation programs and 714.19 million drams for maintenance of the SESA. During 2009, 178,000 individuals appealed to and received advice from the SESA regional offices. Of these only 56% (99993 individuals) were registered as seeking work. Over the year 9057 individuals were placed in permanent jobs. 4690 individuals were provided with temporary work.

As of January 1, 2010 the official unemployment level was 7.1% instead of the 6.3% of the previous year. The real unemployment level constituted around 28%. The average number of applications for vacancies received per month by employers is 1210 of which 45% were not possible to fill. For each vacant position there are around 70 job-seekers. The number of employers who cooperate with the SESA has increased by 20%. The index of those included in the state employment programs constitutes 37.7% of those seeking jobs. Of those seeking jobs, the number placed constitutes 9.1%, which is 0.5% lower than the corresponding index of the previous year.

As of January 1, 2011, 206348 individuals have applied to and received advice from the regional centres of the SESA. Only 45% (93200) of them are registered as job seekers. The number of job seekers as compared to the previous year has dropped by around 7%. The official unemployment rate was 6.9% and the real level of unemployment is 27.5%. The number unemployed is 78.8 thousand which has dropped from the previous year by around 1.9%. 19.1% of the unemployed are young persons, of which around 16.6 thousand are first time job seekers. The average number of applications for vacancies received per month by employers is 1153 of which 45% are not filled. In particular job vacancies continue to exist for doctors, teachers, accountants, shop assistants, carpenters, bread makers and drivers. For each vacant

position there are around 68 job seekers. The number of employers who cooperate with the SESA has increased by 2.2% over the previous year. The index of those included in the state employment programs constitutes 37.9 % of those seeking jobs. In 2010, 11315 individuals were placed, which is an increase of a quarter on the same index of the previous year. 26.1% of those placed in jobs are young persons.

As of January 1, 2011 the number of job seekers registered with the SESA is 92,580. The number of unemployed is 77,202, of which 19.3% are young persons. 1,466 individuals have been placed in jobs. Employers have offered 1151 vacant positions of which 460 were for blue collar jobs. 18,459 unemployed persons receive benefits. The number of individuals included in the annual state employment programs is 18,956 of which 15.2% are young.

In 2011, 6,046,985.7 thousand drams were allocated from the RA state budget for employment sector programs of which: 6,010,536.5 thousand drams for the programs being implemented by the SESA; 20,685.6 thousand drams for the implementation of programs by the “Youth Professional Orientation Centre (YPOC)” SNCO; and 15,763.6 thousand drams for programs being implemented by “Professional and Work Rehabilitation Centre for the Disabled” SNCO .

Assessments of the situation

On December 22, 2010, the National Assembly enacted the RA law “On making amendments and additions to the RA law on the employment of the population and social security in case of unemployment,” which was conditioned by the necessity to introduce new programs aimed at securing productive employment for the disabled and the young and also to regulate several issues that had arisen after the application of the law. With these amendments, the right has been reserved for job seeking disabled persons to participate in the business trip program, and the owners of agricultural land are provided with the possibility to be included in professional training programs being implemented by the SESA. However at the same time, with the given changes, owners of land are now considered employed and consequently lose the right to be considered unemployed, independent of the size of the land belonging to them, its actual assessed value, utility and other such characteristics. With the changes in the law, the determination of the unemployment benefit, which was formerly set by law and changed each year concurrent to the change in the minimum wage (the unemployment benefit was equal to 60% of the minimum monthly wage) is reserved to the RA government. This clause, we believe, was more just and contained a more progressive approach than that proposed in the amendments. Therefore, with the latest amendments in the law, significant regression is recorded in the legal regulation of the processes of unemployment benefit rate decision making, in the sense that obviously the employment benefit rate is no longer linked to the minimum wage but is set out in law by the RA government, to whom broad possibilities have been given to set the rate subjectively, without taking objective circumstances into account. This occurred in 2011, when the minimum wage rose by about 8%, but the RA government left the benefit unchanged at 18,000 drams. A new type of regulation has also been

One of the most important issues of the employment policy is the creation of such employment conditions that can become a worker’s main source for securing sufficient income for himself.

set concerning the receipt of benefit for those who have been unemployed more than once, according to which, each consecutive time, if the individual is receiving benefit more than once, he is assigned a benefit in the case of having made social payments for at least a month after being taken out of registration by SESA. Moreover, the length of payment of the benefit is calculated according to the amount of insurance eligibility acquired since the last time the individual was unregistered from the SESA, disregarding the total insurance eligibility of the individual and not taking into account the fact that the individual

has paid each month for insurance for those years. We think that this is also a regression in the social security policy sector.

The official level of unemployment dropped from 2006–2008 (the rate of decrease in 2006–2007 was 0.107 and in 2007–2008, 0.04). As a consequence of the crisis, in 2008–2009 an increase in the official unemployment rate of 0.4% was seen (the increase rate was 0.13). As of January 1, 2011 the official registered unemployment rate was 6.9% compared to 7.1% at the same time in the previous year.

A steady increase in the state budget expenditures directed towards state employment programs was detected in 2007–2010 with 5.1%, 30.4%, 52.6% and 8.7%, respectively, per year. However, there is almost no increase foreseen in this direction in the 2011–2014 mid-term expenditure plan approved by the RA government.

During the period under discussion, around 40% of those individuals applying to the regional and marz centres of the SESA have not, for various reasons, wanted to register with the SESA. This index showed a tendency to increase in subsequent years.

Each year each member of the staff of the “State Employment Service” agency served 2.3 individuals (1.1 of them young) and placed them in permanent jobs, as a result of the state employment programs. An average of around 112,000 drams has been spent from the state budget on each beneficiary included in the programs.

