

# ASSESSMENT OF THE SOCIAL PROTECTION FLOOR IN ARMENIA



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# RESEARCH PAPER ASSESSMENT OF THE SOCIAL PROTECTION FLOOR IN ARMENIA



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# TABLE OF CONTENTS

ACRONYMS AND ABBREVIATIONS						
ACKNOWLEDGEMENTS						
EXE	CUTIV	/E SUMMARY	7			
1	INT	RODUCTION	17			
2	COUNTRY CONTEXT					
	2.1	Demographic situation	23			
	2.2	Economic context	25			
	2.3	Poverty dynamics	27			
	2.4	Labour-market dynamics	31			
	2.5	Gender dynamics	36			
	2.6	Summary	37			
3	UNDERSTANDING ARMENIA'S SOCIAL PROTECTION SYSTEM					
	WIT	HIN A LIFECYCLE FRAMEWORK	39			
	3.1	A lifecycle and multi-tiered approach to social protection	40			
	3.2	Overview of Armenia's social protection system	44			
		3.2.1 Comprehensiveness of the system in relation to international				
		standards	46			
		3.2.2 Fiscal policy	47			
		3.2.3 Governance	54			
	3.3	Summary	59			
4	ACCESS TO ESSENTIAL HEALTH CARE		61			
	4.1	Legal coverage	62			
	4.2	Effective coverage	64			
		4.2.1 Service coverage	64			
		4.2.2 Financial coverage	66			
	4.3 Summary		69			
5	BASIC INCOME SECURITY FOR CHILDREN IN ARMENIA		71			
	5.1	Context and overview of benefits for children	72			
		5.1.1 An emphasis on household transfers and poverty targeting	72			
		5.1.2 Key social protection schemes aimed at children	76			
	5.2	Legal coverage of children	79			
	5.3	Effective coverage of children	83			
		5.3.1 Horizontal coverage	83			
		5.3.2 Vertical coverage (adequacy)	86			
	5.4	Summary	90			

6	BAS	IC INCOME SECURITY FOR PEOPLE OF WORKING AGE IN ARMENIA	93	
	6.1	Context and overview of benefits for working-age people	94	
		6.1.1 High inactivity, wide gender gaps	94	
		6.1.2 Key social protection schemes aimed at working-age people	98	
	6.2	Maternity protection	102	
		6.2.1 Legal coverage	102	
		6.2.2 Effective coverage	104	
	6.3	Employment injury	112	
		6.3.1 Legal coverage	113	
		6.3.2 Effective coverage	115	
	6.4	Sickness	116	
		6.4.1 Legal coverage	117	
		6.4.2 Effective coverage	118	
	6.5	Disability	120	
		6.5.1 Legal coverage	121	
		6.5.2 Effective coverage	122	
	6.6	Unemployment protection	126	
		6.6.1 Structural unemployment	126	
		6.6.2 Unemployment insurance	127	
	6.7	Summary	130	
7	BASIC INCOME SECURITY FOR OLDER PEOPLE IN ARMENIA			
	7.1	Context and overview of benefits for older people	136	
		7.1.1 Profile of vulnerability	136	
		7.1.2 Key social protection schemes aimed at older people	137	
	7.2	Old-age pensions and benefits	138	
		7.2.1 Legal coverage	139	
		7.2.2 Effective coverage	140	
	7.3 Survivors' benefits			
		7.3.1 Legal coverage	147	
		7.3.2 Effective coverage	150	
	7.4	Summary	152	
8	TOWARDS AN INCLUSIVE LIFECYCLE SOCIAL PROTECTION SYSTEM IN ARMENIA			
	8.1	Overall performance of the existing system	156	
	8.2	Closing the gaps in Armenia's social protection floor	159	
	8.3 Additional measures to consider for a more equitable system			
	8.4 Summary			
9	CON	ICLUSIONS	173	
ANI	NEXES		177	
	Ann	ex 1 Key legislation defining and regulating the social protection system	178	
	Ann	ex 2 Historical development of Armenia's pension system	183	
		ex 3 BBP coverage: List of poor, vulnerable and special categories	186	
ENC	ONOT	ES	188	
REF	EREN	CES	192	

## ACRONYMS AND ABBREVIATIONS

ADC	Austrian Development Cooperation		
ADS	Armenia Development Strategy		
ALMPs	Active Labour Market Policies		
AMD	Armenian dram		
ARMSTAT	Statistical Committee of the Republic of Armenia		
BBP	Basic Benefit Package		
CEACR	ILO Committee of Experts on the Ap plication of Conventions and Recom mendations		
CEDAW	Convention on the Elimination of All Forms of Discrimination against Women		
COVID-19	Coronavirus disease		
CRRC	Caucasus Research Resource Center		
DB	Defined Benefit		
DC	Defined Contribution		
DPO	Disabled Persons' Organization		
EA	Emergency Assistance		
ECA	Europe and Central Asia		
FB	Family Benefit		
FLSEB	Family Living Standards Enhancement Benefits		
FSAS	Family Social Assessment System		
GDP	Gross Domestic Product		
ILCS	Integrated Living Conditions Survey		
ILO	International Labour Organization		
ILOSTAT	ILO Department of Statistics		
IMF	International Monetary Fund		
ISS	Integrated Social Services		
ISSA	International Social Security Association		
ISSC	Integrated Social Services Centre		
LFS	Labour Force Survey		
M&E	Monitoring and Evaluation		
МоН	Ministry of Health		
MoLSA	Ministry of Labour and Social Affairs		
MSEA	Medical-Social Examination Agency		
MTEF	Medium-Term Expenditure Framework		
NDC	Notional Defined Contribution		

NEET	Not in Employment, Education or Training		
NGO	Non-Governmental Organization		
NTC	National Tripartite Commission		
OECD	Organisation for Economic Co-operation and Development		
OOP	Out-of-Pocket		
OSH	Occupational Safety and Health		
PAYG	Pay-As-You-Go		
PHC	Primary Health Care		
PIT	Personal Income Tax		
PPP	Purchasing Power Parity		
RA	Republic of Armenia		
SB	Social Benefit		
SDC	Swiss Agency for Development and Co operation		
SEA	State Employment Agency		
SIF	Social Insurance Fund		
SME	Small and Medium-sized Enterprise		
SMEC	Social Medical Expertise Commission		
SSA	Social Security Administration		
TOSS	Territorial Offices of Social Services		
UN	United Nations		
UN DESA	United Nations Department of Economic and Social Affairs		
UN Women	United Nations Entity for Gender Equality and the Empowerment of Women		
UNESCO	United Nations Educational, Scientific and Cultural Organization		
UNFPA	United Nations Population Fund		
UNICEF	United Nations Children's Fund		
USAID	United States Agency for International Development		
VAT	Value-Added Tax		
WEESC	Women's Economic Empowerment in the South Caucasus		
WFP	World Food Programme		
WHO	World Health Organization		

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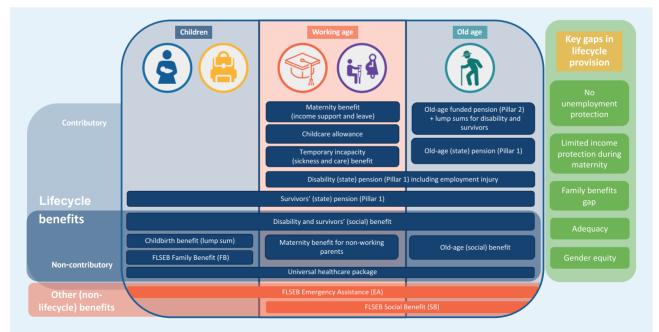
## EXECUTIVE SUMMARY

Overall, around 40 per cent of the population in Armenia is covered by at least one social protection benefit. However, there are large discrepancies between age groups and slight variations between women and men. While Armenia has achieved nearly universal coverage of older people, children and people of working age are much less likely to receive a benefit, at 39 per cent and 24 per cent, respectively. This reflects both a family benefits system that relies heavily on poverty targeting with high rates of exclusion; and low coverage of contributory benefits (or reach of the tax system) among people of working age.

The Armenian social protection system, which consists of a mix of tax-financed and contributory benefits, reflects a legacy of oscillation between different models of financing. Currently, it consists of a mix of lifecycle and non-lifecycle benefits (see Figure 0.1), including the essentially universal provision of key lifecycle benefits (e.g., old-age, disability and survivors' benefits); a reliance on a combination of instruments based on employment status to provide certain others (e.g. maternity benefits and labour pensions); and poverty targeting to attempt to reach those who are considered poor (e.g. through the FLSEB). The system also lacks key lifecycle provisions as would be called for under the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102): there are no unemployment benefits and no universal entitlement to child or family benefits. Furthermore, income protection during maternity is limited, and employment injury provisions are weak. For all branches, there are legal constraints to the provision of adequate benefits and services and for ensuring equity.

#### Figure 0.1:

Comprehensiveness of Armenia's social protection system relative to lifecycle risks under ILO Convention No. 102



Source: Authors' depiction.

Since 2008, the Government's total spending on social protection (excluding health care) has more than doubled (reaching 28 per cent in 2019). However, it should be noted that this coincides with a structural shift from a mixture of expenditure sources, like social insurance, to all social protection programmes being fully financed from the state budget. In reality, during this time, spending on social protection as a percentage of GDP has remained somewhat stable, between 6 and 7 per cent.

Despite this, Armenia's budget is low relative to the size of its economy, which can generally be attributed to a limited ability to raise public revenues. A limited budget and declining tax base are concerning due to the decision to incorporate all social protection expenditure and liabilities into the state budget. This raises questions about the decision to move away from a social insurance system where a fund has, at least in theory, the capacity to self-finance contributory benefits. This is particularly relevant in the case of old-age pensions, which currently make up the bulk of the State's social spending and will only increase. While a more detailed review of public expenditure is recommended, it is likely that the system functions now on a purely PAYG basis, with no reserves to accommodate sudden shockssuch as global pandemics. Ensuring the future expenditure of long-term benefits is essential to ensure the sustainability of the current financing model.

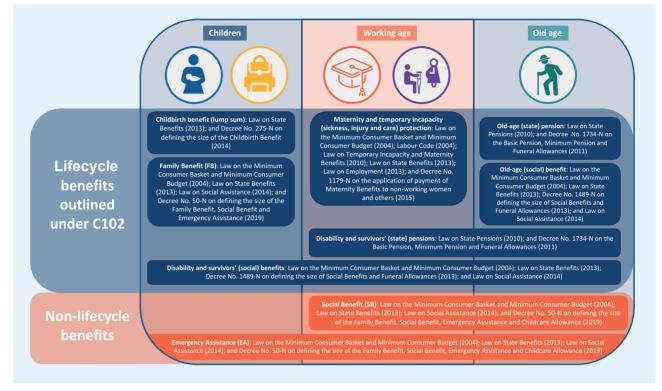
Moreover, since many social protection entitlements are linked to tax payments, or 'years of service', the limited reach of the tax system translates into limited access to these benefits. In line with the recent income tax reform, removing the income thresholds theoretically opens up access for participation by lower-income groups. However, in reality, particularly because the new tax system is set at a flat rate, there may be a net welfare reduction for these groups. A more indepth analysis of this issue is recommended.

It should also be noted that while there are administrative advantages to merging contributory benefits with the tax system, there are also potential issues with linking social protection rights to income tax payments, as people not paying income tax still contribute to the economy in other ways. Some are explicit, like the essential service of agricultural workers, or even the payment of VAT, regardless of age or employment status. Others are implicit, including the work performed by people outside of the labour force such as women caring for children, the elderly and the disabled.

Armenia can rely on a conducive framework for governance, with a single ministry in charge of policymaking and implementation. This is a major advantage for building a more coherent and comprehensive system. However, the ad hoc nature of policy design and reform described above has evolved into a fragmented legal framework (see Figure 0.2). Ironically, contributory and noncontributory benefits are designed around each other so as to provide full coverage of the target group, yet they are separate in the legislation. This seems unnecessary and should be reconsidered, as in other countries characterized by legal fragmentation, this tends to eventually translate into overlaps and inconsistencies in regulations. The introduction of an ISSC is promising in this respect and could tackle some of the administrative complexities that most affect users.

#### Figure 0.2:

#### **Overview of the existing legal framework**



Source: Authors' depiction.

#### Access to essential health care

The country's health system faces several challenges. Achievement of universal health care implies access to quality health services when needed for the entire population without facing undue financial hardship in the process-that is, improvements in both service coverage and financial coverage. Armenia fares poorly with regard to the latter. Recent reforms have resulted in a system where general government revenuefinanced public spending for health provides extensive coverage through a basic package of essential health services. However, its public financing for health is among the lowest in the region. Co-payments for services covered under the Basic Benefit Package (BBP) as well as the lack of coverage for expensive aspects of health care, in particular hospital care and outpatient

pharmaceuticals, have resulted in out-ofpocket (OOP) spending by households being the predominant source of financing for health in the country. High levels of OOP spending increase the risk of households falling into poverty when faced with significant health spending and reduce the potential redistributive capacity of the health financing system.

