Armenia's Current Practice of Targeting Social Assistance and Analysis of Development Prospects

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Armenia's Current Practice Of Targeting Social Assistance And Analysis of Development Prospects

Yerevan 2008

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Introduction

This paper analyzes the current practice as of 2007 of the targeted family benefit and lump-sum financial assistance program in Armenia, as well as discusses the need for reforms based on the findings, possibilities for undertaking the necessary measures, and the visible constraints.

While the final changes should be complex, thus covering all social welfare programs – which is important for reallocating funds from less effective programs to more effective ones, as well as from the perspective of coordinated solutions to problems – nonetheless, as an interim result, an analysis and efficiency assessment of the major individual programs and the identification and development of possible options for adjustment are also important.

In Armenia, the family benefit and lump-sum financial assistance program are the main social assistance programs, and has been delivered since 1999. Through this program, significant funds are being redistributed (Table 1).

It can be seen in Table 1 below, the ratio of the family benefit budget to GDP tended to decrease considerably until 2003 (from 2.14% to 0.78%). Then, it grew, reaching 0.9% in 2005. It would be incorrect to attribute the decrease of the family benefit budget during the period from 2000 to 2003 to the reduction of poverty (compared to 2000, the family benefit budget was reduced by 36% in 2002).

Table 1 - Budget for Family Benefits and Lump-Sum Financial Assistance

	1999	2000	2001	2002	2003	2004	2005	2006	2007*
Family benefit budget (in billion drams)	21.14	19	16	12.25	12.75	15.8	20.0	24.34	26.4
Nominal GDP (in billion drams)	987.4	1,031.3	1,175.9	1,362.5	1,624.6	1,908	2,244	2,665	2,879
Family benefit budget (in % to GDP)	2.14	1.8	1.36	0.9	0.78	0.82	0.9	0.9	0.9
Growth rate of real GDP	3.3	6.0	9.6	13.2	14.0	10.5	13.9	13.4	9.0
State budget expenditures (in billion drams)	242.6	222.9	244.4	263.9	312.7	333.9	417.2	454.1	558.7
Family benefit budget (in % to budgetary expenditures)	8.7	8.5	6.5	4.6	4.1	4.7	4.7	5.3	4.7

** For 2007, the planned and expected indicators are given.*
Source: Social Portrait of Armenia and Poverty Statistical Analytical Report, Yerevan 2003; 2006; RA Ministry of Labor and Social Affairs

The assumption that poverty was reduced in 2000-2003 is shown to be incorrect by the data in Table 2, which shows the number of families receiving family benefits and lump-sum financial assistance for that time period. Furthermore, the number of beneficiary families decreased by 25% while the poverty score (36 for the years 2000-2003), which signifies eligibility for inclusion in the family benefit system, remained unchanged.

Table 2 - Number of Families and Individuals Receiving Family Benefit and Lump-Sum Financial Assistance, 2000-2007

	2000	2001	2002	2003	2004	2005	2006	2007*
Families regularly receiving monthly benefit	199,456	174,800	149,603	141,218	134,224	127,167	130,406	124,556
Families receiving lump sum financial assistance	11,794	15,917	10,140	14,889	7,782	8,342	9,264	16,189
Total beneficiary families	211,253	190,717	159,743	156,107	142,006	135,509	139,670	140,745

Individuals regularly receiving monthly benefit	667,897	598,616	532,014	505,560	476,495	467,534	484,551	471,532
Individuals receiving lump sum financial assistance	44,935	54,139	30,544	39,456	17,680	20,560	19,865	34,996
Total individual beneficiaries	712,832	652,755	562,558	545,016	494,175	488,097	504,416	506,528

** The data for 2007 is given as of July 1*
Source: Social Portrait of Armenia and Poverty Statistical Analytical Report, Yerevan 2002; 2003; 2006; RA Ministry of Labor and Social Affairs

Therefore, not only the reduction of the poverty level, but also certain political factors (pre-election, post-election), in tandem have led to a decrease in the family benefit budget.

Starting from 2003, financing at 0.8-0.9% of GDP, or 4-5% of the consolidated budget, has been provided to the family benefit program which, supposedly, is connected with forecasts of the Poverty Reduction Strategic Program (PRSP, Table 3).[1]

Table 3 - Family Benefits, 2001-2015

Indicators	2001	2002	2003	2004	2005	2006	2009	2012	2015
Total expenditures	17.66	12.08	12.75	16.09	20.21	24.94	29.82	33.01	39.76
Percentage to GDP	1.5	0.9	0.9	1.0	1.2	1.3	1.2	1.1	1.0
Number of beneficiary families (of thousand families)	173.3	149.0	139.0	139.0	139.0	132.4	112.5	87	87
Average monthly size of benefit	8,500	6,760	7,640	9,649	12,115	15,697	22,096	31,597	38,066

Source: PRSP, p. 94

According to estimations, over the past few years the poverty level has demonstrated a tendency of continuous decrease while poverty and extreme poverty still remain at a rather high level (Table 4).

Table 4 - Poverty Level in Armenia, 1998-2005

	Poverty Level (by old methodology)	**Poverty Level (by new methodology)**
Extremely poor		
98/99	22.9%	
2001	16%	
2002	13.1%	
2003	7.4%	
2004	7.2%	6.4%
2005	5.5%	4.6%
Poor		
98/98	55.1%	
2001	50.9%	
2002	49.7%	
2003	42.9%	
2004	39.0%	34.6%
2005	34.5%	29.8%

Source: Social Portrait of Armenia and Poverty Statistical Analytical Report, Yerevan 2006

[1] It is likely that during the process of planning the budget for family benefits, preference was given to total expenditures expressed in absolute figures in the Poverty Reduction Strategic Program rather than estimates of percentages to GDP (see line "Total expenditures" in Table 3).