A comprehensive system for evaluation and monitoring of the efficiency of the state employment programs has not yet been put in place. This causes difficulties for the objective analysis of those programs. In this situation, we think, that from the point of view of the final aim of the programs, the general orientation index for the evaluation of efficiency of the programs can be considered the gross resources allocated per person, permanently placed in a job as a result of being included in the programs, from the state budget for state employment regulation programs (not counting the resources allocated for the “Paid public works” program, for the purposes of providing temporary jobs). This index constituted 3.14 million drams in 2008, 3.9 million drams in 2009 and 4.24 million drams in 2010. The efficiency of the SESA is a serious matter to be considered.

It is characteristic that the maintenance (including operational costs) of the SESA has not been included in the indices. With these costs, the SESA realizes authorisations specified by law, including obtaining information from employers about vacant positions and dismissals and regularly publishing it through the mass media, referring job seekers towards employers when suitable vacancies arise, registration of jobseekers, and the provision of advice on professional orientation. SESA references are of an intermediary nature between job seekers and employers. In other words, it is possible to conclude that permanent placement by the SESA, other than those placements that are as a consequence of being included in state employment regulation programs, take place within the framework of the above-mentioned authority of the SESA and therefore, at the SESA’s maintenance costs. The only exceptions may be the arguable sub-provision according to which those individuals who are included in the professional training and re-training programs and do not get placed in jobs and also those who receive benefits may, to a certain

extent, become more active in the job market and find work in the future. However, this sub provision essentially weakens if we take into account the objective fact that in the case of a realistic assessment of the job market, participants in training and re-training programs should be placed in jobs as much as possible, as this should be one of the basic characteristics of the effectiveness of those programs.



NGOs, public organizations and other social partners must have an active participation in the implementation of the employment policy of the country, together with relevant state bodies.

On the other hand, between 2008–2010, the average length of receipt of benefits was 10 months, in the case when the minimum was 6 months and the maximum was 12 months. Also based on the extremely low unemployment benefit (18,000 drams per month) it is possible to objectively insist that the unemployed mainly make use of their right to unemployment benefit to the full, especially if we also take into account that in several cases set out by law, the rights of the unemployed to the benefit are suspended and ceased, which to a certain extent lowers the average period of receipt of benefit. Moreover, bearing in mind the high level of imbalance of the job market and its chronic nature, it becomes obvious that the unemployed, receiving unemployment benefits for the period stipulated by the law, with insignificant exceptions, remain, in fact, registered and continue to receive their benefit.

The provision of temporary employment for job seekers is also important because the “State Employment Service” agency is involved in the “Paid public works” program’s processes inasmuch as it secures the necessary work force and has the function of monitoring the participation of beneficiaries included in the works. The remaining functions of the program are realized by the regional management and LSG bodies.

Chapter 2. The Conceptual Approaches of the Proposed Policy in the Employment Sector of the RA

The above-listed analyses of the employment sector allow us to conclude that economic development does not automatically lead to proportionate growth in employment. The real level of unemployment affects the internal job market negatively from the sense of the limitation to being hired, inadequate utilisation of personnel and the deterioration of work conditions. It also affects the social condition of the population from the aspect of overcoming poverty, and the constraints of opportunities to raise the standards of living.

In order to overcome poverty and secure more stable economic development in the Republic of Armenia, a socially more acceptable and economically efficient mechanism must be an employment policy that in the first place benefits the development of local industry, securing on the one hand employment for the unemployed through the development of their skills and increase in their economic activity, as a result of which their poverty will be overcome and, on the other hand, by encouraging employers to protect the existing jobs, create new job positions and fill vacant positions with informed, skilled professionals who master contemporary professions, including modern technologies.

NGOs, public organizations and other social partners must have their immediate and active participation in the implementation of the employment policy of the country, together with the relevant state bodies.

Subchapter 1. The fundamental issues to be resolved by the proposed policy in the RA employment sector and their possible solutions

The current situation in the job market and the solution of current fundamental issues revealed as a result of the analyses of developmental trends in the employment sector are considered to be priorities (sub-objectives) in the employment strategy.

The fundamental issues present in the RA employment sector and the features of their manifestation

The comprehensive analysis of the RA employment policy and job market allows us to come to several conclusions and assertions concerning the existing fundamental issues and the features of their manifestation:

1. Several measures and concrete programs have been planned and realized within the state regulatory framework in the current and medium-term, however serious quantitative and qualitative disparities exist in the supply and demand of the internal job market.
2. The real and official levels of unemployment are significantly higher than average among the youth and those who are not competitive in the job market as compared to other groups. Also, significant differences of a chronic nature in the unemployment level exist between different regions, different types of habitats and different economic sectors. In particular, in the villages of the border regions and mountainous habitats there is underemployment of the residents, and an inadequate level of non-agricultural employment.
3. The demographic situation and outward movement of the workforce continue their non-advantageous trend, in the sense that the emigration work flows continue to be predominant and the opportunities for integrating into the job market for returning migrant workers are seriously limited, unfocused and unproductive.

In that sense, particularly:

- a) A comprehensive policy regulating the effect of the Diaspora, and those individuals who have left the RA, on the development of the RA economy, including a policy of attracting investments, does not exist. This would allow the securing of:
 - The increase in volume of re-immigration.
 - Guiding diasporan resources to the RA economy.
 - Directing the resources of those individuals involved in work migration flows from RA (money transfers, technologies, business know-how and skills) towards the RA economy and human development sectors, bearing in mind the truth that a large part of the savings of migrant workers from RA are kept abroad and there is a tendency to invest them abroad in non-productive assets (chiefly, in real estate).
- b) Informational support systems for potential returners to the RA are not developed or are virtually absent. This includes the mechanisms for obtaining the necessary information for integration into the RA job market via the internet, telephone, and other means of telecommunication.
- c) A comprehensive policy for assisting the social integration of returning migrants does not exist.
4. The activities of NGOs providing job placements is completely outside state regulation and the institutional and operational capabilities of those organizations are used extemporaneously and inefficiently. In other words, focused and efficient SESA partnership cooperation with those organizations, mechanisms for the feasible and efficient participation of those organizations in the



The development of a social partnership system, the effective protection of the rights of the employers and workers, the strengthening of trade unions, and the provision of the implementation of efficient continuation of the Republic's Collective Contract.

implementation of state programs, and the direction of the focused and productive activity of those organizations within the framework of state regulation are missing, and the efficient protection of the rights of those citizens using those services and the possibilities of exclusion and prevention of their possible violation.