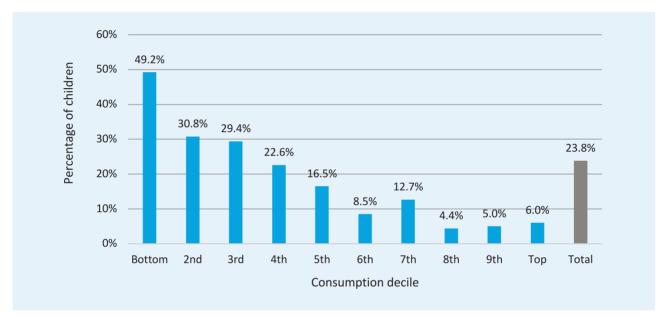
## Basic income security for children in Armenia

Children are significantly more likely than other age groups to live in poverty: according to the 2019 ILCS, 2.5 per cent of children were living below the food poverty line, compared with only 1.3 per cent of people of working age and 0.8 per cent of people above retirement age. And many more children are considered 'poor', with nearly 51.7 per cent living below the upper poverty line. Therefore, ensuring their welfare through social protection should be of paramount concern.

Whereas overall, almost two fifths (39 per cent) of all children in Armenia receive a social protection benefit, only around one quarter (24 per cent), including less than half in the poorest income decile, live in a household receiving the povertytargeted FLSEB (see Figure 0.3). Therefore, the FB—aimed at poor families with children—is still missing a significant number of children who are otherwise vulnerable, despite the Government's commitment to improving the targeting system.

#### Figure 0.3:





Source: Analysis of the 2019 ILCS.

At the same time, while other lifecycle benefits (such as disability and survivors' benefits and the survivors' pension) seem to be effectively reaching those who apply (and for disability benefits, those who are assessed as disabled), a lack of knowledge about the true size of the disabled child population or child survivor population prevents us from knowing how many children who might legitimately qualify for these benefits are being excluded, whether due to a lack of knowledge of their rights or other barriers to access.

When assessing the value of the FB top-up over time, the assessment finds that it has eroded

dramatically since the benefit was introduced in 1998. This raises questions about whether the original intention of the benefit can still be met. It can be concluded that despite the Government's recurrent adjustments, the transfer value has not kept pace with the growth of Armenia's economy.

## Basic income security for people of working age in Armenia

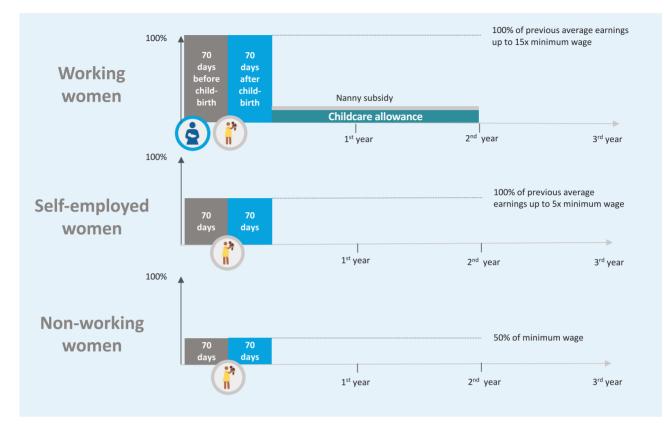
Among working-age people in Armenia, there are high levels of economic inactivity and wide gender gaps. In 2019, less than half of the workingage population were in employment, and of the economically inactive, more than two thirds were female. Women's high inactivity rates are primarily explained by family caregiving and domestic responsibilities. This is most pronounced among the 25–39 age group, when women are likely to have young children. Exiting the labour force due to care reasons appears to be an issue exclusively affecting women, pointing to social and cultural norms that shape gender roles.

Entitlement to contributory working-age benefits in Armenia often depends on employment status, working trajectories, contributions and earnings. This means not only that social protection floors can still play a role during this period of the lifecycle but also that they are most relevant for workers disadvantaged in the contributory system. These workers include not only women but also any workers, male or female, engaged primarily in the informal economy. It is clear that in the most successful branches in terms of coverage (e.g. maternity cash benefits, disability social benefits and labour pensions, and survivors' social benefits and labour pensions), a multi-tiered system is present.

Maternity protection in Armenia has a complex set-up. Although it can be said that there is

universal legal coverage of maternity benefits, it is easy to see that provisions are heavily skewed towards working women (see Figure 0.4). While, in theory, Armenia provides income support during the full period of maternity leave, the legal division between maternity and parental leave hides the fact that income support covers just a small portion of the time during which childcare responsibilities are incompatible with full-time labour-market participation. Like the duration of leave, the monetary value of the wage replacement also varies between working, self-employed and non-working women in Armenia-again favouring working women. While it is difficult to assess the adequacy of benefits for non-working women since, by definition, they had no previous earnings, the extension of the lump sum payment equal to 50 per cent of the minimum wage is a positive step-demonstrating that there is, in fact, a social protection floor for maternity in Armenia. Nevertheless, the monetary value is too low to support Armenia's strategic goals: to enable women's economic opportunities and to create a balance between care and labour that may be conducive to increased fertility levels, hence the need for employment-promotion programmes.

#### Figure 0.4:



#### Income protection throughout the parental leave period in Armenia

Source: Authors' depiction.

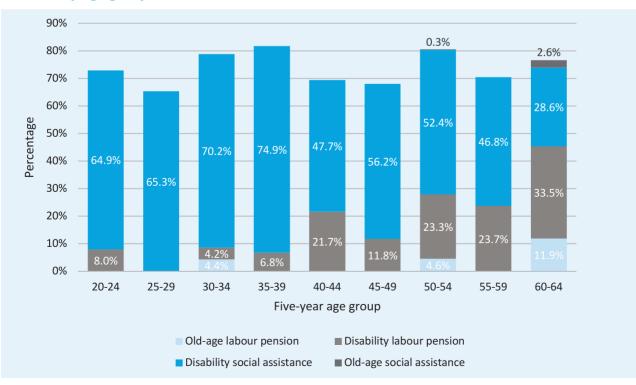
It should be noted that accelerating progress towards more inclusive maternity leave may not be enough to improve female labour-force participation. Discriminatory social values and gender stereotypes can continue to hinder women's access to labour markets, increasing their economic vulnerability. Social protection policies must explicitly seek to compensate women for this increased vulnerability, but wider policies addressing the source of these vulnerabilities are also needed to improve the extent and quality of female labour-force participation. It should also be recognized that if paid leave is available only to women, it may reinforce the idea that women are primarily responsible for caregiving while men are the primary earners.

With no dedicated legislation for the field of occupational safety and health (OSH), there is no systemic approach to these issues for the working-age population in Armenia. However, the Law on State Pensions (2010) does provide for an occupational disability pension that is tied to formal employment and years of service, therefore excluding around half of Armenia's labour force. The weak legal framework makes it difficult to determine the size of the legally covered population and the adequacy of compensation. Further, the lack of any registry for work-related injuries or occupational diseases makes it difficult to assess their incidence and for the regulatory framework to keep pace with the country's economic development.

Sickness—or 'temporary disability'—benefits cover only formally employed workers (excluding those employed in family businesses) and self-employed workers who have paid income tax. There is no non-contributory benefit to cover people excluded from this legal scope, meaning that just over half of the employed population are eligible. This gap in coverage takes on a new meaning during a pandemic. However, it should be noted that the current system could be considered generous in that it covers not only paid sick leave but also paid leave for a number of care duties. The replacement rate of 80 per cent of the average monthly salary can also be considered relatively high and meets ILO standards.

For disability, the overall story is one of relative success. A multi-tiered system ensures that the vast majority of people who live with a disability are able to access income security to improve their quality of life. Coverage increases with age, likely reflecting the fact that adults can qualify for either a contributory state disability pension or a non-contributory disability benefit. The likelihood of qualifying for a labour disability pension also increases with age, reflecting the fact that as years pass, more people will have met the minimum years-of-service requirements (see Figure 0.5). In terms of adequacy, the flat-rate disability social benefit amounts to just 39 per cent of the minimum wage, which is insufficient income replacement for a person with an incapacity for gainful employment. However, because disability is not associated with an incapacity to work in Armenia, it is useful to assess the value of the transfer as a share of the additional cost of disability (calculated at 35 per cent of average income). Here, the social benefit fares slightly better, reaching 69.5 per cent of the reference value for the average net wage and surpassing the reference value for the minimum wage. The average disability labour pension value also surpasses the reference values for both the average net wage and the minimum wage.

#### Figure 0.5:



### Percentage of working-age persons recognized as disabled receiving various social protection benefits, by age group, 2019

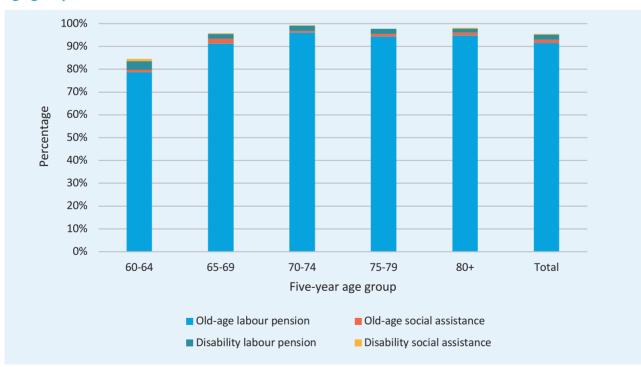
Source: Analysis of the 2019 ILCS.

More than half of the unemployed are long-term unemployed-that is, they have been seeking employment for more than one year. Structural unemployment has been a persistent problem preceding the COVID-19 and financial crises. In Armenia, the main obstacle to finding a job cited by jobseekers is the lack of jobs. Structural unemployment in Armenia comes from a mismatch between the supply and demand of skills. Thus, in the short term, unemployment will continue to affect large numbers of workers, particularly youth. Much of this needs to be addressed through employment policies such as skills training and other ALMPs. However, this does not mean that social protection should not play a role. ALMPs and unemployment benefits are, in fact, not mutually exclusive and actually work best together. In the context of Armenia, unemployment cash benefits would ensure that, in the short term, workers have access to income security while, in the long term, ALMPs balance the jobs market.

## Basic income security for older people in Armenia

Overall, effective old-age protection coverage rates are very high in Armenia, reflecting the universal nature of entitlements (see Figure 0.6). Contributory pensions in Armenia are not based on proportional contributions into a social insurance fund but rather on the number of years participating in the tax system. These years of service are the sole basis for calculating pensions for people born before 1974. For those born after, a new system of contributions into individual, fully funded accounts was recently introduced.

#### Figure 0.6:



### Older people in Armenia receiving a labour or social assistance old-age or disability pension, by age group, 2019

Source: Analysis of the 2019 ILCS.

Pillar 0 is granted to people who reach the age of 65 and do not qualify for labour pensions, essentially serving as a social protection floor for old age. In terms of adequacy, the old-age (social) benefit does not meet ILO standards. Moreover, the lack of indexation risks eroding the benefit's real value. When compared with other countries that also invest in tax-financed old-age benefits, Armenia's pension performs on par with those of other ECA countries. At a value of around 12 per cent of GDP per capita, the old-age benefit is higher than that of the benefit in the Russian Federation (9 per cent) and lower than Georgia's universal old-age pension (20 per cent).

The contributory system is more complex. Pillar 1 is granted to those born before 1974 with at least 10 years of service and consists of a basic pension plus remuneration based on the years of service. This remuneration is completely detached from previous earnings; thus, old-age pensions under Pillar 1 do not reproduce the large gender pay gap that is observed in the labour market. This is a particularly unique and positive feature of this pillar. Still, it is likely that women will have fewer years of service than men. In Armenia, the Law on State Benefits (2013) recognizes up to six years of parental leave as years of service. This is another positive feature of the system, helping minimize the exposure of women to economic risks in old age resulting from maternity earlier in life. Overall, together, delinking benefits from earnings and recognizing periods of care makes for a powerful package of income redistribution between men and women in old age.

Pillar 2 is mandatory and involves individual accounts for people born on or after 1 January 1974. Transfer values are based on past contributions, meaning that women's pensions will mirror not only their fewer years of service but also their lower earnings. Moreover, because women tend to retire earlier but live longer than men, this means that they will rely on smaller savings to finance longer periods of retirement, threatening the basic adequacy of annuities and monthly payments. This is, in fact, the key feature of such a system, where individuals' contributions

are defined but not the final benefits. In this context, the adequacy of the pension will become much more important.

#### Towards an inclusive lifecycle social protection system in Armenia

Armenia's social protection system shows many strengths. Notably, the use of a multi-tiered model for old-age, disability, survivors' and now maternity benefits can be used as an example for other countries with similar economies. However, this model has not yet been applied to all branches of the system, and there are, without doubt, other gaps in Armenia's social protection floor, particularly for children and people of working age.

The simplest way to close these gaps would be to focus on three lifecycle benefits that are either missing or largely inadequate: (i) a full BBP for all residents of Armenia to ensure universal access to health care throughout the lifecycle; (ii) a universal child benefit to immediately cover all children aged 0–18; and (iii) a permanent unemployment scheme to cover a minimally adequate period of unemployment, in line with the minimum standards of Convention No. 102.