Of course, "any estimation on poverty should be treated with some reservation."[2] Nonetheless, the dynamics of an estimated poverty level are undoubtedly indicative of certain trends. Over the past few years, a sufficient number of transfer programs were delivered at the cost of the state budget, and major amounts were redistributed, but no success was achieved in combating extreme poverty, whereas less than 30% of the family benefit budget would be required for combating extreme poverty in an environment of perfectly targeted social welfare. The issue of improving the targeted approach in the provision of social transfers and, namely, family benefits, as a crucial strategy, is reflected in the PRSP.[3] However, both for objective and subjective reasons, the most important part of the government policy measures proposed in the PRSP have not been completed as anticipated in the time schedule. In particular, under the PRSP, it was planned:

1. *Starting 2004, to cease providing lump-sum benefits and use the available funds for the delivery of the family benefit program.* As of 2007, this measure is not accomplished.

2. *With the view of increasing the targeted nature of family benefits, from 2005 to start a phased transition from the applicable indirect (scoring) method for means-assessment of beneficiary families to the direct method in which case only the incomes of family members serve as a basis for means-testing families.* This measure has not been accomplished, either. At the same time, in this case accurate information on incomes (expenses) is necessary. Direct targeting is nearly impossible in countries with large informal sector and a high level of poverty.

3. *Improve efficiency of collating information: create a state database for social services.* This activity is carried out partially because only 2/3 of the republic is networked.

4. *Reform the existing system of appeal on issues related to benefits: create a simple, accessible, transparent, and fair system of appeal.* Again, this measure cannot be considered completed given that "even those who file applications on receiving social assistance benefits do not receive any response."[4]

5. *Develop effective mechanisms for supervising (monitoring) the process of granting and payment of benefits, prevent corruption and potential subjectivity.* Despite the importance of this measure, little has been done in order to accomplish it. Corruption and lack of supervision mechanisms considerably complicate the task of improving targeting. To be granted a benefit, "an amount equivalent to four month's benefit must be paid in order to be included in the Paros list."[5] There are other forms of corruption and insufficient supervision as well.

6. *Adoption of the Law on the Republic of Armenia on State Benefits.* This law has been adopted and enacted.

Other measures are also anticipated in the PRSP but these can hardly be considered to have been completed (see: PRSP).

[2] Social Portrait of Armenia and Poverty Statistical Analytical Report, Yerevan 2002
[3] PRSP, pp. 94-96
[4] Amitava Mukherji, "The Voice of the Poor," Armenia, 2007
[5] Amitava Mukherji, "The Voice of the Poor," Armenia, 2007

The Problems of Inefficient Targeting of Social Transfers in Armenia

Inadequate targeting in social transfers is confirmed by a number of studies and sociological surveys. For example, according to the report "Improving Targeting of Social Assistance in Armenia" prepared by the Center of Economic Development and Research (CEDR),[6] both the "coverage" and "non-coverage" error is significant in the family benefit system. According to another report of the CEDR, "in the opinion of 34% of households, more than half of the beneficiaries are not poor, and in urban areas, this indicator is 50%."[7]

Individual views regarding the coverage of social welfare programs for families are presented in "The Voice of the Poor," a unique survey based on feedback which was prepared by Amitava Mukherji, "many of respondents have mentioned the problem of targeting. In some villages people noted that no assistance was provided even to the poorest. Because of score-based calculation, some needy families are deprived from the opportunity to be included in social welfare programs. Rather than applying the obsolete system of score-based calculation (which does not reflect reality), social workers prefer making personal decisions regarding the inclusion or exclusion of their fellow citizens in social welfare programs. "Benefits are paid only to those who have been living well."[8] In the same paper the following view is reflected, "In some villages, the overall distribution of social assistance is fair, but in others, people mention that the principle of justice is not followed."[9]

In general, poor targeting of social assistance has far-reaching reasons, and their solutions are complex. Nevertheless, we have attempted to identify the main reasons which contribute to poor targeting in the family benefit system:

1. ***Poor social infrastructure;***
2. ***High level of poverty in the population;***
3. ***Existing corruption in the system;***
4. ***Gaps in legislation;***
5. ***Inadequate supervision (monitoring);***
6. ***Inadequate methods (formulas) for assessing poverty;***
7. ***Inadequate methods and systems for payment of benefits.***

The problem of **poor social infrastructure** and relationships between the "elite" and "masses" in the Republic of Armenia was discussed in another study. In this paper we will focus mainly on institutions which have a major role in the delivery of family benefit programs in the Republic of Armenia, their relationships, and issues related to the selection of cadres:

1. The Ministry of Labor and Social Affairs is responsible for developing and monitoring the sectoral policy and legislative proposals. The Department of Social Assistance and Monitoring Supervision Department are responsible for the policy implemented in the area concerned. The Accounting and Economic Department, together with the above departments, is responsible for financial issues in the sector.

2. Regional agencies of social services are responsible for means-testing and payment of benefits. There are 55 agencies functional in the republic, of which 12 operate in Yerevan, 5 agencies are in other major towns, and 38 are controlled by Marzes. The 12 Yerevan agencies

[6] "Improving Targeting of Social Assistance in Armenia," pp. 12-19, Yerevan, 2006
[7] Needy Families and Social Service in Armenia, p. 24
[8] Amitava Mukherji, "The Voice of the Poor," Armenia, 2007
[9] Amitava Mukherji, "The Voice of the Poor," Armenia, 2007

are reportable to municipalities, and the 5 other agencies are subordinate to the municipalities of other major towns. The remaining ones are reportable to Marzpetarans (marz administrations).

3. "NORK" information-analytical center is under the control of the Ministry of Labor and Social Affairs. "NORK" manages the database on family benefits which is updated on a monthly basis through connection with regional agencies.

4. Local self-governance bodies issue proof to those who wish to be included in the family benefit system and provide certain information for "NORK" center. They also cooperate with the RA Ministry of Labor and Social Affairs.