5. Shadow employment and hidden unemployment continue and take on new manifestations.

6. The fundamental objectives and principles of the employment policy are uncertain. The present regulation does not allow for the planning and realization of a flexible state regulation arising from the situation and trends in the job

market, the assessment of the programs being implemented and the efficiency of the use of state resources.

7. The informational, institutional and operational capacities of the state measures and programs being implemented are severely limited and not commensurate to the situation and existing objective demands.

Accordingly, comprehensive and radical reforms in the state employment regulation sector are an objective necessity.

The chief directions in the policy for the resolution of existing fundamental issues in the RA employment sector

It is essential to secure such legal bases and mechanisms in the employment sector that in practise will offer the opportunity, from the point of view of assessment of results, for an active initiating and focused-foresight, transparent and also flexible policy. As one of the most important constituents of social policy reform, the upcoming reforms in the employment sector must be directed towards the resolution of the mentioned fundamental issues, in the following priority directions:

1. The clear assessment and forecast of the supply and demand of personnel, the disclosure of the true level of unemployment, the realization of continuing in-depth and realistic analyses of the job market for the purpose of securing integrity and continuity.
2. The securing of a productive balance between an active and flexible employment policy arising from the situation and the social guarantees of that sector and the comprehensive provision of addressed, focused and effective guarantees in the case of unemployment.
3. Conditioned by the economic developments in the country, the development of human resources corresponding to the demands of the job market and the securing of an increase in the competitiveness of the workforce.
4. The provision of the necessary generation change in the internal job market through encouragement of professional orientation and employment of the young.
5. The focusing of employment programs on mitigating disproportionate regional social-economic development.
6. The consistent and long-term encouragement of the employment (including self-employment) of the population in rural regions, particularly in border and mountainous habitats.
7. The promotion of employment of groups uncompetitive in the job market, particularly those individuals with limited capabilities.
8. The provision of comprehensive opportunities for the efficient integration of returning migrant workers into the job market and the encouragement of economic investment in the economy of the RA by the diaspora and individuals returning to RA.
9. The introduction of a comprehensive system directed at evaluating the final results of the differentiation, broadening of scope, increase in the purposefulness and quality, attractiveness and affordability of services being provided to job seekers.
10. The securing of the efficient and transparent use of financial resources allocated to the state employment programs.
11. The securing of the introduction of real and effective mechanisms of encouragement for small and medium enterprises.
12. The provision of the necessary conditions for the improvement of working conditions for existing jobs and the creation of new jobs with favourable working conditions.
13. The improvement in the legal regulation of the exposure and prevention of shadow employment and the compliance of functioning institutional potential to the latter's demands.
14. The provision of necessary and efficient regulation and encouragement of the activity of NGOs providing job placement services.
15. The focusing of state employment programs on the improvement in the demographic situation and the securing of regional proportionate development in the Republic.

16. The development of a social partnership system, the effective protection of the rights of the employers and workers, the strengthening of the employers' union and trade unions, and the provision of the implementation of efficient continuation of the Republic's Collective Contract.
17. The consistent provision of systematic, continuous and urgent implementation of the state employment regulatory fundamental reforms.

Sub chapter 2. Securing the realization of the priority directions of the proposed employment sector policy

The comprehensive resolution of the chronic issues of imbalance in the internal market, which are expressed in limited demands for workforce in conditions of a true, high level of unemployment, requires that on the one hand state and private sector efforts and resources should be centralized by creating jobs in all possible sectors of the economy, maintaining the existing jobs and consistently improving working conditions. On the other hand, through the strengthening of the institutional, operational and informational capacities of the bodies, developing and implementing the state employment policy, the quality and efficiency of the services provided to job seekers should be raised. At the same time it should be noticed that, in circumstances of a limited demand on the workforce, there is a significant reduction in the possibility of incompetent individuals finding work in the job market; the unfavorable demographic and migration tendencies, the burden of direct taxes, and the increase in social (and pension) security costs obstruct the broadening of participation of the population in the job market, in the current and long-term sense.

The principles in drafting the proposed employment policy

The employment policy proposed within the framework of the reforms presented in this strategy is anchored on the following principles:

1. When defining the state regulatory priorities in the employment sector, the fundamental issues of the employment sector were considered to be the main criteria and not the financial resources of the state, and institutional expediency.
2. The employment policy was viewed in the context of the strategic and long-term reforms of the provision of Armenia's stable social-economic development.
3. The objective of the provision to the population of the minimum social security guarantees as stipulated in the Constitution of the Republic of Armenia and also in international documents (the Revised European Charter, European Social Code, ILO conventions and recommendations, etc.) is at the base of the proposed reforms in the employment sector.
4. The proposed reforms in the employment sector, in the long-term, aim to secure (from the point of view of a preferable model for Armenia) the comprehensive foundations of a social state, and also the comprehensive and efficient regulation of proportionate regional development, and Labor migration.
5. For the results of the realization of the main objective of the employment policy, including differentiated sub-objectives, their clear measurability and targeting have been chosen as criteria and the mechanism and principles for obtaining results have directly sprung from such objectives comprehensively should lead to:
 - A reduction in the real level of unemployment,
 - The stimulation of an increase in the number of jobs, allowing the opportunity for dignified work and a rise in the standard of living of the population.
 - The efficient integration of uncompetitive groups in the job market,
 - The raising of economic efficiency and competitiveness through the consistent development of human resources and dynamic compliance with the job market,
 - The lessening of the disproportionateness of regional development,
 - Improvement in the demographic situation and RA out-migration of the workforce,
 - The creation and subsequent development of an appropriate organizational and institutional structure to secure the development and realization of a transparent, flexible, efficient and systematized policy,