Moreover, these changes would not be prohibitively costly. Implementing a universal child benefit and a minimum monthly unemployment benefit would cost between 1.89 and 4.38 per cent of GDP in 2021, but given the economic and population projections, even if indexed to inflation, the cost would decline over time.

Additional measures to consider for a more equitable system may include (i) reviewing the configuration of the whole maternity and family income support system; (ii) conducting a full actuarial review of the social protection system, particularly of the old-age pension system; and (iii) strengthening and formalizing the monitoring and evaluation (M&E) processes.

# INTRODUCTION



The main objective of this work is to conduct an assessment of the minimum social protection floors in Armenia in order to identify areas for further strengthening, paying particular attention to gender equality. The concept of social protection floors is enshrined in the International Labour Organization (ILO) Social Protection Floors Recommendation, 2012 (No. 202). Social protection floors are nationally defined sets of basic social security guarantees that should ensure (as a minimum) that over the lifecycle, everyone has access to essential health care and to basic income security, which together secure effective access to goods and services. Thus, the scope of this work is largely driven by the contingencies recognized in this Recommendation as well as the related ILO Social Security (Minimum Standards) Convention, 1952 (No. 102).

It is important to understand how this concept could fit with national terminology around social protection, which may differ from country to country. Armenia classifies its social protection system along five lines,<sup>1</sup> only some of which align with common international usage:

- Social assistance programmes aim to ensure minimum living standards among vulnerable groups of the population. In Armenia, social assistance programmes—also known as social benefits—include family benefits, disability, survivors' and old-age benefits, one-off pregnancy and childbirth allowances, childcare benefits, and other monetary and non-monetary social services.
- Social security programmes refer to specific rehabilitation interventions for persons with disabilities, as well as social programmes aimed to support persons with disabilities, veterans and children in specialized institutions.

- Social protection programmes provide services, in particular social-medical rehabilitation programmes for children, the elderly, persons with disabilities and veterans in specialized institutions.
- Social insurance programmes consist of old-age, disability and survivors' pensions, as well as sickness and maternity benefits for employed persons who make contributions throughout their working lives.
- Employment programmes, which included mainly unemployment benefits before their recent abolishment but also active labour market policies (ALMPs), are also considered a core part of the social protection system to govern the social risks related to employment.

It should be noted that the national definitions of social security and social protection are specific to Armenia. Social protection is the current term used to refer to social security, and generally both terms are used interchangeably by the ILO and other UN agencies.<sup>2</sup> Social security is recognized as a human right and is defined in international frameworks such as ILO Convention No. 102 as including nine main areas: child and family benefits, maternity protection, unemployment support, employment injury benefits, sickness benefits, health protection, old-age benefits, invalidity/ disability benefits, and survivors' benefits. More recently, ILO Recommendation No. 202 echoed these contingencies and called for basic income and health security—a social protection 'floor' in childhood, working age and old age. Within this framework, employment policy-including ALMPs—is considered a related but separate area of social and labour policy.

Using social protection floors as an analytical framework means that the analysis is concentrated on two of these lines. First, it considers what is nationally defined as **social assistance**—which

includes both poverty-targeted pensions—or benefit-tested and universal benefits. This report refers to these as **non-contributory benefits.**<sup>3</sup> Second, it considers social insurance—which, in the case of old-age protection, includes both a legacy social insurance scheme (defined benefit) as well as a new, fully funded tier (defined contribution). Both are considered contributory benefits. In that sense, Table 1.1 outlines the schemes included, to varying levels of detail, in this assessment.

#### Table 1.1:

#### Scope of analysis

Contributory benefits	Non-contributory social assistance benefits
State pensions	Old-age benefit
o Old-age	Disability benefit
o Disability	Survivors' benefit
<ul> <li>Survivors'</li> </ul>	Universal child benefit (lump sum)
<ul> <li>Temporary incapacity benefits</li> <li>Maternity</li> </ul>	<ul> <li>Maternity benefit for non-working mothers (lump sum)</li> </ul>
o Sickness	<ul> <li>Poverty-targeted Family Living Standards Enhancement Benefits (FLSEB)</li> </ul>
<ul> <li>Employment injury</li> </ul>	<ul> <li>Family Benefit (FB)</li> </ul>
	<ul> <li>Social Benefit (SB)</li> </ul>
	• Emergency Assistance (EA)

However, given the time constraints and the broad range of benefits covered, the detailed analysis will focus primarily on those benefits and gaps that are identified in the high-level analysis as priority areas of focus in light of the emphasis on gender. This includes, for example, a focus on the following lifecycle phases and contingencies: childhood, core risks for people of working age (in particular maternity and unemployment) and old age. Disability and survivors' benefits, cash sickness benefits and employment injury benefits are treated with a broad brush only.

The report is structured as follows: Chapter 2 outlines the current demographic and economic situation in Armenia followed by a description of

existing poverty, labour-market and gender dynamics; Chapter 3 presents an overview of Armenia's social protection system from a lifecycle perspective and with reference to international norms and definitions; Chapter 4 briefly assesses healthcare provisions in terms of legal and effective coverage; Chapters 5, 6 and 7 assess the social protection coverage of children, women and men of working age and older people, respectively, in terms of legal and effective coverage (including adequacy), with attention paid to gender differences in outcomes; Chapter 8 explores scenarios for expanding the existing system and their potential costs; and Chapter 9 offers concluding observations.

# COUNTRY CONTEXT



The protracted transition from Soviet rule has shaped Armenia's development through profound transformation towards a market-oriented economy and democratic institution-building. The country's development vision is reflected in the Armenia Development Strategy (ADS) for 2014-2025, which emphasizes employment creation as the engine for improving living standards and reducing poverty for the coming decade. The key priorities are outlined as follows: growth of employment, development of human capital, and improved social protection and modernized public administration with the enforcement of monetary, fiscal and social instruments to achieve these goals.<sup>1</sup> With regard to social protection, the ADS focuses on increasing public expenditure on social insurance and social assistance, as well as improving the targeting system. This is a highlevel statement of commitment to the expansion and improvement of the system. A rights-based approach to social protection, such as the lifecycle approach, could help the Government ensure that this effort results in a broad system that promotes inclusive growth.

Shorter-term strategic planning is governed by the Programme of the Government of the Republic of Armenia (RA) and the Medium-Term Expenditure Framework (MTEF). Both deriving from the ADS, they serve as the key development frameworks at the national level. The MTEF, which lays the basis for drafting the annual budget, sets the objectives, priorities and expenditure commitments to social protection for each three-year cycle. The MTEF for the 2020–2022 cycle outlines the Government's main targets under the umbrella of policy from the Ministry of Labour and Social Affairs (MoLSA) as follows:

- Increase the minimum monthly salary
- Eliminate extreme poverty by 2023 by

   implementing a system of integrated social services for better social protection management;
   encouraging private businesses to enter social services to create a more competitive and diverse environment; and (iii) providing long-term targeted financial support to socially vulnerable families and groups
- Develop and implement new programmes and revise existing ones—to encourage young families to have children
- Periodically increase the size of basic, labour and military service pensions
- Develop and implement new programmes and revise existing ones—to promote education and work among the poor (creating an 'education labour market'), targeting women, persons with disabilities and youth
- Strengthen the legislative framework in order to expand community-based service provision using public funds, encouraging a competitive environment for non-governmental organizations (NGOs)
- Improve services for persons with disabilities by (i) organizing care services for children with disabilities within the home/family environment; (ii) preventing the entry of persons with disabilities into day-care facilities; and (iii) deinstitutionalizing care for older persons with disabilities and developing alternative community-based care services

To achieve these targets, the MTEF proposes that the Government commits to the following expenditure plans: for the year 2020, AMD 486.9 billion (US\$1.0 billion); for 2021, AMD 489.7 billion (US\$0.9 billion); and for 2022, AMD 496.3 billion (US\$0.9 billion).<sup>2</sup>

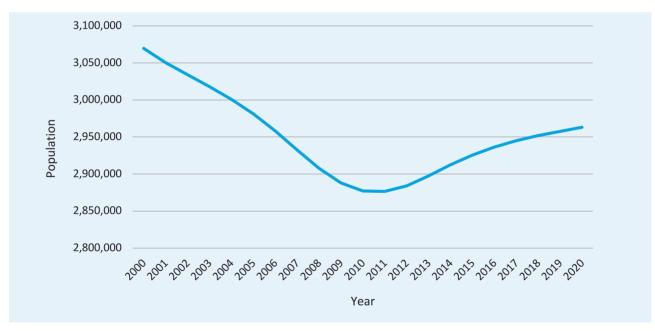
# 2.1 DEMOGRAPHIC SITUATION

As of 2020, the population of Armenia was nearly 3 million, of which nearly two thirds (63 per cent) live in urban areas.<sup>3</sup> Armenia is experiencing large-scale demographic transformation—including the ageing and gradual shrinking of its population—that will shape the priorities and development of the social protection system going forward. Between 2000 and 2011, the population declined

from 3.07 million to 2.88 million, mainly due to decreased fertility and increased emigration.<sup>4</sup> From 2011, a slight upward trend can be observed, as shown in Figure 2.1. However, UN DESA population prospects predict this will not be a sustained phenomenon and that the overall population will drop to approximately 2.7 million by 2050.

#### Figure 2.1:

#### Population of Armenia over time, 2000-2020



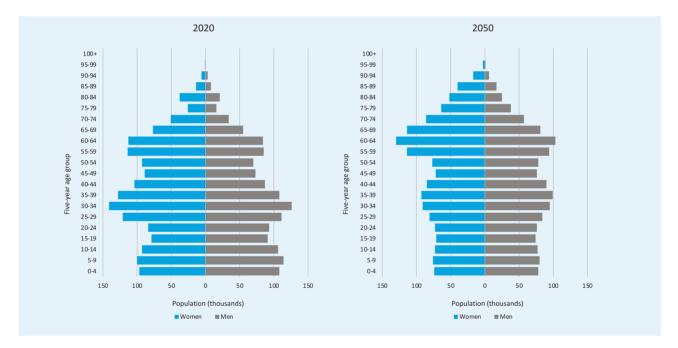
Source: UN DESA 2019a.

The average life expectancy in Armenia is 75 years, similar across rural and urban areas, but women have a greater life expectancy (age 78) than men (age 71).<sup>5</sup> Similarly, life expectancy at retirement (20 years beyond retirement) is higher for women (21 years) than for men (17 years).<sup>6</sup>

In 2020, children aged 0–18 made up 26.6 per cent of the population; adults aged 19–64, 61.6 per cent; and older persons (aged 65 and above), 11.8 per cent.<sup>7</sup> According to UN DESA population prospects, by 2050, the distribution is expected to change to 21.4 per cent for children, 57.2 per

cent for working-age adults and 21.4 per cent for older persons. Today, middle-aged adults make up the bulk of the population, as can be seen in Figure 2.2. Overall, the number of people of working age is stagnant and will soon decline. This will create significant pressure on the country's capacity to sustain tax revenues and all government programmes financed through the state budget, including the social protection system. As the number of older persons increases in parallel, there will also be a growing demand for care, which is likely to predominantly fall on the shoulders of women, further restricting their ability to participate in the workforce, pay taxes and grow the economy.

#### Figure 2.2:



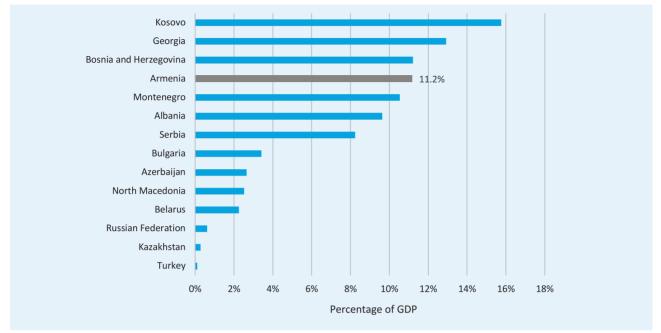
#### Population distribution in Armenia, 2020 and 2050 (predicted)

Source: UN DESA 2019a.

Moreover, Armenia has one of the highest emigration rates in the world, with around 30 per cent of the population living outside of the country.<sup>8</sup> According to the 2019 Integrated Living Conditions Survey (ILCS), among the 5.1 per cent of household members who had left their permanent residence and had not returned during the survey period, 69.6 per cent were involved in external migration (90 per cent to the Russian Federation).<sup>9</sup> Although emigration motives have shifted over time, a lack of decent jobs and unemployment has always been and remains a key push factor. Remittances from abroad—a direct consequence of labour migration—are high (11.2 per cent of GDP in 2019)<sup>10</sup> but fluctuate. In 2019, remittance inflows as a percentage of GDP were higher in Armenia than in most other upper-middle-income countries in the Europe and Central Asia (ECA) region, as shown in Figure 2.3.

#### Figure 2.3:





Source: World Bank 2020a.