5. Other institutions of the RA Ministry of Labor and Social Affairs, in particular, the Medical and Social Expert Investigation Committee and regional employment centers cooperate with the NORK center in data sharing and other areas.

6. The RA Ministry of Energy, the RA Ministry of Transport and Communications, the Agency for Business Registry of the Staff of the RA Ministry of Justice, the RA Police at the RA Government, the RA State Fund of Social Insurance, the State Customs Committee, and the RA State Committee of Title Registration (Cadastre) provide respective information in the established format and frequency.

7. The national operator of mail services pays benefits based on the list of beneficiaries approved by social agencies. Necessary funds are transferred from the treasury account and are provided to each beneficiary on a monthly basis.

8. Through the local treasury branches, the RA Ministry of Finance and Economy provides the financing and ensures submission of proposals concerning the family benefit budget.

9. The RA National Statistics Service conducts surveys for the purpose of assessing the minor impacts that the population's livelihood, poverty estimations, and family benefits have on the poverty level.

The subordination of the regional agencies of social services (RASS) is binary: their activities in relation to the development of strategy and social policy, as well as to the selection of techniques for their implementation, are coordinated by the RA Ministry of Labor and Social Affairs. For other types of activities, these regional agencies report to municipalities. On the other hand, RASSs implement social programs both at the state and local levels.

In our view, binary subordination has an adverse effect on the effectiveness of management. Often the interests of local authorities supersede: "In some villages people have no understanding about the costs of delivering social services and think that their village head deals with these problems. He is the one who submits the list of eligible persons."[10] The upgrading of facilties and staff in regional centers, including selecting qualified staff and managers through a tender process, adjusting their salaries upward, and improving their work environment through technical upgrades, may considerably increase the targeting of the family benefits:

Box 1

"Some villagers think that the office of social services lacks sufficient technical resources and that the office equipment (computers) is outdated. There is an opinion that in their work the employees of the social services office do not demonstrate elementary understanding and care to people which leads to poor delivery of the services."

"We were told in one of the marzes that the local and international NGOs were dissatisfied with the Ministry of Labor and Social Affairs." *Amitava Mukherji, "The Voice of the Poor," Armenia, 2007*

[10] Amitava Mukherji, "The Voice of the Poor," Armenia, 2007, p. 52

This does not mean that the offices should be furnished luxuriously, or that there are pretensions to protect the interests of NGOs with different interests.

The **high level of poverty** in Armenia is shown not only by poverty indicators and poverty depth and severity profiles, but also by other features, such as migration, low birth rate, health care indicators, employment rates, the poor state of intra-regional roads, etc. The issue of targeting in the family benefit system becomes complicated because of the high level of poverty, "In some villages, people think that all residents should receive social assistance because they do not have any other financial income (AM. P.9). " Real estate prices are another key indicator characterizing the social status of communities. In rural communities, real estate prices are extremely low and differ significantly from those in Yerevan and other large towns. The average market prices for one-story cottages in rural communities are presented in Table 5.

Table 5 - Average Market Prices for One-Story Cottages in Rural Communities

	Total communities		Large - medium communities		Small communities	
	Percentage	Cumulative percentage	Percentage	Cumulative percentage	Percentage	Cumulative percentage
Up to US $1,000	13.6	13.6	6.3	6.3	35.3	35.3
US $1,000-3,000	29.8	43.4	25.6	31.9	42.0	77.3
US $3,000-6,000	27.0	70.4	31.1	63.0	15.1	92.4
US $6,000-10,000	17.4	87.9	21.1	84.0	6.7	99.2
US $10,000-15,000	5.3	93.2	7.1	91.2	0.0	99.2
US $15,000-20,000	5.1	98.3	6.6	97.7	0.8	100.0
Above US $20,000	1.7	100.0	2.3	100.0	0.0	100.0

Source: Overall Status and Classification of Communities in Armenia, CEDR, p. 19, Yerevan 2006

The **existing corruption** in the system of family benefits (social transfers) is connected with the inadequacy of institutions, existing gaps in legislation, and inadequate mechanisms for the inclusion of needy people in the system, the high level of poverty, weak supervision, bureaucratic hassles, lack of transparency, and inadequate monitoring.

Box 2

The assessments given by poor people themselves about transparency of the system and corruption are noteworthy:

Transparency problem: In some villages people are unaware of social benefits.

Corruption in villages: Eligibility for receiving a benefit depends on the family's personal connections and their ability to "repay" a favor, rather than on their actual social status.

Corruption in Yerevan: If you pay money, you'll earn a favorable attitude, and you won't if you don't.

Source: Amitava Mukherji, "The Voice of the Poor," Armenia, 2007

Weaknesses of Vulnerability Assessment Methods (formulas)

At present in the family benefit system, the following formula is applied for assessing the level of poverty of families:

(1) $P=P_{ave} \times K_f \times K_r \times K_h \times K_c \times K_b \times K_{re} \times K_{tel} \times K_e \times K_i \times K_{max} \times K_s$

P is a variable which expresses the poverty level of a family. The higher the variable, the higher the poverty level of a family is.

P_{ave} is the average score of family's poverty.

In order to calculate the average score, the aggregate of poverty scores of all members of a family is divided by *n*, the number of persons recorded in the social passport of the family (save for persons absent for "good reason").

$$P_{ave} = \frac{P_1 + P_2 + ... + P_n}{n}$$

K_f is the coefficient related to the number of capable members of the family;

$K_f = 1.00+0.02m$, where

M is the number of incapable family members.

K_r is the coefficient for residence. Its values can be in the range of 1-1.03, and 1.05.

K_h is the coefficient for family's housing conditions.

K_c is the coefficient either confirming or rejecting the fact of technical examination of any personal cars during the previous year. Its value can be either 0 or 1.