6. The proposed measures and regulatory tools within the framework of the employment reforms have been chosen for the reason that they should be realistic and flexible, and from the point of view of the assessment of the results, initiating and active, focused and transparent.
7. Importance is placed on the real and consistent participation of NGOs providing employment services and a broad strata of the interested public in the drafting and implementation processes of the employment policy.
8. The comprehensive results of realistic, deep and continuous analyses, evaluations of the situation and well-grounded forecasts of the internal job market are at the base of the proposed employment policy's planning.
9. Importance has been placed on the new operational approaches to the employment policy being provided with corresponding legal and institutional comprehensive bases.
10. It has been taken into account that priority directions or sub-objectives should have close bearings to the fundamental regulatory objectives of the state social-demographic policy and migration.

The basic mechanisms for the drafting and implementation of the proposed policy

The general approaches of the mechanisms for the drafting and realization of the employment policy must include the following logical sequences:

1. The introduction of a strategy for the complete and consistent implementation of the employment policy must logically be followed by the drafting of a five year plan (2012-2016) of actions aimed at achieving the main results stipulated by the priority directions of this strategy, in which the main results anticipated in each priority direction of the policy, the concrete measures (activities) to be taken to achieve those results, the time period for their realization, the establishments responsible for the implementation and the quantitative and qualitative indicators for the evaluation and monitoring of the efficiency of each activity.
2. After drafting of the five year activity plan, the annual state employment regulation program (hereinafter, annual program) must be considered the pivotal and basic tool for the implementation of the state employment policy, with the following procedures and regulations:
 - 2.1. Each year, the annual program should be drafted by the authorized state body, within the framework of drafting of the consolidated budget plan. Besides being discussed in a tri-lateral republican committee it should be also be discussed by the pivotal political organizations, NGOs in the employment sector, together with representatives of non-state organizations providing

services in the sector, after which the conclusions given by those subjects and the committee should be presented to the RA government for discussion and approval. After approval, it should be included in the consolidated state budget and presented to the National Assembly.

The basis of the drafting should be the current and in-depth analyses and forecasts by the authorized body of the job market being shaped and realized, the dynamic comparative results and breaches of the objectives and targets determined by the employment policy, the current and perspective efficiency of the employment programs being implemented, and the assess-



Through the strengthening of the institutional, operational and informational capacities of the bodies, developing and implementing the state employment policy, the quality and efficiency of the services provided to job seekers should be raised.

ment of the quality and accessibility of government and non-governmental services. Assessments should be made using clearly defined methodology and based on necessary information.

The annual program should be flexible and have broad on-going redistribution capabilities. Those functioning employment regulation programs, whose on-going and perspective efficiency has been assessed as positive and expedient from the viewpoint of future continuation, and also new programs which have been previously tried and considered expedient from the viewpoint of being nationally introduced, can be included in the annual programs by the authorised body.

It is essential to stipulate, by law, the rights of individual groups of beneficiaries (including foreigners, returning migrant workers, uncompetitive groups in the job-market) to utilise the employment regulatory programs envisaged by the annual program.

The legal basis for the distribution of employment regulatory programs in individual marzes and communities must also be stipulated by law. The authorized body determines the system and criteria for distribution. The disproportionate development of individual regions, the mitigation of basic characteristics of the job markets of those regions and also the improvement in the social-demographic situation, taking into account the status (border, mountainous), developmental regularities and peculiarities of the region must be at the base of the distribution mechanism.

The procedure for implementation of state employment regulatory programs, according to the distribution of marzes, monitoring and assessment, and standards and criteria procedures, is determined by the authorized body.

State regulatory programs are implemented by the authorized body, according to the procedure and time period set down my law, through licensed state and non-state employment organizations. The conditions and procedure for outsourcing employment regulatory programs for licensed non-state organizations is stipulated by law.

The annual program must include:

- Results of analyses, forecasts, comparisons, and assessments,
- The main state employment regulatory programs, according to lists, individual beneficiary groups, implementation schedules, financial resources (by regional distribution), the proportions of outsourcing of licensed non-state organizations, clearly measurable (arising from the policy's targets) anticipated results,
- New state employment regulatory programs being tested, the financing of which is provided by the RA state budget.

3. The institutional-organizational structure of the state employment regulation system, the authorizations, within this framework, of the RA government, the authorized bodies (including the "State Employment Service" agency) and also licensed NGOs providing employment services, must be clearly defined by law in order to efficiently secure the objectives and targets of the employment policy. It is essential within this framework to:
 1. Provide mechanisms securing the employer-authorised body-education system mutual and constant link. As a result of the drafting and revision of a "Classifier of Occupations" characteristics of jobs and professional qualification of workers, based on new occupations, professions, and vocations discovered due to in-depth analysis and research of the internal job market, designing new teaching and educational programs and improving existing programs which, after being introduced into the educational system, will create the possibility to match the supply of the internal



It is necessary to make the additional educational programs more applicable and efficient by including the returning migrant workers.

1. Provide mechanisms securing the employer-authorised body-education system mutual and constant link. As a result of the drafting and revision of a "Classifier of Occupations" characteristics of jobs and professional qualification of workers, based on new occupations, professions, and vocations discovered due to in-depth analysis and research of the internal job market, designing new teaching and educational programs and improving existing programs which, after being introduced into the educational system, will create the possibility to match the supply of the internal

job market workforce to the workforce demand and the social-economic development tendencies in the RA.