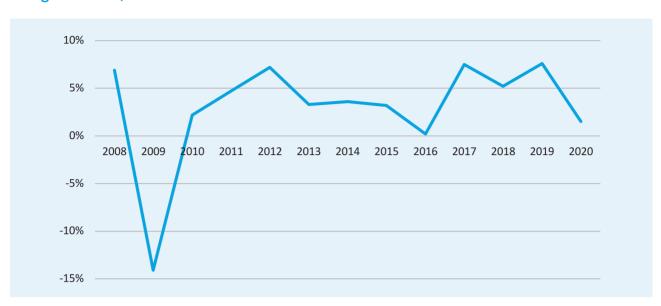
Note: All references to Kosovo should be understood to be in the context of United Nations Security Council resolution 1244 (1999).

## 2.2 ECONOMIC CONTEXT

In recent years, Armenia has experienced decent growth—averaging 3 per cent per year between 2008 and 2020, despite a number of shocks<sup>11</sup> — and prior to the COVID-19 global pandemic, the IMF had expected the upward growth trajectory to continue.<sup>12</sup> Figure 2.4 shows the fluctuation of

Armenia's GDP growth rate during this period. The IMF has since revised its growth projections to reflect the economic impacts of the COVID-19 crisis and have predicted a contraction of 7.6 per cent of GDP in 2020, with a return to positive growth expected in 2021.<sup>13</sup>

#### Figure 2.4:





Source: Central Bank of Armenia (www.cba.am).

The COVID-19 crisis has affected the entire economy, although some sectors have been hit harder than others. The impacts outweigh by far anything experienced during the 2008–2009 global financial crisis, which impacted Armenia severely. The state of emergency, the restrictions on the freedom of movement and the shutdown of public transport, shops, restaurants and other services introduced in late March 2020 had an immediate and direct impact on those sectors. This was compounded by a decline in domestic consumption, domestic investment, tourism and related business, foreign direct investment and remittance inflows.<sup>14</sup>

The physical restrictions on economic activities and their subsequent decline<sup>15</sup> have severely affected some groups of people more than others. Although more men than women who are employed (44 per cent of employed men and 29 per cent of employed women) work in economic sectors where the economic and employment impact of the COVID-19 crisis was likely to be major, an additional 157,000 (two thirds of whom are women) work in sectors where the impact was expected to be moderate.<sup>16</sup> In addition, almost one third of all those employed work in sectors where the risk of infection is high. Workers in the healthrelated sectors, 84 per cent of whom are women, are particularly exposed to infection.<sup>17</sup> Others who are particularly at risk of employment- or health-related economic risks include the already unemployed, youth (aged 15–29) who are not in employment, education or training (NEET) (who represented 28.4 per cent of Armenia's youth population in 2019), persons who have recently entered the labour market, persons seeking employment abroad and migrant workers. In short, those who were already in a vulnerable position before the pandemic are expected to be among the hardest hit in terms of economic wellbeing.

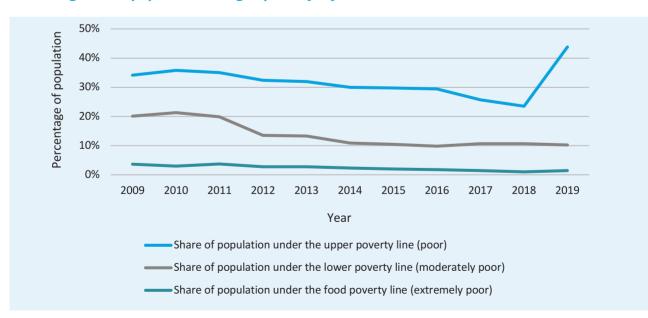
The relaxation of containment measures in many countries has allowed for the gradual reopening of economic activities, but this will not be enough to mitigate the social and economic fallouts of the pandemic. In the ECA region, the ILO estimated an 11.8 per cent loss in working hours for the second quarter of 2020, with relative poverty rates for informal workers in the WHO European Region predicted to rise from 34 per cent before the crisis to 80 per cent four months into the crisis.<sup>18</sup> The economic consequences of COVID-19 will also have a severe impact on remittance economies. Remittance flows are predicted to fall sharply, by as much as 30 per cent of 2019 levels.<sup>19</sup> This effect is expected to be felt particularly sharply in Armenia, where remittances were estimated to drop to 8.9 per cent of GDP in 2020.<sup>20</sup>

### 2.3 POVERTY DYNAMICS

Thanks to the combination of economic growth and investment in social protection, Armenia has made some progress in tackling poverty. According to national statistics, over the period 2009–2018, poverty—defined by the upper poverty line (assuming a minimal food share of 57 per cent of household consumption)—fell by 31 per cent, from 31.4 to 23.5 per cent.<sup>21</sup> The estimated poverty rate for 2019 was 43.8 per cent, reflecting recent changes in the methodology for identifying poor and vulnerable households that were introduced in the 2019 ILCS (described further in Box 2.1).<sup>22</sup> Figure 2.5 shows poverty-rate dynamics in Armenia over the past decade, using its three national poverty lines. The full impacts of the COVID-19 crisis on poverty in Armenia are as yet unknown but are likely to be significant, as they are elsewhere.

#### Figure 2.5:





#### Source: ARMSTAT 2020a.

Note: A change in the poverty trend with respect to the upper poverty line reflects changes to the methodology and data collection process introduced in the 2019 ILCS (see Box 2.1). Had the methodology remained the same in 2019, the poverty rate (with respect to the upper poverty line) would have been 24.9 per cent, a slight increase from the previous year.

#### Box 2.1:

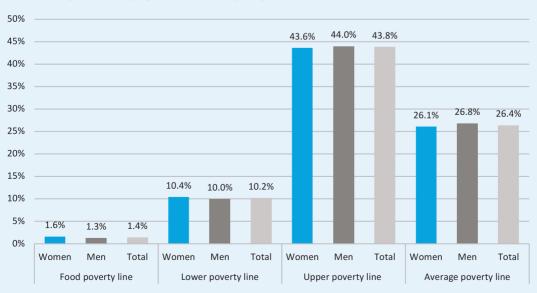
#### Approach to poverty measurement in Armenia

Poverty in Armenia has been assessed since 1996 using an 'absolute poverty' approach based on consumption. In 2009, the Government introduced a revised method for identifying poor and vulnerable households in monetary terms, using the consumer price index. Three absolute poverty lines were established, allowing for a distinction between poor, moderately (or very) poor and extremely poor households:

- The food poverty line represents the cost of a minimum food basket.
- The lower poverty line rests on the assumption that the minimum food share makes up approximately 70 per cent of total household consumption. Thus, the corresponding non-food consumption is added to the minimum food basket—that is, the food poverty line.
- The upper poverty line rests on the assumption that the minimum food share makes up approximately 57 per cent of total household consumption.
- An average poverty line is sometimes used, which amounts to the average of the lower and upper poverty lines.

As such, the 'poor' are defined as those with a consumption-per-adult equivalent below the upper poverty line; the 'moderately (or very) poor' are those with a consumption-per-adult equivalent below the lower poverty line; and the 'extremely poor' are those with a consumption-per-adult equivalent below the food poverty line.

Since 2019, the country has used a further revised methodology that measures the minimum consumer basket<sup>23</sup> (minimum food basket plus an estimated share of non-food products), based on the 2019 ILCS. The poverty lines were adjusted in 2019 to reflect consumption patterns, spending habits and demographic structure, among other changes in Armenian society.<sup>24</sup> Figure 2.6 depicts Armenia's poverty rates using the national measures in 2019.



#### Figure 2.6:



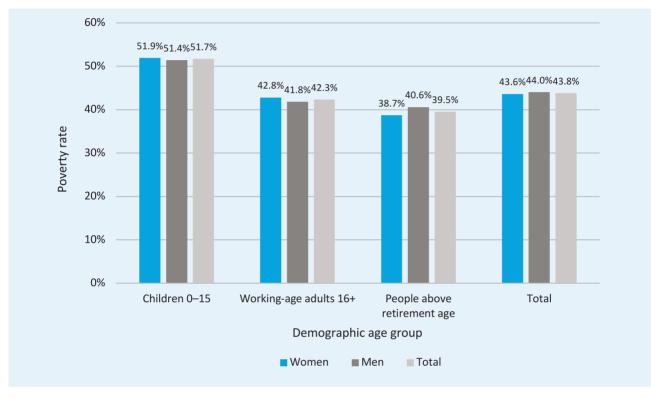
Source: ARMSTAT 2020a.

Data from the 2019 ILCS show that poverty levels—defined by the upper poverty line—among children aged 0–15 are significantly higher than any other age group, as can be seen in Figure 2.7.

They are also significantly higher in rural areas (51.3 per cent) than urban areas (39.2 per cent) and fluctuate by geographic region.<sup>25</sup>

#### Figure 2.7:

Poverty rate, by demographic age group, 2019 (using the national upper poverty line)

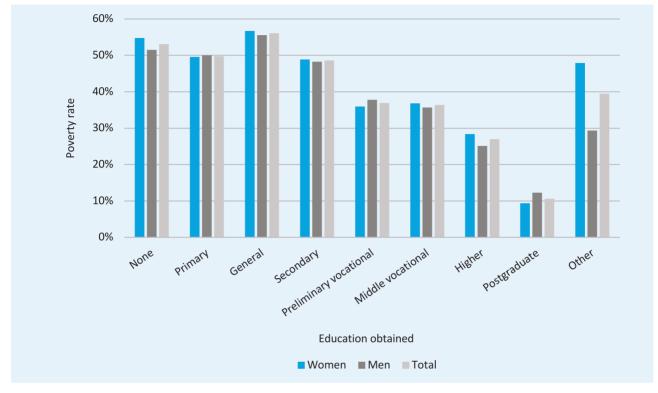


Source: Analysis of the 2019 ILCS.

While there is only a small difference in the poverty rates among men (44.0 per cent) and women (43.6 per cent), and among households headed by men (34.7 per cent) and women (38.4 per cent), poverty levels are more heavily dependent on the level

of education obtained, as shown in Figure 2.8.<sup>26</sup> There is a 22.8 percentage point gap between the share of persons who have obtained a primary level of education and those who have obtained a higher level of education.

#### Figure 2.8:



#### Poverty rate, by level of education obtained, 2019 (using the national upper poverty line)

Source: Analysis of the 2019 ILCS.

The overall decline in poverty over the past decade can largely be attributed to a general increase in real incomes, employment, remittances and pensions. However, the gains have not been equally shared. Overall, relative inequality as measured by the Gini index remains low by regional standards, but it has increased in recent years.<sup>27</sup> Interestingly, cross-country data comparison shows that the Gini coefficient

in neighbouring upper-middle-income countries—for example, Georgia—has fallen. And while the average Armenian received a net wage of AMD 108,976 (US\$223) per month in 2019—up from AMD 100,359 (US\$205) in 2018—women's average earnings amounted to only 69 per cent of men's in 2019, and in general, men benefited more from increased salaries than women.<sup>28</sup>

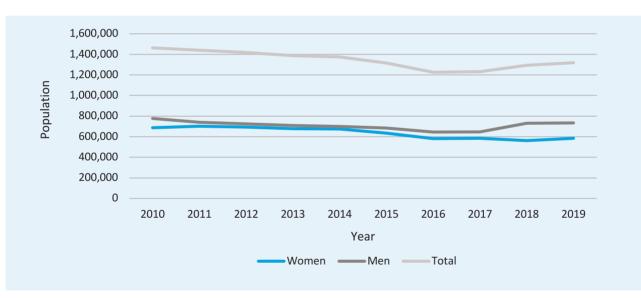
## 2.4 <u>LABOUR-MARKET</u> <u>DYNAMICS</u>

In absolute terms, the economically active population has gradually decreased in the past decade, from 1.46 million persons in 2010 to 1.32 million in 2019 (see Figure 2.9).<sup>29</sup> The determining factors behind this are, again, the overall decrease

in the country's population, emigration and demographic ageing. In relative terms, in 2019, the economically active population was 59.9 per cent of the working-age population, which is similar to neighbouring Georgia (62.9 per cent).

#### Figure 2.9:

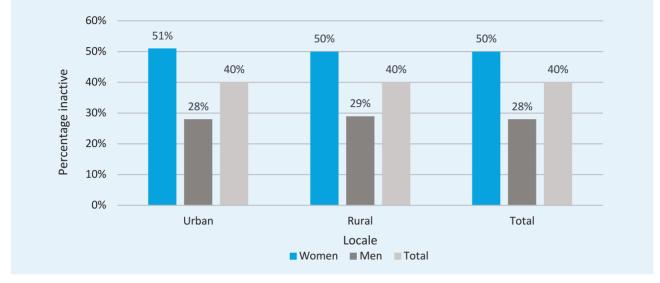
#### Economically active population, 2010–2019



Source: ARMSTAT.

Women have substantially lower activity rates compared to men, as can be seen in Figure 2.10, which shows the economically inactive population in Armenia. In 2019, the female labour-force participation rate was 49.6 per cent, compared with 71.7 per cent for men. This is low in comparison with neighbouring Georgia (54.5 per cent for women). The share of the economically active population is also slightly higher in Armenia's rural areas, where people are mostly engaged in agriculture and thus are considered self-employed.<sup>30</sup> However, it is worth noting that agricultural work is predominantly seasonal, so labour patterns vary accordingly throughout the year.