K_b is the coefficient either confirming or rejecting the fact of doing business by any member of the family. Its value can be either 0 or 1.

K_{re} is the coefficient either confirming or rejecting the fact of acquisition of real estate by the right of ownership by any member of the family. Its value can be either 0 or 1.

K_{max} is the coefficient either confirming or rejecting the fact of effecting customs payments by any member of the family. Its value can be either 0 or 1.

K_e is the coefficient reflecting the fact of electricity consumption by the family during summer months which is below or above a defined threshold. Its value can be either 0 or 1.

K_{tel} is the coefficient either confirming or rejecting the fact of the average monthly long-distance phone calls paid by the family for the last three months of the year in question which is either below or above a defined threshold. Its value can be either 0 or 1.

K_s is the assessment of the specialist servicing the welfare area of the family. Its value can be either 0 or 1.

K_i reflects the impact of the family's income on its overall poverty score.

The Average Vulnerability Score of a Family

When assessing the poverty level of a family, the key variable in the formula is P: the average score calculated on the basis of scores assigned to the family members according to which social group they belong to. The poverty score for each member of the family is determined according to the scores defined for social groups (Table 6). After that, the average score for the family is calculated. Those family members who do not belong to any social group are assigned scores of 20. If the family members belong to several groups then the largest score is taken in full, the second largest score is taken at 30%, and the remaining are included at 10% of their value.

Table 6 - Scores of Vulnerable Social Groups

	Social group	Code of social group	Poverty score assigned to social group
1.	Person with Category I disability	H 11	48
2.	Person with Category II disability	H 22	39
3.	Person with Category III disability	H 33	28
4.	Child with disability	H 44	45
5.	Minor (up to 2 years-old)	A 55	35
6.	Minor (from 2 to 18 years-old)	A 66	33
7.	Fatherless or motherless child	M 23	43
8.	Child left without parental care	E 56	50
9.	Child of single mother	M45	26
10.	Child of divorced person	A 34	26
11.	Student (for those receiving state scholarship – up to 23 year)	S 12	22
12.	Pregnant woman (for 20 weeks' and more pregnancy)	H 00	30
13.	Unemployed	G 99	22
14.	Pensioner	K 88	36
15.	Elderly pensioner (75 years and above)	K 86	39
16.	Single unemployed pensioner	K 87	37

Source: prepared on the basis of Appendix 1 to RA Government Decree 2317 of 30.01.06.

The only change that was made until 2008 was the reduction of the score for the unemployed from 27 to 22. Presumably, this adjustment is connected with the high level of hidden unemployment.

In case of applying formula (2) ($P_{ave}=\frac{Pi+.....Pn}{n}$), it is highly likely that families with many children and other large families will not be included in the system. It can be demonstrated in the following way. Let's assume that $P_1>P_2>\ldots>P_n$. $P_{ave}=\frac{P_1+P_2+....+P_n}{n}$. Let's add another

component, i.e. P_{n+1}. It is more likely that an additional member of the family will be assigned a low score (he or she will not belong to any social group). In this case:

$$P_{ave}' = \frac{P_1 + P_2 + ... + P_n + P_{n+1}}{n+1}$$

From two expressions (P_{ave} and P_{ave}'):

$(n+1)\, P_{ave}' - P_{n+1} = nP_{ave}$, where:

$$P_{ave} = P_{ave}' + \frac{P_{ave}' - P_{n+1}}{n} :$$

Since $P_{n+1} < P_{ave}'$,

$P_{ave} > P_{ave}'$.

This argument is supported by statistical data. If the lowest passing score is 33, then the system fails to cover families with many children and other large families whereas, in general, these families are considered as less well-to-do ones: the poverty level is particularly high in large families (Table 7).

Table 7 - Poverty Level by Size of Household, 2004 and 2005 (in %)

	2004		2005			
	Very poor	Poor	Very poor	Poor	Percentage in poor population	Percentage in total population
Number of members in households						
1	1.6	13.2	1.9	15.7	1.9	3.7
2	3.9	20.3	2.1	18.7	6.0	9.5
3	3.8	25.3	3.2	18.9	8.5	13.4
4	5.3	28.5	4.0	25.0	18.6	22.2
5	5.2	36.3	4.7	34.8	24.9	21.4
6	7.7	39.7	6.1	34.0	17.7	15.5
7 and more	11.9	52.8	7.2	46.8	22.4	14.3
Total	6.4	34.6	4.6	29.8	100	100

Source: Social Portrait of Armenia and Poverty Statistical Analytical Report, Yerevan 2006, p. 32

The removal of any member(s) from the composition of the family ("absent for good reason") may have a significant impact on the average poverty score assigned to the family (as it is demonstrated in the above calculations). In this case, the poverty score may increase. The percentage of families receiving the family benefit and having absent members in the total number of beneficiary families broken down by marzes for 1999-2002 is given below. As already discussed, the presented data covers the period from 1999 to 2002. However, the data can give a clear understanding (according to marzes) about the number of absent members in the family benefit system because the range of fluctuation of this indicator is rather wide.

Table 7 - Beneficiary Families With Absent Members, by Marzes, 1999-2002

	1999	2000	2001	2002
Ararat	41.09	29.20	28.34	31.44
Aragatsotn	37.01	24.60	23.63	24.10
Armavir	43.28	26.96	24.55	27.82
Gegharkunik	36.89	27.73	24.21	22.77
Lori	51.64	40.97	39.02	33.80
Kotayk	40.78	36.68	31.44	26.73
Shirak	36.17	29.78	28.76	28.10
Syunik	48.14	30.24	34.72	36.80
Tavush	38.13	26.97	27.39	29.73

Vayots Dzor	41.96	23.59	25.93	24.80
Yerevan	51.32	35.80	36.94	35.14
Total in Armenia	45.55	33.63	32.50	31.15

Source: Social Portrait of Armenia and Poverty Statistical Analytical Report, Yerevan 2007

The poverty score for unemployed persons does not correspond to the profiles of their poverty level. During 2004-05, the poverty level for this group increased from 45.9% to 46.9%. In Yerevan, the above indicator slightly decreased (from 38 to 37.9%), and in other towns it grew considerably, thus reaching the level of 55.6% against 52.4% (Table 8).