2. Periodically raise the adult professional qualification level to correspond to the changing demands of the job market, and also, with the active participation of social partners, introduce a continuous retraining education system.
3. It is necessary to make the additional educational programs more applicable and efficient by including the returning migrant workers. It is also possible to provide non-competitive reimbursement for tuition fees in the form of benefits and also the right to receive an education scholarship as a privilege for a separate group of beneficiaries in the education system, to the youth returning to Armenia. These will directly encourage the repatriation of young labor and stimulate their efficient integration into the job market.

To secure the legal and operational bases of the following comprehensive procedures and mechanisms with the objective of strengthening the institutional, organizational and informational potential of the bodies drafting and implementing the state employment of the population policy:

- The authorized body must secure the possibility of receiving information concerning the progress of the state employment regulatory programs, from the corresponding on-line database. As a result, the possibility of assessing ongoing programs by revealing deviations from target indices, must be created.
- The authorized body must also secure the introduction and efficient examination of a general database of vacancies and job seekers. The information on that database must be accessible to individual visitors to the SESA regional centers or through the internet on a website created by the authorized body.
- It is essential to legislatively stipulate the running of those databases, the provision of information, the online registration of job seekers, including potential RA repatriates and the regulation and mechanisms for online inputting of information concerning vacancies.

The following main directions should be emphasized in the drafting phase of the annual program. The objective will be strengthening the institutional, organizational and informational potential of the bodies drafting and implementing the state policy for employment of the population:

- 1) The introduction and efficient utilization of appropriate informational and managerial systems.
 - 2) Continuous retraining of staff and improvement of work conditions.
 - 3) The securing of universality, feasibility and transparency of the procedures of beneficiary registration and services provided of SESA.
 - 4) The introduction of the institutional foundations of an efficient and professional orientation system.
 - 5) The provision of a comprehensive system for monitoring and assessing the results of the implementation of the state employment program.
 - 6) The securing of stable, efficient partnership cooperation between both state and NGO employment service providers, and the necessary regulation of the activities of the NGOs.
4. It is essential to legislatively stipulate and consistently secure the comprehensive bases for the efficient introduction of a professional orientation system. Professional orientation must be implemented within the framework of the employment services provided to the population and both with its principles, and as a separate direction, be included in the annual program. Within this framework the importance of the accessibility, quality of professional orientation and possibility of a tailored approach for each beneficiary must be stressed as a priority.

The on-going reforms of the professional orientation system, including that of the youth, must be implemented in the following basic directions:

- 1) The provision of accessible and professional orientation.

- 2) The provision of quality, professional orientation and the provision of necessary professional level for those implementing the orientation.
 - 3) The realization of professional orientation for each beneficiary based on the results of uncovering their individuality, physical and mental capabilities, and the priorities of their demands.
 - 4) The securing of active participation of all interested parties in the processes of professional orientation.
 - 5) The provision of efficient legislative regulation of the processes of professional orientation.
5. Based on the objectives of the employment policy, it is essential to also provide, at the legislative level, the complete regulation in compliance with the norms of international rights of employment services provided by NGOs (corresponding to the requirements of the 1997 ILO convention no 181 “concerning private employment agencies,” as yet unsigned by Armenia).

Within these frameworks, importance is given to securing the establishment on a legal frame of mutual, stable partnerships between the state and NGOs (the provision of the guarantee of implementation of ILO no.188, 1997.) In this stage, NGOs can voluntarily be licensed by the authorized body, as a result of which certain opportunities in the implementation of the state employment program are guaranteed to those organizations. The compulsory licensing by authorized bodies of outgoing employment service providers must be envisaged next.

6. In order to complete the targeted management system of the employment sector and also secure efficient state supervision, it is necessary to legislate for the legal and functional bases of the monitoring and evaluation system of the annual program’s implementation results.
7. The state employment regulation must also be directly intended to stimulate legal employment. In particular, within this framework, the provision of real and complete social and legal guarantees, the securing of dignified work conditions, and the improvement of the supervisory functions of work relationships, (aimed at the efficient and comprehensive provision of the requirements of the work code, which will make legal employment more profitable both for the employer and the workers), are envisaged. In this sense, it is a distinctive and objective necessity that the work conditions in the RA economy must be made to consistently comply with the criteria for dignified work stipulated in the ILO conventions. In order to realize these, it is necessary to draft norms, normatives and regulations, defining conditions for safe and healthy work, and secure the introduction of modern systems for their monitoring.
8. The clarification and completion of the regulation of external movement of Labor is an objective necessity, taking into account international practise, and also the situation and tendencies in social–economic development in the RA, including satisfying the demand in the internal job market in the long–term. Within this framework, the practical application of the bi–lateral and multi–lateral agreements signed by Armenia regulating the movement of Labor, the securing of similar new agreements with the main countries receiving Armenian Labor, and also the implementation of measures aimed at consistently raising the efficiency of the practical application of the signed agreements, must be planned.
9. The introduction of a complete system for informing and ensuring transparency of the state employment programs through the mass media and other communication means, based on best current international practise, and internal specificities and requirements. It is particularly important to ensure awareness for returning work migrants, in particular, and to distribute legislative information of the job market by brief summaries and other similar measures to Armenian migrants abroad.
10. Within the framework of social partnership, additional realistic guarantees of the regulation of social–working relations and the joint activities to be taken to implement them by social partners, must be defined. The provision of stable development of social–working relations in RA must be accompanied by an increase in the level of employment with the objective of comprehensive development of social partnership by the encouragement of the creation of branch and regional unions of employers and trade unions, and the strengthening of social solidarity, and also by endowing trade unions and employers’ unions with non–state supervisory functions concerning the protection of Labor rights. The social partnership institution and its resources must be used completely and purposefully in comprehensive state employment regulatory processes.