#### Figure 2.10:



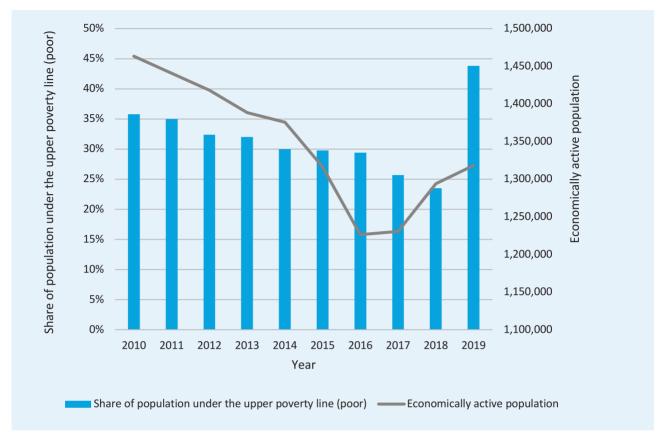
#### Labour-force inactivity rate, by locale, 2019

It appears that in the past decade, Armenia's declining labour-force participation rate has not had a negative impact on poverty levels, as can be seen in Figure 2.11. However, since 2016, participation in the labour force has picked up

slightly, but COVID-19 is likely to stall if not reverse this trend, at least in the short run. It should be noted that the particularly high 2019 poverty rate reflects the adjusted upper poverty line, in line with the 2019 ILCS.

Source: 2019 ILCS.

#### **Figure 2.11:**



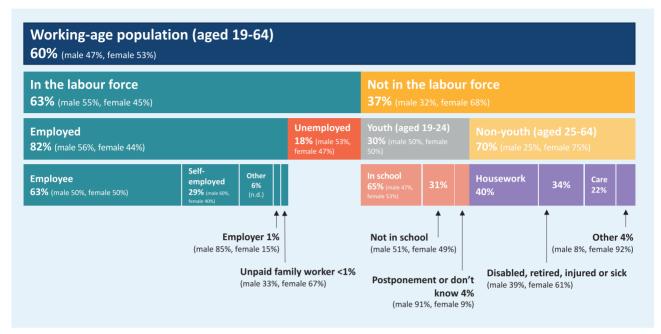
#### Labour-force participation rate and poverty rate (using the national upper poverty line)

Source: 2019 ILCS.

Figure 2.12 provides a snapshot of the labour market in Armenia in 2019. The first thing to note is the large share of the working-age population that is inactive. Close to two out of five working-age individuals were out of the labour force, 68 per cent of whom were female. The reasons behind this phenomenon are discussed in more detail below. Finally, within the active population, 82 per cent were employed in 2019.

#### **Figure 2.12:**

#### Structure of the Armenian labour force in 2019



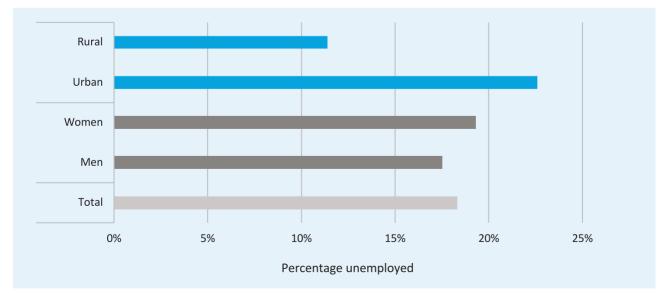
Source: Authors' creation. Based on 2019 LFS data.

The unemployment rate in Armenia has been gradually increasing since 2013 (16.2 per cent) and was considerably high in 2019 at 18.3 per cent. While only slightly higher for women (19.3 per cent, compared with 17.5 per cent for men), a bigger difference can be observed between rural

and urban areas, as seen in Figure 2.13. In urban areas, unemployment is higher for women (24 per cent) than for men (21.4 per cent), while there is no significant difference in rural areas. This probably relates to high levels of engagement in the agricultural sector among the rural population.

#### **Figure 2.13:**

#### **Unemployment rate, 2019**

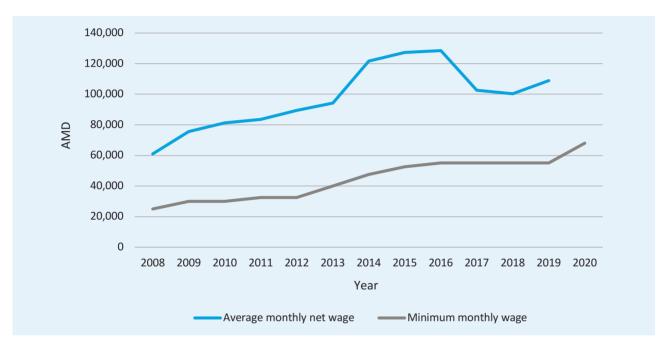


Source: ARMSTAT.

There has been a general increase in real incomes in recent years, as shown in Figure 2.14. The average monthly net wage increased by 78.6 per cent between 2008 and 2019 (8.6 per cent between 2018 and 2019). The minimum monthly wage in 2020 was AMD 68,000 (US\$141), up from AMD 55,000 (US\$112) the previous year—its largest increase since 2008. In 2019, the minimum wage was 50.5 per cent of the average net wage.

#### **Figure 2.14:**



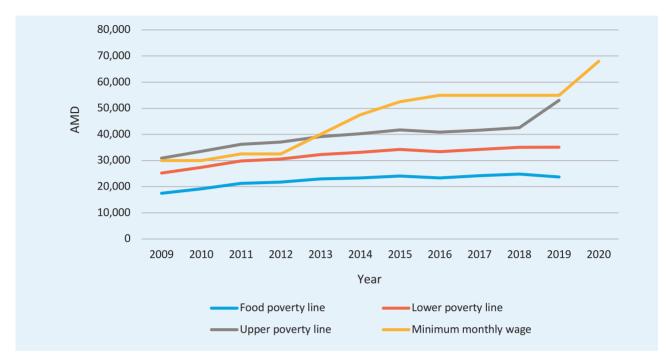


Source: ARMSTAT.

Note: The presented data on net wages refer to the net incomes (after deduction of taxes defined by law and other compulsory payments) received from the main (primary) activities of the employed persons.

The monetary value of Armenia's national poverty lines has also gradually increased in the past decade, as can be seen in Figure 2.15. Since 2013, the minimum monthly wage has remained above the upper poverty line. In theory, this should continue since the minimum consumer basket both determines the revised methodology for measuring poverty and serves as the basis for determining the minimum wage, as well as pensions, scholarships and other social benefits.<sup>31</sup>

#### **Figure 2.15:**



#### National poverty line and minimum monthly wage values (AMD), 2009-2020

Source: ARMSTAT.

Note: The 2019 values reflect a change in the methodology for calculating the minimum consumer basket (minimum food basket plus an estimated share of non-food products), based on the 2019 ILCS.

## 2.5 GENDER DYNAMICS

The Government of Armenia has made a prohibiting gender-based commitment to discrimination and ensuring the protection of women's rights and promotion of women's empowerment in the Constitution (1995) and in subsequent laws, including the Labour Code (2004) and the Law on Equal Rights and Equal Opportunities for Women and Men (2013).<sup>32</sup> This key legislation and other secondary legislation<sup>33</sup> demonstrate concrete steps taken to harmonize Armenia's national legal framework with the UN Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), to which it acceded without reservation on 13 September 1993.

Despite its relatively strong legislative commitment, Armenia ranks 54<sup>th</sup> on the United Nations Development Programme's Gender Inequality Index (GII) and 114<sup>th</sup> on the World Economic Forum's 2021 Global Gender Gap Index, which covers 156 countries.<sup>34</sup> The country has one of the lowest rankings in the ECA region, with a score of 0.673. According to the components of the 2021 Global Gender Gap Index, the indicators that present the biggest challenges in Armenia

are political empowerment, the estimated earnings gap, labour-force participation and female representation in managerial positions.<sup>35</sup> The prevalence of gender-based violence (GBV) also continues to be a pervasive challenge in the country.

At the root of all of the above challenges hindering the full realization of gender equality in Armenia are the gender norms and subsequent pervasive gender stereotypes. These norms—which are perpetuated by families and communities as well as by politics, education, the private sector and the media—continue to prescribe the role of women as, first and foremost, wives and mothers.<sup>36</sup> Girls face less pressure than boys to drop out of school to enter the labour market, which explains why they continue to outperform boys in terms of enrolment and educational attainment. However, girls—especially those living in rural households and experiencing economic insecurity—may face more pressure than boys to drop out of school in order to take on unpaid care or domestic work and, in some instances, to marry early and have children.<sup>37</sup> Challenges to women's economic insecurity are further perpetuated by gender norms that prevent them from owning land or that result in girls being channelled into traditional education and subsequent labour sectors that are undervalued or non-competitive.<sup>38</sup>

These and other issues related to gender dynamics in Armenia—how they interact with (are reflected in or mitigated and/or reproduced by) the social protection system—are taken up throughout the report as a cross-cutting theme informing the analysis of social protection for children, people of working age and older people.

### 2.6 <u>SUMMARY</u>

The country's development vision emphasizes employment creation as the engine for improving living standards and reducing poverty. The Government is also committed to expanding and improving the social protection system by increasing public expenditure on social insurance and social assistance, as well as improving the targeting system. However, it is faced with a number of challenges:

 Armenia is experiencing large-scale demographic transformation—including the ageing and gradual shrinking of its population in conjunction with continued high levels of emigration—which will have a significant impact on the country's capacity to sustain tax revenues and government programmes financed through the state budget, including the social protection system.

- The economy has been heavily impacted by the COVID-19 crisis, interrupting a period of steady growth—although positive GDP growth is expected to return in 2021. The economic fallout has affected some sectors and groups harder than others, hitting hardest those who were already in a vulnerable position before the pandemic.
- Although Armenia has made some progress in tackling poverty in recent years—largely due to a general increase in real incomes,

employment, remittances and pensions—in 2019, nearly half of the population (43.8 per cent) were believed to be living under the national upper poverty line and therefore considered 'poor'. Poverty levels are significantly higher among children and in rural areas. Inequality is also on the rise.

 As a result of the demographic transformation, the economically active population is decreasing—in 2019, more than one third (37 per cent) of working-age persons were out of the labour force. Activity rates are substantially lower among women and slightly higher in rural areas. Simultaneously, unemployment is increasing and was considerably high in 2019 at 18.3 per cent. Of those who are employed, just two thirds are salaried workers and therefore participate in the tax system in a stable manner, establishing so-called 'years of service'.

Although the Government has demonstrated a legislative commitment to prohibiting genderbased discrimination, protecting the rights of women and girls and promoting female empowerment, Armenia continues to face widespread gender inequality that is rooted in damaging gender norms and resulting pervasive gender stereotypes. Notably, in 2019, half of women (50.4 per cent) were out of the labour force, and the gender pay gap reached 28.4 per cent.

# UNDERSTANDING ARMENIA'S SOCIAL PROTECTION SYSTEM WITHIN A LIFECYCLE FRAMEWORK



When social protection policies are well designed, they help further a variety of social and economic development objectives: they can reduce poverty and inequality, support broad-based economic growth, promote decent work and contribute to social cohesion and stability.<sup>1</sup>

In recent years, the Government of Armenia has prioritized the objective of increasing employment levels, which has filtered into the social protection policymaking space in Armenia. This can be seen most clearly in the abolishment of unemployment benefits in 2015 and the shift towards active labour market policies (ALMPs), as well as in the nature of many other benefits that are heavily linked to formal employment. In addition, the recent pension system reforms have directed attention away from other relevant programmes and the social protection **system** as a whole.<sup>2</sup> This study seeks to address the imbalance and offer a broad assessment of the social protection system in Armenia using a lifecycle framework. This report focuses primarily on income transfers but also calls attention to healthcare benefits as a means of delivering lifecycle social protection, in line with ILO Convention No. 102 and Recommendation No. 202.

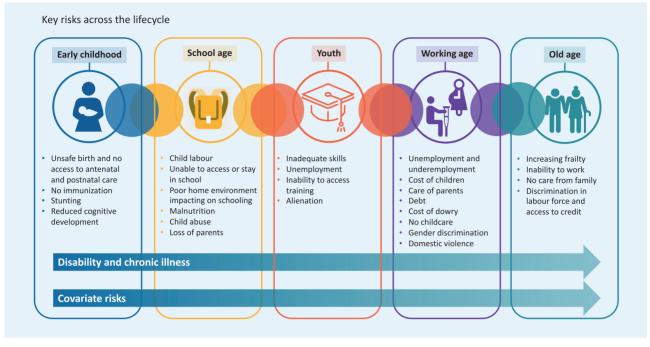
#### 3.1

# <u>A LIFECYCLE AND</u> <u>MULTI-TIERED APPROACH</u> <u>TO SOCIAL PROTECTION</u>

Social protection entails the provision of regular, predictable income transfers (in cash or in kind) and can also include the provision of social care, social services and ALMPs.