Table 8 - Armenia: Poverty and Unemployment in 2004 and 2005, Population Aged 16+, in %

Unemployed persons	2004		2005		Percent among the poor
	Very poor	Poor	Very poor	Poor	
Total population	11.4	45.9	10	46.9	21.9
Yerevan	11.1	38.3	8.1	37.9	21.41
Other towns	13	52.4	12.8	55.6	30.13
Rural areas	8.4	51.7	6.8	42.2	12.59
Pensioners					
Total population	6.2	33.2	3.9	30	20.5
Yerevan	5.8	31.2	4.2	27.6	22.18
Other towns	8.2	39.5	6.1	36.5	20.65
Rural areas	4.3	28.7	1.8	26	18.92
Students					
Total population	3.1	22.8	2.1	14.8	3.7
Yerevan	2.5	15.5	1.3	9.2	3.57
Other towns	4.8	32.7	4.1	23.9	4.8
Rural areas	2.1	22.6	0.8	12.7	2.37

Source: Social Portrait of Armenia and Poverty Statistical Analytical Report, Yerevan 2006, p. 37

The number of incapable family members affects the poverty score by coefficient K_f :

$K_f = 1+0.02m$, where:

M is the number of incapable family members.

Incapable family members include children under 16, children with disabilities (category I and II disability), non-working persons with category I and II disability, or eligible for pension.

This coefficient allows an increase in the poverty score for large families. The level of dependency is a key factor and has an impact on the high level of poverty among large families. In large families, the number of children is relatively high and the likelihood of incapable member(s) in these families is also high.

The above coefficient grows rather slowly (the presence of each incapable member leads to a 2% increase in the poverty score for the family under other equal conditions). In Armenia, the coefficient will be in the range of 1-1.06 with a possibility of 0.84, and in case of possibility of 0.94, the range will be 1-1.08. Subsequently, in practice it cannot have its maximum value (1.2).

The family income impacts the poverty score with the K_i coefficient, which is expressed by the following formula:

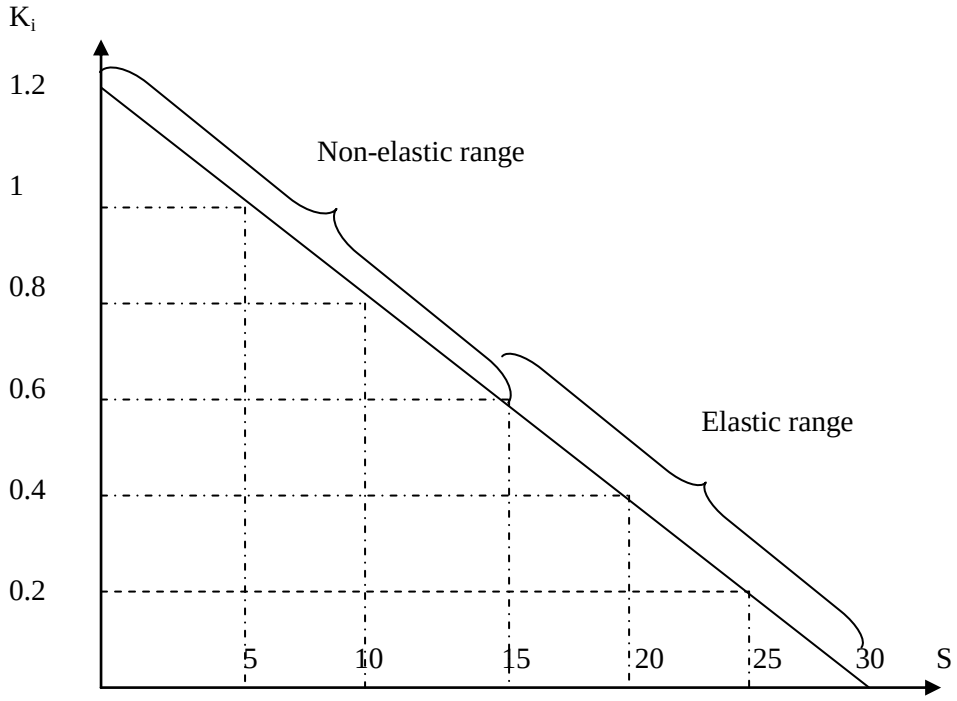
$$K_i = \frac{1.2 - 0.04\sum_{j=1}^{d} Sj}{Mn}$$, where:

n is the number of family members (excluding those who are absent for a good reason);
j is the number of family members who receive income;
d is the number of members who have income;
Sj is the income of the jth family member without the family benefit;
M is the size of estimated minimum salary (AMD 1000).

By expressing the average income per family member by S, where S== $\frac{\sum_{j=1}^{d} Sj}{n}$ and accepting that M=1000, we will have K_i = 1.2-0.00004s, a decreasing line function as presented in Chart 1.

The maximum value of the coefficient is 1.2, which is achieved when the average income per family member is 0. However, in practice, the minimum value is not 0. For example, if the average income per family member is 20,000 AMD, then the average poverty score for the family should be 82.5 at the expense of all other factors so that the family is able to ensure its minimal passing score (33), which is not feasible. It should be noted that an income of 20,000 AMD per family member is below the poverty line computed by the National Statistics Service (NSS) in 2005.