11. It is necessary to determine the minimum budget necessary to survive and the minimum basket composition and structure, to make the minimum wage correspond with the minimum budget, and to index the annual minimum wage by calculating inflation.
12. It is essential to implement a series of measures and actions with the objective of creating new jobs, the efficient replenishment of existing vacancies, proportionate regional development, improvement in the demographic situation, and the efficient regulation of the processes of Labor migration. In particular:
 - A progressive income tax, reducing the rate for low incomes (including low wages) which on the one hand, will raise the real purchasing power of low wages and on the other hand, will promote a decrease in shadow employment. The change in the income tax scale must also be in agreement with the execution of the RA state budget which depends on the dynamics of the taxation incomes.
 - For the realisation of the strategic priorities of development of the RA border, mountainous and high-mountainous settlements, the provision, within the state regulatory policy, of comprehensive privileges in the following basic directions: exemption of up to five years from income tax for organizations, reduction in the rates of income tax and social security payments for workers, a raise in the taxable threshold, a differentiated approach to pay additional compensation on wages and other similar privileges which in those regions, through the efficient promotion of employment and self-employment, will result in economic activation, improvement in the social-demographic situation and the prevention of labor migration.
 - The owners and lessees of agricultural land, the younger generation, individuals who are uncompetitive in the internal job market, in particular those who have limited abilities, the clarification and completion of legal regulation of employment relations of returning migrant workers, the introduction of an active system of corporate social responsibility in the employment sector, as well as the improvement of existing employment programs aimed at the efficient integration of those individuals into the domestic job market and securing equal opportunities. The testing and introduction of targeted new programs which will stimulate the efficient organization of employment for the population of rural regions and also uncompetitive individuals in the job market, particularly growth in home crafts and craftsmanship
 - The development of small and medium enterprises must also be targeted for the creation of new jobs. Within this framework significant importance must be placed on the stimulation of the microcredit programs aimed at fostering self-sufficiency in the rural population and the establishment and subsequent strengthening of coordinated and targeted efficient cooperation between different structures in the sector.
 - The testing and introduction of programs ensuring the compatibility of work and family responsibilities, which will encourage the employment of women, especially single mothers.
 - In circumstances of limited state and community budget resources, it is essential to show a systematic approach to attracting financial resources from international donor organizations and other sources, aimed at the implementation of state employment programs, and the targeted, efficient utilization of those resources.

The main results anticipated from the employment strategy

As of the end of 2010, the working-age population of RA was 2,327 thousand individuals of which 50.3% constituted the economically active population and 46.8%, the employed. As a result of the implementation of this strategy, it is anticipated that 200-225 thousand new jobs will be created from 2012 – 2016 in different branches of the economy, having as a target index, the provision of employment for 60% of the working-age population. The creation of an average 40-45 thousand new job each year will lead to a real decrease of 3.4%-3.8% in the specific weight of the number of unemployed in the total economically active population. Taking into account the foreign policy orientation of the Republic of Armenia to integrate with the European Union, should such a level of employment be achieved in the coming five years, conditions will be created to reach the 2020 index set by the EU {according to the European Employment Strategy, (the European 2020 strategy)¹ adopted by the EU, the European countries anticipate the provision of employment to 75% of 20 – 64 year olds in the population by 2020.}

¹ <http://ec.europa.eu/social/miin.jsp?catId=101&langId=101en>

It is also anticipated that the realisation of the proposed employment strategy will result in improvement in the condition of the internal job market and the consistent and phased resolution of fundamental issues present in the employment sector, by the reduction in the level of unemployment. The philosophy of the regulation proposed in the employment strategy has radical differences from the present regulation. The latter is presented in the following general chart:

The characteristics of the operating regulation in the employment sector		
Jobseekers, the unemployed, the types of activities considered to be employment, the definition of suitable work, the legal bases for the registration of beneficiaries by the SESA.	The objectives and principles of the employment policy	The institutional bases for the regulation of employment (powers of the state bodies), organizational structure (the state programs, the regulation of the activities of coordinating committees, the rights of employers in state regulatory processes, and the organization of public activities are listed)
The suspension and termination of the rights of the beneficiaries, and also the legal basis for the return of financial resources not used correctly (not targeted)		
Legal guarantees given to beneficiaries, including groups uncompetitive in the job market. These include additional guarantees (the rights of concrete groups to utilize the concrete programs stipulated by law)		
The determination of the employment sector database		
The characteristics of the proposed regulation in the employment sector		
The definition of the <i>main concepts</i> used in the law	The main objective of the employment policy, subjected to a system of sub-objectives which must be clearly distinct, and the results of their realization, <i>measurable</i> . The principles must <i>arise directly</i> from the objectives.	The institutional bases of the regulation of employment (the authorities of the state bodies and also the authorities of <i>licensed NGOs</i>) the organizational structure, the main tool is considered to be the <i>annual program</i> , for the drafting and implementation of which, a flexible mechanism is envisaged by the concept, and for the assessment and accountability of which a comprehensive mechanism is anticipated. The role of the republican coordinating committee is transferred to the commission.
The legal regulation of the more important, typical and stable social relationships in the employment policy, within whose framework it is envisaged to include the reformed or newly proposed basic approaches.		
The programs for specific beneficiary groups are included in the annual program, according to regional distribution and the volume of outsourcing to NGOs. New approaches within the framework of the implementation of the program are:		
<ul style="list-style-type: none"> - the provision of flexibility, - the outsourcing of program implementation to NGOs, - the completion and clarification of professional orientation processes, as a separate program, - the introduction of a testing institute for new programs, - the provision of a comprehensive system for the assessment, monitoring and supervising of program implementation - the opportunity for further monitoring of program results, through provision of a feedback system, - the provision of reciprocal and continuous communication between employer-authorized body-education system - the provision of new methods of Labor organization with employers and job-seekers (planned visits to employers, introduction of personal plans, regulation and clear accounting of advice provided, the strengthening of the awareness institution), - the creation of institutional opportunities for employers, job seekers and other beneficiaries, without intermediaries, with the objective of making comprehensive information on the work force supply and demand accessible on a web site 		
The comprehensive provision of the essential legal framework for the creation, conducting and targeted use of an employment sector database		
The provision of new legal bases for the suspension and termination of the rights of the beneficiaries, and also for the return of financial resources not used correctly (not targeted), which will be based on a new system of assessing and supervising programs and a new information system created with new principles		

In particular:

1. In the functioning regulation, the main objective and principles of the employment policy are very broadly and ambiguously defined, which does not allow for:

- Decisions on the place and role of that policy in the system of the general social–economic policy.
- Clarification of the system of sub–objectives and their inter–relationships and links with the other fields of the social–economic policy.
- Making the results of that policy measurable, assessable and predictable in the current and perspective sense.