Social protection systems can address a wide variety of risks. The most common of these are associated with the lifecycle, as shown in Figure 3.1.

#### Figure 3.1:



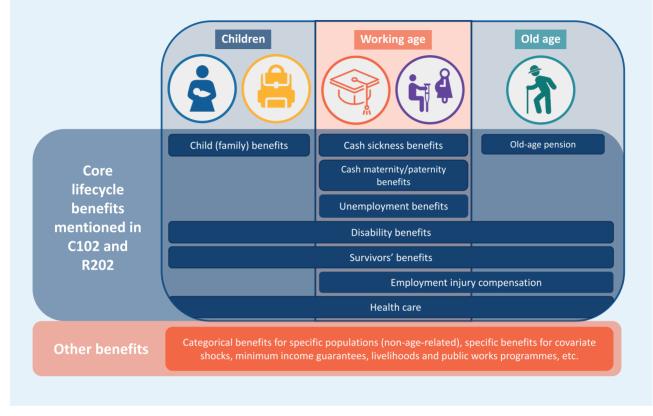
#### Key risks across the lifecycle

Source: Development Pathways' depiction.

Income transfers—which can be either tax-financed—are contributory or typically considered to be the central mechanisms for providing social protection or social security.<sup>3</sup> For example, ILO Social Convention No. 102 enshrines minimum standards for social security to address nine lifecycle contingencies through the establishment of old-age pensions, disability benefits, survivors' benefits, cash sickness and maternity benefits, unemployment benefits,

employment injury benefits and family benefits, as depicted in Figure 3.2. These 'core' benefits are reaffirmed in Recommendation No. 202. In more mature social protection systems, such as those in Europe and many high-income countries, these core transfers provide both basic and more comprehensive income security for everyone as a specific and individual right during defined periods of vulnerability, including in childhood, working age and old age.

#### Figure 3.2:



#### Lifecycle benefits mentioned in ILO Convention No. 102 and Recommendation No. 202

Source: Authors' depiction based on Convention No. 102 and Recommendation No. 202.

In addition, most national social protection systems also provide a collection of smaller benefits addressing specific risks or supporting narrowly defined populations considered to be particularly vulnerable. In successful systems, these other benefits serve to supplement or complement, but not replace, the core programmes. If core transfers are providing adequate and predictable income security for a broad swath of the population, the need for smaller, last-resort 'safety net' policies is reduced. Often, many low- and middle-income countries have prioritized the latter type of programmes at the expense of investing in strengthening core lifecycle schemes (see Box 3.1).<sup>4</sup>

This is true even in the face of covariate shocks that are not linked to the lifecycle. For example, research on the social protection responses to crises has found that those countries that, prior to a covariate shock (whether financial, a natural disaster or public health-related), had invested in inclusive social protection systems emphasizing broad-based, core lifecycle transfers were better able to respond in times of crisis than those that had neglected these systems and/or focused narrowly on small, poverty-targeted programmes.

#### Box 3.1:

#### Armenia's Social Benefit (SB)

The SB—one of three benefits making up the FLSEB—serves as one such last-resort 'safety net' programme in Armenia. It is a regular means-tested, non-contributory cash transfer designed to be both protective and preventative—its purpose is to alleviate families of chronic poverty and avert further deprivation. It is viewed as a partial solution to the Government's long-term objective (as defined by the ADS) of covering all families without children living below the national lower poverty line and therefore considered 'vulnerable'.<sup>5</sup>

According to the ILCS, in 2019, social protection transfers made up, on average, 26.3 per cent of total household income in the first decile group, whereas for households in the top decile group, they made up 16.3 per cent. As such, social transfers like the SB are considered an important tool for poverty alleviation. See Section 8.1 for a detailed description of how far poverty levels in Armenia are reduced after families receive income from social protection transfers.

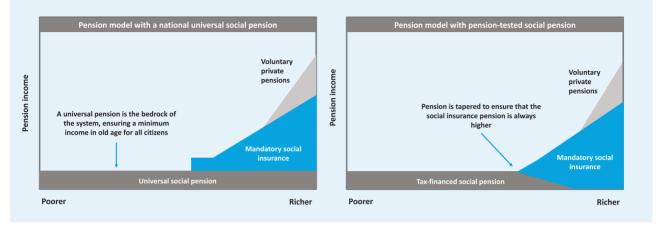
Moreover, international human rights frameworks define social security as an individual right that is best fulfilled through individual (not household) transfers.<sup>6</sup> Household transfers do not guarantee that all individuals benefit indirectly and can result in the unequal sharing of resources. A recent study by the ILO and UN Women explained the gender sensitivity in individual-level versus householdlevel benefits.<sup>7</sup>

Importantly, core lifecycle benefits can be either contributory or tax-financed, and the particular instrument or mode of financing reflects the distinct but complementary functions of social security:

- To provide minimum and adequate guaranteed income, which is often achieved through tax-financed schemes; and
- 2. To provide consumption smoothing, which is often achieved through social insurance systems that enable contributors to pool resources to finance a standard of living during the contingency that is comparable (although not equivalent) to their prior earnings and/or their peers in the labour market.

Indeed, most countries provide a combination of tax-financed and contributory schemes. When core lifecycle schemes are combined in a multitiered way such that, together, tax-financed and contributory programmes provide for universal coverage, the system is much better placed to both fulfil the core functions of social security and promote broader development goals. For example, comprehensive, multi-tiered pension systems provide adequate, guaranteed income security through a tax-financed pension that can either be universal in design or pension-tested (that is, paid only to those who are not entitled to a social insurance pension). In addition, they typically provide a higher-rate mandatory social insurance pension for those who are able and required to make social insurance contributions, as depicted in Figure 3.3. Many pension systems also offer a system of voluntary or complementary pensions, usually provided through private funds that allow for even greater income security for those who can afford to set aside additional income during working age.

#### Figure 3.3:



### Depiction of ideal multi-tiered pension systems with universal (left) or pension-tested (right) social pension

Source: Development Pathways.

A multi-tiered pension system—such as the one depicted in Figure 3.3—achieves universal coverage of the whole eligible older population, leaving no gaps for those in informal employment or on low incomes (horizontal dimension), while also ensuring that those who are able to pay contributions are entitled to higher-level benefits in retirement (vertical dimension), thereby preserving the incentive to join social insurance and—by extension—promoting decent work.

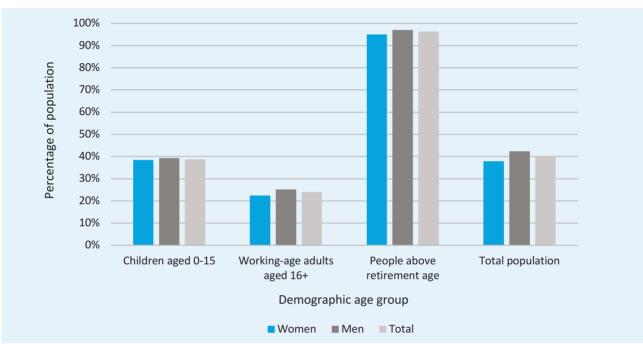
#### 3.2

## OVERVIEW OF ARMENIA'S SOCIAL PROTECTION SYSTEM

Overall, around 40 per cent of the population in Armenia is covered by at least one social protection benefit. Some 42 per cent of men receive at least one social protection benefit, compared with 38 per cent of the female population. This difference in coverage between men and women is largely a result of the fact that contributory benefits are only available to people who meet minimum qualifying conditions in the form of years of tax contributions. Women, who overall have lower levels of employment and thus participation in the tributary system, have consequently lower access to these benefits. However, there are large discrepancies across age groups, as can be seen in Figure 3.4. While Armenia has achieved nearly universal coverage of older people, coverage is much lower among children and people of working age, at 38.8 per cent and 24.0 per cent, respectively.

#### Figure 3.4:

Percentage of the population receiving at least one social protection benefit, by demographic age group and sex, 2019



Source: Analysis of the 2019 ILCS.

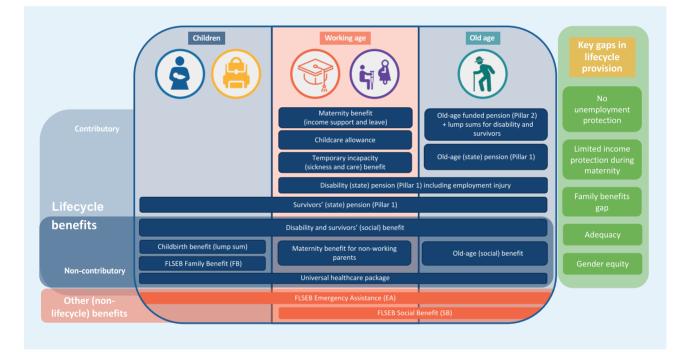
These discrepancies reflect three main dynamics: first, the near-universal coverage of the old-age pension system, which is achieved through a 'multi-tiered' combination of a universal noncontributory social pension together with a labour pension for those in formal employment; second, a family benefits system that relies heavily on poverty targeting, with high rates of exclusion; and third, a combination of low coverage of contributory benefits among people of working age, given high rates of informality, as well as the general lower likelihood that people of working age will need social protection at any given moment.

### 3.2.1 Comprehensiveness of the system in relation to international standards

In a lifecycle framework, the comprehensiveness of a system is measured by the extent to which it provides protection for key lifecycle contingencies. Comparing the national policy framework to international frameworks can help identify gaps in the national policy framework that may have been overlooked otherwise. Figure 3.5 summarizes the overall comprehensiveness of social protection provision in Armenia relative to the nine lifecycle contingencies outlined in ILO Convention No. 102.

#### Figure 3.5:

#### Comprehensiveness of Armenia's social protection system relative to lifecycle risks under ILO Convention No. 102



Source: Authors' depiction.

As can be seen in Figure 3.5, Armenia makes heavy use of multi-tiered designs for old-age, disability, survivors' and maternity benefits. Oldage, disability and survivors' benefits are provided through a **universal** non-contributory guarantee together with higher-rate, employment-based entitlements. Maternity benefits are also multitiered but are provided through a more complex combination of instruments based on employment status. Basic health care is provided on a universal basis. Therefore, for these contingencies overall, the design offers a solid legal basis for achieving universal coverage.

However, clear legal gaps remain, which are also highlighted in Figure 3.5:

- There are no unemployment benefits (contributory or otherwise) in Armenia, leaving nearly 250,000 unemployed people to fend for themselves as they search for new work.<sup>8</sup>
- There is limited income protection during maternity. Maternity income support has now been extended to all non-working mothers, which has effectively created a social protection floor for maternity protection. However, additional parental care allowances and other subsidies for childcare continue to be available only to few parents, and the lack of widely available and affordable childcare services means that the maternity system is not fulfilling its function of allowing women to accommodate both childbearing and work.
- There is no universal entitlement to child or family benefits. Child benefits are limited to families within the povertytargeted FLSEB.

- There are weak employment injury provisions. Beyond pensions for workers covered under the Law on State Pensions, there are only very limited protections including for informally employed workers and for medical and rehabilitation expenses—in the case of occupational accidents and diseases.
- For all branches, there are **legal constraints** to the provision of adequate benefits and services and for ensuring equity.

These features partly reflect the direction that Armenia has taken with regard to its development vision. For example, there is a long period of guaranteed parental leave, but income protection is only provided for a short initial period. There is also strong emphasis on employment promotion, but unemployment income support has been abandoned. These, among other examples, show a desire to grow employment but a lack of investment in social protection policy that supports this goal.

#### 3.2.2 Fiscal policy

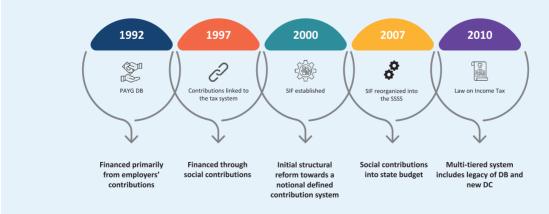
Large variations in allocations and coverage partly reflect the distinct historical development of Armenia's social protection financial system, as well as the way pension reforms have reflected the country's protracted transition from the Soviet system through large-scale reforms towards a market economy. The consolidation of the multitiered pension system as it exists today followed decades of oscillation between different models of pension financing.

#### Box 3.2:

#### Historical development of Armenia's pension system<sup>9</sup>

Upon independence from the Soviet Union in 1991, Armenia followed the path of most post-Soviet countries in drastically reducing government expenditure, including social spending, and retaining the basic structure of a contribution-based social protection system. The notion of having specific programmes to support the most vulnerable was also carried over from the previous system, although the definition of vulnerability continues to evolve.