Chart 1



(in thousand AMD)

Only the families with 5,000 AMD of income per member may expect that the coefficient K_i will not have an adverse effect on their poverty score, whereas, in essence, there are no households with less than 5,000 AMD spending per member. It is more than 2.6 times lower than the extreme poverty line defined by the NSS for 2005. Moreover, only in the case of 0-15,000 AMD income per family member did the K_i coefficient become non-elastic towards income. In the event of 15,000 AMD income per family member, the elasticity is unitary. If income is above 15,000 AMD, then the coefficient rapidly becomes highly elastic. In case of 30,000 AMD of income, the elasticity of the coefficient is infinite. Within the range of 15,000 AMD to 20,000 AMD of income, a 1% increase in income leads to a reduction in the size of the K_i coefficient by 1.4%. Within the range of 20,000 AMD to 30,000 AMD of income, a 1% increase in income leads to a reduction in the size of the K_i coefficient by 5%. As a result, households with 20,000 AMD or more income per household member have no chance of being included in the family benefit system. If we compare with the number of people included in the family benefit system in 2007, then it will become obvious that, as of July, 2007, 506 people, or 16%, of Armenia's population claim a monthly income of 15,000 AMD or less, which is highly unlikely and has nothing to do with the indicators of extreme poverty and poverty

levels. According to a household survey, the minimum income necessary for ensuring a sufficient living, in the opinion of households, is five times the amount of 15,000 AMD (Table 9).

Table 9 - Opinion of Households on the Average Monthly Income Necessary for a Household's Sufficient Living (AMD)

	2004			2005		
	Very good living	Good living	Survival	Very good living	Good living	Survival
Opinion of non-poor households	1,044,132	299,819	127,039	764,135	293,854	110,574
Opinion of poor households	529,368	227,343	93,921	500,930	254,207	102,902
Opinion of extremely poor households	425,219	235,678	76,317	423,507	204,271	82,239

Source: Social Portrait of Armenia and Poverty Statistical Analytical Report, Yerevan 2006

It is obvious from the table that even in the opinion of extremely poor households, a monthly income of 82,239 AMD is necessary for a family to survive. If we assume that an average family consists of 4 members, then it can be concluded that the monthly income of the approximately 140,000 families included in the family benefit system is 60,000 AMD or less, which, in turn, is 27% less than the necessary monthly amount for survival, as indicated by extremely poor households.

In reality, the formula of K_i coefficient forced many households to hide their real incomes, thus leading to increased non-transparency of the system and higher levels of corruption.

During the assessment of a family's poverty level, residence is estimated using the K_r coefficient. Three possible values of the coefficient are defined: 1, 1.03, and 1.05. In principle, the coefficients are defined without serious justifications.

The housing conditions of a family have an impact on their poverty level assessment. They are expressed by the K_h coefficient, and the possible values are presented in Table 10.

Table 10 - Values of K_h Coefficient by Housing Conditions

	Housing conditions of families	Values of K_h coefficient
1	Cottage provided as a consequence of a disaster	1.20
2	Homeless	1.07
3	Non-permanent (temporary) structure	1.06
4	Apartment at risk of falling down	1.05
5	Non-privatized space of dormitory	1.03
6	Other conditions (residential space rented by a family or occupied without renting, hotel, resort house, hospital, motel, kindergarten, school, cellar, garage, etc)	1.02
7	Own cottage	1.00
8	Apartment in a multi-apartment house	1.00

Source: prepared on the basis RA Government Decree 2317 of December 29, 2005

The values of the coefficient have little to do with poverty. For example, the coefficient reflecting a cottage provided as a consequence of a disaster exceeds the coefficient for a temporary structure with equivalent housing conditions by 1.13 times. Furthermore, it exceeds the coefficient for homeless households, who in this regard are the less well-to-do group, by 1.12 times. The coefficient for non-privatized spaces in dormitories is higher than the one for those who live in cellars and garages.

The remaining coefficients used in the generic formula play a sheer supervisory role: they are assigned the values of 0 and 1, and based on this a family may either receive or be denied family benefits. In addition, the agency can choose whether or not to apply these coefficients if a "duly substantiated" recommendation from the Social Assistance Council on not applying such information is in place.

One of these coefficients is based on the defined threshold for electricity consumption. The maximum limits for the average monthly consumption of electricity are calculated by using the following formula for the summer period:

$$W= 1.3x(80kWatt/h + 40kWatt/h \times n), \text{ where n is the number of family members.}$$

The following formula is more straightforward:

$$W=104+52n$$

The maximum limits for electricity consumption in the summer months calculated using this formula are rather high, and in general, cannot serve as a constraint for average households in terms of eligibility in the family benefit system. The figures can be a limitation only for large families because, according to the formula, when combined with an increase in the number of family members, the average electricity consumption per member decreases. If the average electricity consumption is 78 kilowatts per hour per member for a four member family then, for a family consisting of seven members, it will be 67 kilowatts per hour per member. Furthermore, natural gas is only available for use in certain areas of Armenia. From the perspective of interchangeability of energy resources, inequality arises between households who consume gas and those who do not consume gas.

As a rule, the technical examination of a personal car during the previous year is grounds for refusal to grant benefits to a family. Nevertheless, according to existing legislation, the amount payable for the technical examination and property tax on old cars may be less than 20,000 AMD, which in itself cannot serve as undeniable evidence of a family's well-being, particularly if we are talking about the previous year's technical examination.

A family member engaging in business activity, again, is not straightforward evidence of a family's well-being. Doing business involves certain risks, and there are many cases where losses or debts are accrued as a result of engaging in business.

A generic analysis of the formula shows that the poverty scores of vulnerable groups play the most crucial role in the formula. The averaged impact of all other coefficients does not exceed 10% (when not including the limiting coefficients which can have a value of either 0 or 1).

The legislative framework regulating the area in question covers the Law on Social Assistance and the Law on State Benefits, which were passed in 2005 and became effective in 2006, as well as the relevant Government Decrees and other legislative acts. The manner of assessing the poverty level of families (formula, procedure for inclusion in the system, required documents, etc.) is established as per the Government Decrees. The problems related thereto are already discussed in this paper.