The model proposed by the regulation envisages legislatively defining the main objective of the policy, with a system of sub–objectives by subject, which separately taken must be clearly distinct, and the results of their realization, measurable.

2. The individual state employment regulatory programs are fully stipulated in the legislature of the functioning system, and the annual program plays a passive, supplementary role. Furthermore, the authorizations of the SESA directly lead to the implementation of those programs. Such an arrangement does not allow for:

- The planning and realization of flexible state regulation arising from the situation and trends in the job market.
- The quick and operative testing and introduction of a new regulatory toolbox, based on the assessment of programs, and the framework of comparison of results of ongoing and in–depth analyses and forecasts in the job market with the objective of corresponding the state regulation to the situation in the job market and forecasted changes,
- Consistently raising the efficiency of the use of state resources directed to the sector.

With this proposed regulation it is anticipated to change the annual program into the main tool of the state employment regulatory policy, in which the programs assessed as efficient must be included, as well as new programs being tested, according to beneficiary groups, regional distribution, and anticipated results. With the proposed principles and mechanisms, the annual program will make the organising of a flexible and efficient state regulation possible.

3. Under the existing structure, the system of accounting and registering beneficiaries is incomplete and possibilities are limited, as a result of which:

- The opportunity for beneficiaries to register and take advantage of services online is missing.
- Possible mechanisms for obtaining further information on beneficiaries who have come out of registration for this or that reason are missing.

In the proposed regulation it is envisaged to legislatively stipulate and in practise efficiently introduce the electronic registration of beneficiaries and the use of services electronically and also the comprehensive bases for provision of feedback.

4. In the functioning system of regulation, the mechanisms for regulating the activities of NGOs providing employment services are not envisioned, as a result of which:

- The state system’s partnership, focused and efficient cooperation with those organizations is missing.
- Outsourcing by state bodies to the non–government sector and, as a consequence of the resultant healthy competition, the consistent raising of the focus and efficiency of state programs is missing.

- The possibilities of guiding those organizations’ purposeful and efficient activities within the framework of state regulation by the authorized body, as well as that of efficiently defending the rights of citizens utilizing those services and the chances of exclusion and prevention of possible breaches are zero.

5. The functioning regulation does not entirely include the legal, operational and institutional bases for the formation, conduct, and focused use of the employment sector databases. Under these circumstances:



Under the existing structure, the system of accounting and registering beneficiaries is incomplete and possibilities are limited.

- At present there is no complete database providing new approaches and processes for the drafting and implementation of the employment policy.
- The necessary, adequate conditions for the organization and implementation of the drafting, planning and assessment processes of the annual program are absent.
- The objective opportunity to reveal the deviations of target indices of the course of current programs, by obtaining information as needed, and on-going assessment of the program, is missing.
- It is not completely possible to electronically organize the processes of efficient provision to beneficiaries of information existing in the SESA on vacancies and labor resources.
- The SESA does not efficiently utilise the potential for receiving information on employers' vacancies and job-seekers electronically.

The securing of the efficient and total resolution of the fundamental issues noted in these points is envisaged by this proposed regulation.

6. The functioning system of regulation does not include the organizational and implementation subsystems of the evaluating, monitoring and state supervising processes. As a result, it is not possible to fully secure the necessary efficiency, focus, realism, expediency, quality and accessibility of the services being provided; therefore it is envisaged to consistently introduce such a system into the proposed system of regulation.

The main results anticipated by the realization of the proposed employment strategy are presented below:

1. The promoting of employment and self-employment by the revival of economic activity of the population,
2. The broadening of realistic possibilities for jobseekers to utilise their right to dignified work corresponding to their professional capabilities, by increased flexibility in the job market.
3. The securing of equal opportunities and efficient integration in the internal job market for uncompetitive groups, the youth, returning migrants and owners of agricultural land.
4. The stimulation of the improvement and efficient balance of the quantitative and qualitative indices of supply and demand in the job market.
5. A reduction in informal employment and under-employment.
6. The securing of comprehensive and realistic regulation and improvement in efficiency of the activities of state and non-state employment services providers.
7. A reduction in the regional imbalance of the internal job market.
8. Improvement in the demographic and external movement of Labor indices.
9. The perfection of the legal field regulating the employment sector, including compliance to the new

approaches of the regulation being proposed.

10. The development of social relationships with the main directions of creation of new jobs, efficient replenishment of vacancies, the improvement in working conditions and the perfection of the remuneration system.

11. The transparency of the drafting and implementation processes of the employment policy, the broad participation of the interested parties, and the continuous securing of increase in the level of awareness of the beneficiaries.



The evaluation of the efficiency of the proposed employment strategy's implementation must arise from the comprehensive results of the evaluation and monitoring of the state employment programs.

The basic characteristics of the state employment sector regulation policy's efficiency evaluation and monitoring system

Within this framework, it is essential to plan the monitoring and evaluation of the on-going and annual results of the programs. It is essential, on the one hand to reveal the deviations of the current indices of the programs from target indices, analyse the reasons for the deviations and if necessary, initiate appropriate activities to correct the current situation, while on the other hand, using the final (annual) evaluation results to decide the expediency of the subsequent continuation of those programs.