- In 1992, the USSR Pension Fund was transformed into the Armenia Pension and Employment Fund and functioned as a regular defined benefit (DB) social insurance fund, collecting mandatory contributions from employers and employees in order to finance what were known as state pension and employment programmes.
- In 1997, social insurance payments were rechristened under the name 'social contributions'. Social contributions were paid by employees in the amount of 3 per cent of their wages and other deductible incomes. Employers made social contributions according to defined rates (see Annex 1).
- In 2000, the Social Insurance Fund (SIF) was established and functioned as a regular defined benefit (DB) social insurance fund, collecting mandatory contributions from employers and employees in order to finance what was known as state pensions.
- In 2006, the Government established an inter-agency Pension Reform Working Group (PRWG) under the RA Central Bank tasked with developing a pension reform proposal based on a review of international practices and current trends. The report concluded by recommending further shifts towards a market-based model. For the social protection system, this meant a complete transformation from public Pay-As-You-Go (PAYG) social insurance pension to privately managed, fully funded individual accounts, or a defined contribution (DC) scheme.
- In 2007, the Law on Mandatory Social Insurance Payments (1997) was amended to reorganize the SIF into the State Social Security Service (SSSS), and from this point, social contributions were directly channelled to the state budget.
- In 2010, a new package of laws was introduced to reform the pension system, among which were the Law on Income Tax, the Law on Funded Pensions and the Law on State Pensions.



#### Figure 3.6:

#### Oscillating models of pension financing in Armenia

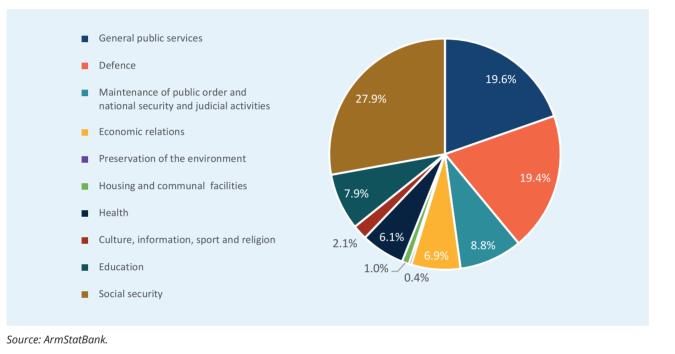
Source: Authors' creation.

#### Spending on social protection

As shown in Figure 3.7, social protection spending (excluding health care) comprises more than one quarter (27.9 per cent) of Armenia's budget and is the largest category of central government spending. When health is included, the share of social spending (i.e. social protection and health together) rises by an additional 6.1 per cent to more than a third (34 per cent) of the State's total budget.

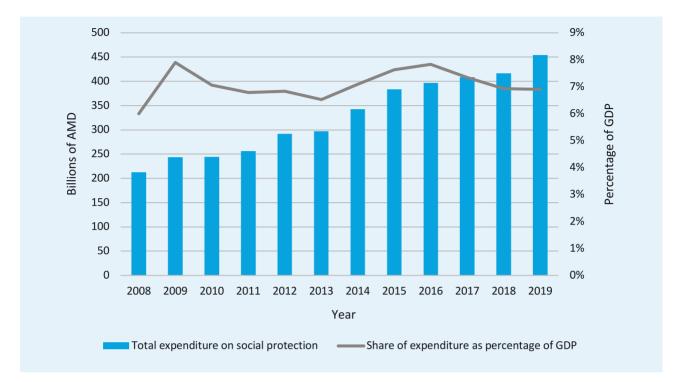
#### Figure 3.7:

#### Distribution of central government expenditures, by function, 2019



A simple overview shows that since 2008, the Government's total spending on social protection (excluding health care) has more than doubled. This coincides with a structural shift from a mixture of expenditure sources, like social insurance, to all social protection programmes being fully financed from the state budget (see details below). In reality, the share of social protection expenditure as a percentage of GDP has remained somewhat stable—between 6 and 7 per cent of GDP, as shown in Figure 3.8.

#### Figure 3.8:



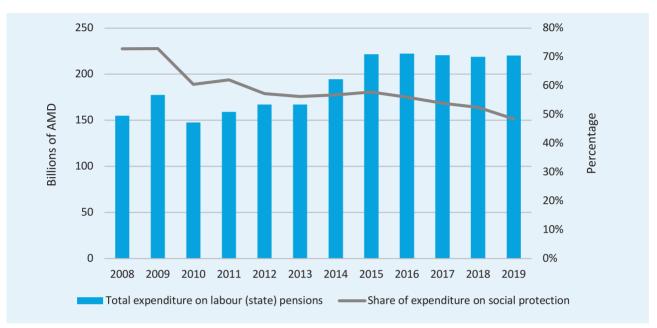
Evolution of central government expenditure on social protection (excluding health care) as total expenditure (billions of AMD) and as a percentage of GDP, 2008–2019

A significant share of the social protection budget (48.5 per cent in 2019) is allocated to financing the labour (state) pensions.<sup>10</sup> However, this share does appear to be gradually shrinking, as can be seen in Figure 3.9. In 2019, 30.9 per cent of expenditure on labour pensions was allocated to the state cofinancing of funded (Pillar 2) contributions (15.0 per cent of total expenditure on social protection). The poverty-targeted FLSEB programme amounted to 6.9 per cent of social protection expenditure in 2019, and the old-age, disability and survivors' (social) benefits made up around 4.6 per cent.<sup>11</sup>

Source: Analysis of various administrative data.

#### Figure 3.9:





Source: Gassmann et al. 2018; analysis of various administrative data.

#### **Revenue mobilization**

It is important to put these numbers into context. Although expenditure on social protection makes up a large share of the Government's current spending, Armenia's budget-relative to the size of its economy-is low. General government spending is lower in Armenia than in most uppermiddle-income countries in the ECA region, amounting to 21.7 per cent of GDP in 2019 (although higher than in neighbouring Georgia, where it was 20.3 per cent of GDP). Low spending can generally be attributed to low government revenues, which amounted to 22.2 per cent of GDP in 2019.<sup>12</sup> Armenia's tax system consists primarily of a value-added tax (VAT), a company income tax (CIT), excise and customs duties, and a personal income tax (PIT). Recognizing the importance of increasing tax revenues through direct taxation, the Government enacted a new Tax Code in 2016,

which was expected to raise revenues in the medium term.

Armenia's limited capacity to raise public revenues is concerning on two levels. First, it is concerning at a macroeconomic level because the decision to incorporate all social protection expenditure and liabilities into the state budget when the budget is already low could place real limitations on adequate social spending. Indeed, social spending has not significantly increased as a share of GDP for more than a decade (see Figure 3.8). More broadly, it could also crowd out other important areas of government expenditure. This raises questions about the decision to move away from a social insurance system where a fund has, at least in theory, the capacity to self-finance contributory benefits. This is particularly relevant in the case of old-age pensions, which currently make up the bulk of the State's social spending.

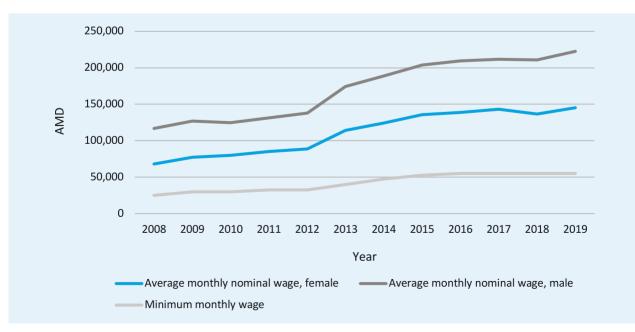
The limited capacity of the State to implement tax policies is also relevant to the social protection system on a practical, individual level. In 2010, a package of laws was introduced to regulate the pension system, but it effectively altered the overall financial structure of all contributory social protection benefits (see Annex 2 for details on how the reform of the pension system has driven these changes). These included long-term benefits such as old-age, survivors' and disability pensions, as well as short-term insurance to risks like maternity, employment injury and sickness. Among this package of laws, the Law on Income Tax<sup>13</sup> replaced mandatory social contributions with a taxfinanced system. Under the new financing system, entitlements towards contributory benefits are earned through the continuous payment of PIT, or so-called years of service. However, the tax system has shown a limited capacity to reach everyone, and this could translate into a barrier to participation in the system of entitlements and thus restrict people's access to benefits.

This is especially the case following the reform from progressive taxation to flat-scale taxation. The Law on Income Tax previously established three tax brackets. The lowest bracket included people whose salaries did not exceed AMD 150,000, for whom the tax rate was 23 per cent of their salary. Those who received between AMD 150,001 and up to AMD 2 million paid an income tax of 28 per cent of their income. For those who received more than AMD 2 million, the tax was highest, at 36 per cent. Under the new regulations, everyone will pay 20 per cent by 2023. A more in-depth analysis is required in order to determine the effect of this reform on the lowest income percentiles.

The average nominal wage in 2019 was AMD 182,673 (AMD 145,198 for women and AMD 222,510 for men). That means the average woman did not meet the threshold to accrue entitlements to state pensions. Moreover, as seen in Figure 3.10, this threshold was nearly three times the minimum wage and thus was likely to have excluded the bulk of low-income households.

#### **Figure 3.10:**





Source: ARMSTAT.

As of the beginning of 2020, this threshold has been eliminated. The country's new tax system will set a flat taxation rate of 23 per cent, effectively including only those of the former second and third taxation tiers. This rate will decrease by one per cent per year until it reaches a final level of 20 per cent in 2023. If no income threshold is applied, this will mean that through their participation in the tax system, more workers—and particularly more women-will be able to accumulate years of service and therefore entitlements to contributory benefits. However, despite the expansion of theoretical access (given the above-mentioned outreach limitations), this might represent a net welfare reduction to these groups. A more indepth analysis is required in order to determine the effect of this reform on the lowest income percentiles.

A final note to make in this regard is that while there are administrative advantages to merging contributory benefits with the tributary system, there are also potential issues with linking the notion of contribution associated in state pensions through the concept of 'service years', exclusively to the payment of income taxes. People not paying income tax still contribute to the economy and serve in other ways. Some are explicit, such as through the payment of VAT, or even the essential service provided by agricultural workers. Others are implicit and include the work performed by people out of the labour force too, such as all of the Armenian women caring for children and other family members so that fathers may go to work today and so that those children might be productive citizens in the future.

With the exception of fully funded pensions, the current financing model has completely merged the following into the income tax rate: social protection contributions for state pensions; contributory cash sickness and maternity benefits; and employment injury benefits. The legislation does not provide details as to how this financial system is arranged to finance different benefits, contributory or non-contributory. Within the contributory system, short-term cash benefits (i.e. sickness, maternity and employment injury) provide protection during insured persons' working lives. Medical care and old-age, disability and survivors' pensions provide protection throughout their lives and to their survivors. The time horizons of these schemes are different, and the methods that are used to finance the different benefits should take this into account. While a more detailed social protection expenditure review and public expenditure tracking exercise would be advisable to better understand these arrangements, it is likely that the system currently functions on a PAYG basis with no reserves. While this could be adequate to meet short-term benefit expenditures, including social assistance benefits, that is not the case for long-term benefits.

Estimating future expenditure on old-age, disability and survivors' pensions and benefits is essential to ensure that the current financing model remains sustainable. This is especially the case because:

- Each year, a new and increasingly larger group of persons qualifies for pensions and benefits.
- Pillar 1 is still maturing, meaning that each year, pensioners will receive larger pensions.
- In time, Pillar 2 will become larger, demanding more state funds for matching contributions.
- There will be increased pressure to index benefits.
- The life expectancy of new pensioners at retirement and of new survivors (i.e. those receiving survivors' benefits) is increasing.
- Underlying all of this is the fact that the population, and therefore the tax base, is shrinking.

While the structural reform to a fully funded system might have intended to resolve these issues by removing benefit guarantees, there will be a long and expensive transition period while both systems coexist. It is unclear to what extent the Government is prepared to finance this double burden over the coming decades. Moreover, throughout the series of reforms, it is noteworthy that no legislation has been specified to inform the assessment of their financial implications.

Actuarial valuations are tools of financial governance and planning that assist policymakers to ensure the long-term viability of the social protection system. Actuarial valuations are undertaken to assess the present financial status and likely future financial development of a scheme; to assess the financial sustainability of a scheme in relation to the benefit provisions and the financial system adopted; and to advise and recommend possible amendments to the scheme's provisions and financing arrangements. International practice usually requires that an actuarial valuation of a social security system be undertaken every three to five years. These, and other matters of financial governance, are worth exploring further.

#### 3.2.3 Governance

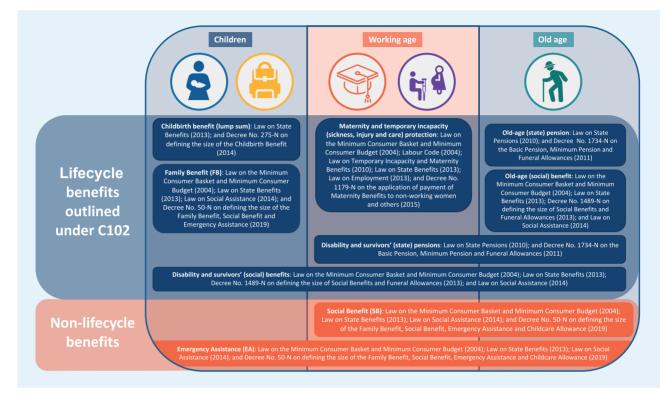
The following section summarizes the governance structure of the social protection system in Armenia, with a specific focus on the existing legislative, institutional and policy frameworks.