The provision on paying benefits for the care of children under 2 only to working mothers can be identified as a legislative gap. According to the RA Law on State Benefits, working parents who are on leave are eligible for receiving a child care benefit for children under 2. Compared to 1999, the number of beneficiary mothers in 2006 had decreased by 50% (Table 11).

Table 11 - Number of Mothers Receiving Benefits for Care of Children Under 2, 1999-2006

Year	1999	2000	2001	2002	2003	2004	2005	2006
Beneficiaries	10,450	10,091	8,780	7,326	7,721	7,330	6,320	5,404

In conformity with the RA Law on State Benefits, the purpose of the child benefit is to partially compensate the salary of the care-taking parent, whereas in reality, until 2007, it was 2,300 AMD (in 2006, the average salary was 64,000 AMD, which means that it was compensated by 3.5%). In legislation, it might be convenient to link the amount of the benefit to the average salary. Otherwise,

we consider that it would be more appropriate to pay the child care benefit to both the working and non-working mothers.

In his analytical report on the current monitoring of the family benefit system in Armenia and its development, Miroslav Beblavy discusses the problem of monitoring and supervision. In particular, the author recommends 69 indicators for the monitoring and development of the family benefit system, which in turn are divided into four groups. Without referring to the details of the report – which is beyond the scope of this paper – it is worth noting that a number of surveys presently conducted on an annual basis are less productive. Rather, in the above report, it is recommended that surveys should be conducted twice a year. In terms of indicators, modern variables for measuring poverty can be proposed for the first group of indicators (Group A). Furthermore, indicators reflecting migration in poor households, percentages of vulnerable social groups, duration of poverty, and heredity of poverty can be included in the indicator groups. The estimations on the quality of work provided by the social services, given not only by beneficiary families, but also the entire population, can be included in Group D.

Proposed Vision of Social Policy

And whoever accepts such a child in my name, shall accept me.
John 12: 44, Bible

In order to avoid social confrontations, many governments of developing and developed countries are motivated to deliver social welfare programs: the latter mitigate social tension to varying extents. However, in different countries these programs are delivered in different ways.

When it comes to the issue of choosing between cash or welfare transfers, according to economic theory, preference is given to cash transfers. Regardless of their form, transfer programs are designed to maximally reduce poverty in view of the existing financial and other constraints. Theoretically, direct targeting is the best way to achieve this objective (when government transfers are directed to people whose incomes are below the poverty line). However, in this case, certain information about incomes and expenses is needed.

In the present environment of Armenia, direct targeting is not feasible because of hidden employment, a high level of poverty, concealing income (in order to avoid taxes), and the nature of income (remittances of foreign workers are a major share of household income). Therefore, like in other countries with a rather large informal employment sector, in Armenia also, preference is given to indirect methods: socially vulnerable groups are identified and classified with the help of poverty scores. The income factor is taken into account more as a limitation. In essence, the concept of social transfers is based on the indirect method of identifying poverty through the vulnerable groups themselves. Socially vulnerable groups of the population can include the following:

1. **children under 18,**
2. **parentless children (under 21),**
3. **fatherless or motherless children,**
4. **single mothers and divorced persons,**
5. **persons with disabilities (unemployed),**
6. **unemployed persons,**
7. **pensioners (unemployed),**
8. **homeless persons,**
9. **pregnant women.**

In our opinion, all children under 18 should receive benefits without any discrimination. If a family has two children, the benefit amount should be higher than double the amount of benefit for one child, for three children living in one family, the total amount of benefits should be higher than triple the amount of the individual benefit and the like. Considering financial constraint, the children's benefit may be provided only when the income per family member does not exceed 30,000 AMD. Over the last few years, the share of families with children in the overall number of beneficiary families has increased (Table 12).

Table 12 - Percentage of Families with Children in the Overall Structure of Beneficiaries, 2002-2006

	2002	2003	2004	2005	2006
Families with children (% in beneficiary families)	60.75	63.5	65.56	69.29	72.2
Beneficiary families with children	97,043	99,128	93,099	93,894	100,841

Source: RA Ministry of Labor and Social Affairs

Taking into account the relative distribution of households by number of children (less families without children, Table 13) we can determine the number of children included in the family benefit system in 2006.

Table 13 - Relative Distribution of Households by Number of Children (less families without children)

Household composition	Percentage of families with children
With one child	36.2
With two children	41.3
With three children	16.8
With four children	4.2
With five and more children	1.5

Source: Poor Families and Social Services in Armenia, Yerevan 2006

It follows that 195,000 children were included in the family benefit system in 2006, which is approximately 32.8% of the total population of children.

When applying the proposed model of social transfers, the error concerning those who are not included in the system of social transfers will be minimized, which, in turn, will contribute to a reduction in corruption and bureaucracy, and an improved attitude towards social workers by the general population. It is also important that the proposals set forth by the general population regarding the improvement of the family benefit (social transfer) system will be consistent with the proposed approach: "The benefits provided through the Paros System should be eliminated, and minors should be paid monthly benefits."[11]

Of course, in this case, the error of inclusion in the system might increase due to a high level of hidden employment (Table 14), as well as the understating of incomes.

The main strategy for reducing hidden employment would be to link the amount of pension paid to the salaries earned over a person's lifetime (this option was proposed in another paper.[12])

A system of declaring incomes by all individuals will become functional in 2008 and will contribute to a gradual decrease in "unrecorded" incomes.

We consider that the same principle should apply when paying benefits to parentless, motherless or fatherless children, single mothers, divorced persons, and unemployed persons with disabilities. In particular, if the income per family member does not exceed 30,000 AMD, then those who belong to this social group should be eligible for benefits.