In this sense, importance must be placed on the values of the absolute as well as the relative (comparative) corresponding indices, tendencies for change and forecasts. The main sources of information for the calculation of indices are the databases of the NSS RA, the authorized body and other relevant ministries, and also the results of studies, research and analyses implemented in the sector by the relevant state bodies and international and other organizations.

Within this framework, particular importance must be placed on securing the legal bases of obtaining feedback on the results of the services rendered to beneficiaries. In particular, this refers to receiving information from employers and individuals positioned in jobs as a result of the implementation of state employment programs, on the placements in question and at a later date, on subsequent work relations in the given job. The mentioned information must also regularly be included in employment sector databases and used as necessary for monitoring, comparisons, program efficiency evaluation and other objectives as stipulated by the RA legislation.

It is essential to also stipulate the provision of recovery processes for financial resources directed to employment regulation programs but not utilized purposefully, in the structural-functional model of efficiency evaluation and monitoring system, and also the comprehensive and efficient bases for liability in case of violation of the law.

In this framework, it is proposed that the following basic indices must be at the base of the shaping of the above-described efficiency evaluation and monitoring system. In particular:

1. The overall total employed (annually)
 - Including:
 - a) According to branches of the economy
 - b) According to segments of the economy
 - c) According to age/gender
 - d) According to level of education
 - e) According to regions
 - f) According to type of residence
2. Number of persons seeking work (monthly)
 - 1) The number of occupied persons seeking work,
 - Including:
 - 1.1 the number of occupied pensioners,
 - 2) Number of unemployed persons seeking work
 - Including:
 - 2.1 the total number of unemployed, of which:
 - a) According to gender/age
 - b) According to education level,
 - c) According to length of unemployment (up to 1 year and over 1 year)
 - d) According to regions
 - e) According to type of residence
 - f) The number of unemployed receiving benefit
 - g) The number of individuals receiving unemployment benefits more than once
 - 2.2 The total number of disabled
 - a) According to disabled groups

- b) According to gender/age
- c) According to education level
- d) According to regions
- e) According to type of residence

2.3 the total number of pensioners

Of which:

- a) According to the type of pension,
 - b) According to the level of education
 - c) According to type of residence
 - d) According to the regions
3. The number of shadow employed (annually)
 4. The numbers of individuals below working age and older workers, according to gender/age composition (annually)
 5. The number of individuals included in the state employment service according to programs (annually)
This includes:
 - a) According to gender/age composition
 - b) According to level of education
 - c) According to regions
 - d) According to type of residence
 6. The number of individuals placed in jobs as a result of the state employment service agency (monthly)
This includes:
 - a) According to gender/age composition
 - b) According to level of education
 - c) According to length of unemployment (up to 1 year and over 1 year)
 - d) According to the regions
 - e) Those included in the state employment programs
 - f) Those who worked less than one year after being placed in a job
 - g) Those who have been placed in jobs outside RA territory
 7. Vacant positions calculated (monthly)
This includes:
 - a) According to professions
 - b) According to regions
 - c) The number of repeating vacancies
 8. The performance indices of state employment services (annually)
In particular:
 - a) The financial means allocated to the state employment services from the RA state budget, according to the programs
 - b) The true amount spent on the implementation of state employment programs according to the programs
 - c) The maintenance costs allocated for the SESA from the RA state budget
 - d) The true costs for the maintenance of the SESA
 9. Calculating for one individual being placed in a permanent job as a result of being included in the state employment programs, the gross financial resources allocated from the RA budget to the state employment regulatory programs (except the resources allocated to the Paid Public Works program being implemented with the objective of providing temporary work)
 10. The characteristics indices of wages (annual)
 - a) The size of the minimum consumer basket in the country
 - b) The size of the minimum wage in the RA
 - c) The size of the average wage

Including:

- i. According to the branches of the economy
 - ii. According to the segments of the economy
 - iii. According to professions
- d) Inflation

In order to assess the implementation of the proposed employment strategy, both the absolute and the corresponding (comparative) values of the above-mentioned indices must be calculated. In this indices system, 2008 may be defined as the base year for comparison, according to which the tendencies in the indices can be calculated. The main sources of information for the calculation of indices are the databases of the NSS RA, the databases of the Ministry of Labor and Social Affairs and other relevant ministries as well as the results of studies, research and analyses implemented in the sector by the relevant state bodies, international and other organizations.

About the Authors

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Consultant

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About HMF

The Hrayr Maroukhian Foundation was created in 2009 in the Republic of Armenia. It is committed to the development and advancement of public policy issues that espouse the basic values of social democracy through education, training, research, and regional and international cooperation.

The aims of the foundation are to contribute to and actively promote a comprehensive national, regional and international dialogue focusing on current political, economic and social developments and challenges, with a primary concentration on Armenia and the South Caucasus.

The foundation conducts studies and develops policies to assist the citizens of the Republic of Armenia in responding to the ever-changing political and social landscape both regionally and globally. The foundation also serves as a center to study the specific issues faced by newly independent states including democratization, labor rights, the absence of social justice, freedom of speech, foreign and security policies, current political and international events and developments as they pertain to the South Caucasus.



About FES

The Friedrich-Ebert-Stiftung (FES) is a non-profit German political foundation committed to the values of social democracy. The foundation, headquartered in Berlin and Bonn, was founded in 1925 and is named after Friedrich Ebert, Germany's first democratically elected president.

Today, the FES maintains branch offices in over 90 countries and carries out activities in more than 100 countries.

The Tbilisi-based South Caucasus Cooperation Office coordinates FES' activities in Georgia, Armenia and Azerbaijan. In all three countries, the Friedrich-Ebert-Stiftung aims at fostering democracy, peace and social justice through political dialogue, education and research.

FES' partners include NGOs, academics and experts, journalists, parliaments, ministries and political decision-makers.