Table 14 - Hidden Employment by Status of Employment, 2001-2005

	Persons employed in hidden employment	of which			
		Persons employed based on verbal agreement		Employers and self-employed persons engaged in unregistered activity	
	Percentage in total number of employed persons	Percentage in total number of employed persons	Percentage in total number of hired employees	Percentage in total number of employed persons	Percentage in total number of employers and self-employed persons
2001	22.6	10.3	15	12.3	91.1
2002	26.7	15.6	24.7	11.1	71.9
2003	26.9	15.2	25.5	11.7	70.9
August, 2004	22.6	12.7	22.6	9.9	73
2005	22.9	16.2	25.4	6.7	69.1

Source: Social and Economic Situation in Armenia during January-December, 2006, NSS, Yerevan, 2007, p. 96

[11] Amitava Mukherji, "The Voice of the Poor", Armenia, 2007.

[12] Martirosyan N. A., *"Pay-As-You-Go" and "Fully-Funded" Social Insurance Systems*, Armenia, Ministry of Finance and Economy, 2007, No. 7-8.

As already discussed in this paper, the poverty level is high among unemployed persons. The unemployment rate in Armenia is high according to both official and non-official data (Table 15).

Table 15 - Unemployment rate, 2004-2005

	2004			2005		
	According to administrative statistical sources	According to ILO methodology	According to EDRC	According to administrative statistical sources	According to ILO methodology	According to EDRC
Unemployment rate (%)	9.6	31.6	19.3	8.2	31.3	13.5

Source: Social Portrait of Armenia and Poverty statistical analytical report, Yerevan 2006, p. 49

Compared to 2005, both the number of beneficiary unemployed persons and the average size of the unemployment benefit increased in 2006 (Table 16).

Table 16 - Average Size of Unemployment Benefit by Month (as of end of month, 2005-2006)

	Number of beneficiary unemployed persons (in thousands)		Average size of unemployment benefit (AMD)	
	2005	2006	2005	2006
January	3.5	4.7	6,363	7,290
February	4.1	5.3	6,438	7,036
March	4.9	6.7	6,696	7,839
April	5.7	7.9	6,349	8,152
May	6.0	8.6	6,481	8,677
June	6.3	8.8	6,574	8,615
July	6.4	9.0	6,485	8,659
August	6.3	9.3	6,446	8,792
September	6.1	9.5	6,200	8,278
October	5.8	9.9	6,240	8,584
November	5.5	10.2	6,126	8,503
December	7.9	10.0	6,044	8,631

Source: Social and Economic Situation in Armenia (January-December, 2006), NSS, Yerevan, 2007

Despite the policy in this area (as of the end of December, 2006, only 8.1% of job seekers were placed), the size of unemployment benefits and number of unemployed persons are indicative of the fact that the benefits do not meet any goal. The average size of the unemployment benefit is below the extreme poverty line. In our opinion, the benefits paid to unemployed persons during their first year of unemployment should be linked to average salary paid in the sphere concerned.

It is recommended that unemployed pensioners should be paid a benefit based on the average monthly income per family member (with a threshold of 30,000 AMD per family member). According to official publications, an upward adjustment of pensions by 60% is anticipated from January 1, 2008, which will help to bring the size of average pension closer to meeting the poverty line. It is proposed that single pensioners should be paid such a benefit which, together with their pension, would be equivalent to 30,000 AMD.

Homelessness is an increasing concern for the country. In terms of homeless persons, the tasks of combating poverty cannot be accomplished only by means of social transfers. Welfare programs should also be implemented. The recording of homeless persons can be performed through local self-

governance bodies. Given the small number of homeless persons, the State should address the issue of providing temporary accommodation, even under the premise of "optimized" schools.

It might appear at first sight that the proposed measures can be a major burden for the state budget. If this vision is accepted by the competent bodies, we will estimate the resources necessary for the proposed social transfers and sizes of benefits.

Conclusion

Despite expenditures reaching 64 million AMD in 2007, the existing government programs for social transfers have not contributed to the mitigation of social tension and the reduction of poverty in the Republic of Armenia. Additionally, a lack of clearly defined socio-economic and political objectives, along with inadequate development of monitoring and supervision systems, not only hinders combating extreme poverty, but also does not create guarantees for overcoming it during coming years.

In this paper it is proposed to simplify the system of social transfers which will lead to improved targeting, transparency in the system, and reduced corruption.

While on average, the family benefit (Table 16), the benefit for the care of children under age 2 (p. 10), and the unemployment benefit have increased over the last few years, they are still far below the extreme poverty line which, in turn, weakens their targeting, often causing households to refrain from becoming a beneficiary due to the small sizes of benefits.

Table 17 - Average Size of Family Benefit and Lump-Sum Financial Assistance, 2000-2005

Size of average benefit (monthly)	2000	2001	2002	2003	2004	2005
Benefit paid per family	7,196	7,712	6,554	7,099	8,254	12,200
Percentage to average salary	26.4	26.2	20.0	17.0	19.0	23.4 [13]
Per family member	2,148	2,255	1,841	1,983	2,520	2,954
Percentage to poverty line	N/A	N/A	N/A	N/A	13.0	14.6
Percentage to extreme poverty line	N/A	N/A	N/A	N/A	20.2	22.2
Lump-sum financial assistance (per family)	3,500	3,500	4,000	4,000	4,500	6,000

Source: Social Portrait of Armenia and Poverty, Statistical Analytical Report, Yerevan, 2006

In order to avoid such a situation, the size of average benefit should be increased so that it could be effective.

Payment of benefits should be effected through the local treasury branches by opening individual accounts for each beneficiary with commercial banks, and only the beneficiaries or their authorized persons may have the right to debit amounts from these accounts upon submission of the required documents.

[13] It is not clear from the table why the amount of average benefit intended for the entire family is compared to average salary calculated per individual.

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