#### Legal framework

The social protection system in Armenia has continuously expanded since independence, and remarkable progress has been made. However, it is also clear that a series of drastic and frequent reforms has resulted in a complex and ever fragmenting legal framework, which peaked with the introduction of at least six laws to complete the most recent pension reform (see Annex 2 for full details). Social protection risk areas and benefits are scattered across several pieces of legislation, as shown in Figure 3.11. Consequently, one of the major challenges of the system is a high degree of fragmentation cemented in the current diversity of legal instruments.

#### **Figure 3.11:**

#### **Overview of the existing legal framework**



Source: Authors' depiction.

Contributory and non-contributory systems are dealt with as two stand-alone frameworks in the legal system, as with the Law on State Pensions (2010) and the Law on State Benefits (2013), which both deal with disability, survivors' and old-age contingencies-the former for contributionbased benefits, the latter for everyone else. And therein lies the irony of the fragmentation: in practice, these two tiers of benefits are designed around each other so as to provide full coverage of each population group, yet they are separate in the legislation. This seems unnecessary and should be reconsidered accordingly, as in other countries characterized by legal fragmentation, this tends to eventually translate into overlaps and inconsistencies in regulations.

Moreover, this divide is not consistent across risk areas. Within the contributory framework, long-term risks are regulated by the Law on State Pensions (2010), and short-term risks are regulated by the Law on Temporary Incapacity and Maternity Benefits (2010). On the other hand, the previously mentioned Law on State Benefits (2013) covers the full scope of non-contributory benefits for the same risks. Some inconsistencies are discernible, such as the fact that the childcare allowance is regulated by the Law on State Benefits despite the fact that the benefit is limited to recipients of the contributory maternity benefit regulated in the Law on Temporary Incapacity and Maternity Benefits (2010). There are further disjunctions in the framework regulating child and family benefits that, in addition to the Law on State Benefits (2013), are also regulated by the Law on Social Assistance (2014).

Finally, these instruments may not be properly aligned with labour law provisions, as is the case of the discrepancies between the duration of paid maternity benefits and the three years of job-protected maternity leave provided by the Labour Code (2004). There is, therefore, the need for an appropriate legal framework, possibly in the form of a consolidated law. This primary legal framework should ideally indicate in particular the material and personal scope of coverage; the type and nature, or range, and duration of benefits; the level of benefits; the qualifying conditions; and any institutional and administrative mechanisms, including avenues for complaints and redress. A legal mapping is recommended, as well as a systematic revision of regulatory instruments in their original Armenian texts in order to determine whether the different terminology and legal definitions applied to key concepts impact the personal sphere of application.

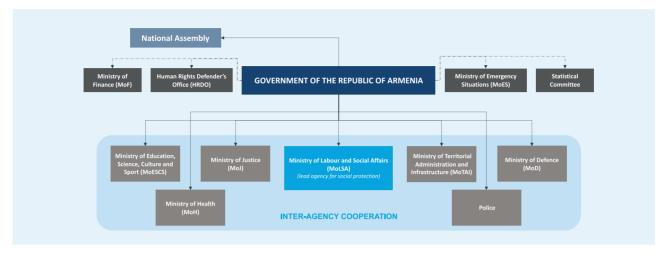
There are important reasons why social protection should be embedded in sound national legislation, including effective supervision, the allocation of the required state funding, certainty and predictability, sustainability, accountability and protection against arbitrary decision-making. But there may also be a need for a dedicated policy framework that provides, on an ongoing basis, a comprehensive framework and strategic direction for social protection, including legal and institutional reform that ties Armenia to international standards and best practices.

#### **Institutional framework**

In this context, it is notable that there is no overarching instrument to inform the direction, scope and breadth of the Armenian social protection system and, in particular, its reform goals. The lack of an overarching social protection strategy or umbrella policy has allowed for a trend of ad hoc reforms that have compromised the system's capacity to strategically move towards its overarching goals. The 2014-2025 ADS identifies social protection as one of its four priority directions aimed at reducing poverty, mitigating inequality, ensuring decent old age, expanding the opportunities of vulnerable groups of the population and improving the demographic situation in the country. However, there is no dedicated framework outlining the specific policy direction that social protection should take; thus, there is no dedicated space through which to reflect on the principles underlying the system as a whole. This is the case, for example, for gender equality, which is not a principle explicitly mentioned in the ADS but nonetheless has an important role to play in ensuring that the social protection system serves everyone equally.

This is despite an otherwise conducive environment: all benefits are centrally funded from state revenues, and all social protection policy is led by the MoLSA. All pensions, social assistance programmes and labour-marketrelated programmes are administered by the MoLSA with cooperation from other government agencies on the national level, as shown in Figure 3.12. Social protection programmes are delivered and managed at the regional and local levels by government agencies affiliated with the MoLSA such as the Social Security Administration (SSA), the State Employment Agency (SEA) and the Medical-Social Examination Agency (MSEA) or by state-funded, non-commercial organizations such as orphanages and residential care institutions. The FLSEB, as the largest non-contributory social transfer, has been administered at the regional level since the early 2000s and is managed through the Territorial Offices of Social Services (TOSS) under the supervision of regional authorities (Marzpetarans and Yerevan Municipality).

#### **Figure 3.12:**



#### Institutional structure of Armenia's social protection system (national level)

Source: Authors' creation, based on Ghukasyan et al. 2020.

In 2012, the RA Government approved the introduction of an Integrated Social Services (ISS) system in Armenia, initiated by the MoLSA. ISS refers to the provision of comprehensive social services through a 'one window' approach, meaning that all key social services offices are under one 'roof', thereby improving both the access to and administration of said services. In line with this, ISS centres (ISSCs) are gradually being established throughout the country to host territorial divisions of the SSA and the SEA, as well as regional commissions of the MSEA. Several of these ISSCs were in operation as of December 2019, and it is estimated that 48 will be operational by the end of 2022.<sup>14</sup> However, this may still vary pending legal decisions on the final set-up and functions of the ISSC.

#### **Policy coherence**

As the Government and other stakeholders move towards a system of ISS, there is a need to both foster synergies and minimize trade-offs across sectors. Policy coherence is essential to advance integration for three main reasons: (i) to ensure that actions (social, economic, labour-market or demographic) under any strategic priority reinforce progress in other priorities; (ii) to avoid the risk of making progress in one goal at the expense of another (for example, a decrease in X to achieve Y could undermine efforts in halting population shrinking); and (iii) to ensure national and longlasting progress. Policy coherence can help policymakers better understand how their policy choices today can affect the future population, as well as how their choices could impact on wellbeing and sustainable development in other areas of government.

In the case of Armenia, over the past decade, there has been a growing emphasis on the synergies dimension. As noted above, the current MTEF aims to implement a system of integrated social services for better social protection management. In addition, this initiative is also meant to support improved links between passive and active labour market policies. However, stakeholder interviews suggested that the focus of the current reform is on activation. In fact, it is unclear at the moment whether the Department of Social Services or the Department of Employment will take the lead within the SSA and how these two departments will cooperate in practice.<sup>15</sup> Relevant stakeholders should ensure that each department's mandates are clear when it comes to case management. In order to avoid creating barriers to access, processes should be clear and simple from the point of view of users who might require both social assistance and employment programmes.

This echoes a pattern found across the policy design of social protection policies in Armenia, which is that social protection policies are heavily linked to the policy objectives of other areas, particularly population and employment, to the extent that their own objectives become secondary. In the drive for integration, it is important that policymakers and other actors also keep in mind the possible downsides. Specifically, this means maintaining clear primary and secondary objectives within each policy area, as well as identifying the unintended negative consequences of policies and effectively managing trade-offs. Ensuring coherence between these policy areas is important to achieve sustainable progress towards the priorities established in the ADS (see Box 3.3). However, it is also important to maintain a clear vision of the individual role and value of each of these sectors in that endeavor.

#### Box 3.3:

#### Building blocks for coherent policy implementation<sup>16</sup>

- Political commitment and leadership to guide whole-of-government action and translate the commitment to strategic priorities into concrete and coherent measures at all levels.
- Policy integration to consider systematically interlinkages between economic, social and demographic policy areas as well as ensure consistency with international standards.
- Intergenerational time frame to make informed choices about sustainable development considering the long-term impact of policy decisions on the well-being of future generations.
- Analyses and assessments of potential policy effects to provide evidence on the potential negative or positive impacts on the well-being of people, both women and men, young and old, rural and urban, and to inform decision-making.
- Policy and institutional coordination to resolve conflicts of interest or inconsistencies between priorities and policies.
- Local and regional involvement to deliver the economic, social and environmental transformation needed for achieving the country's strategic goals and ensure that no one is left behind.
- Stakeholder engagement to make sure that the SDGs are owned by people, diverse actions are aligned, and resources and knowledge for sustainable development are mobilized.
- Monitoring and reporting to better understand where there has been progress, or a lack of it and why, and where further action is needed.

## 3.3 <u>SUMMARY</u>

Armenia's social protection system consists of a mix of lifecycle and non-lifecycle benefits (see Figure 3.5), including the essentially universal provision of certain key lifecycle benefits (e.g. old-age, disability and survivors' benefits); a reliance on a combination of instruments based on employment status to provide certain others (e.g. maternity benefits and labour pensions); and poverty targeting to attempt to reach those who are considered poor (e.g. through the FLSEB). The system also lacks key lifecycle provisions as would be called for under ILO Convention No. 102: there are no employment benefits and no universal entitlement to child or family benefits. Furthermore, income protection during maternity is limited, and employment injury provisions are weak. For all branches, there are legal constraints to the provision of adequate benefits and services and for ensuring equity.

The system reflects a legacy of oscillation between different models of financing. Since 2008, the Government's total spending on social protection (excluding health care) has more than doubled (reaching 28 per cent in 2019). However, it should be noted that this coincides with a structural shift from a mixture of expenditure sources, like social insurance, to all social protection programmes being fully financed from the state budget. In reality, during this time, spending on social protection as a percentage of GDP has remained somewhat stable, between 6 and 7 per cent.

Despite this, Armenia's budget is low relative to the size of its economy, which can generally be attributed to a limited ability to raise public revenues. A limited budget and declining tax base are concerning due to the decision to incorporate all social protection expenditure and liabilities into the state budget. This raises questions about the decision to move away from a social insurance system where a fund has, at least in theory, the capacity to self-finance contributory benefits. This is particularly relevant in the case of old-age pensions, which currently make up the bulk of the State's social spending and will only increase. While a more detailed review of public expenditure is recommended, it is likely that the system functions now on a purely PAYG basis, with no reserves to accommodate sudden shockssuch as global pandemics. Ensuring the future expenditure of long-term benefits is essential to ensure the sustainability of the current financing model.

Moreover, since many social protection entitlements are linked to tax payments, or years of service, the limited reach of the tax system translates into limited access to these benefits. In line with the previous tax system, people earning less than AMD 150,000 per month were effectively excluded from accumulating years of service. Due to the gender wage gap, this meant that the average woman in Armenia was de facto excluded from the system, as were all workers receiving the minimum wage. In line with the recent income tax reform, removing the income thresholds theoretically opens up access for participation by lower-income groups. However, in reality, particularly because the new tax system is set at a flat rate, there may be a net welfare reduction for these groups. A more in-depth analysis of this issue is recommended.

It should also be noted that while there are administrative advantages to merging contributory benefits with the tax system, there are also potential issues with linking social protection rights to income tax payments, as people not paying income tax still contribute to the economy in other ways. Some are explicit, like the essential service of agricultural workers, or even the payment of VAT, regardless of age or employment status. Others are implicit, including the work performed by people outside of the labour force such as women caring for children, the elderly and the disabled.

Armenia can rely on a conducive framework for governance, with a single ministry in charge of policymaking and implementation. This is a major advantage for building a more coherent and comprehensive system. However, the ad hoc nature of policy design and reform described above has evolved into a fragmented legal framework (see Figure 3.11). Ironically, contributory and noncontributory benefits are designed around each other so as to provide full coverage of the target group, yet they are separate in the legislation. This seems unnecessary and should be reconsidered, as in other countries characterized by legal fragmentation, this tends to eventually translate into overlaps and inconsistencies in regulations. The introduction of an ISSC is promising in this respect and could tackle some of the administrative complexities that most affect users.

The following chapters go further into the specific branches of the system in order to outline how policies are being implemented and to what extent they are aligned with one another as well as with international standards.

# ACCESS TO ESSENTIAL HEALTH CARE

The Government of Armenia has explicitly recognized the human right to receive health care in the Law on Medical Care and Services (1996) and subsequent laws instituting healthcare programmes. However, the achievement of universal healthcare provision in Armenia which implies access to quality health services when needed for the entire population without facing undue financial hardship in the process is still a long way off. In 2019, just 10.9 per cent of the population were covered by the Government's Basic Benefit Package (BBP) and only 5.0 per cent by voluntary private health insurance.<sup>1</sup>

#### 4.1

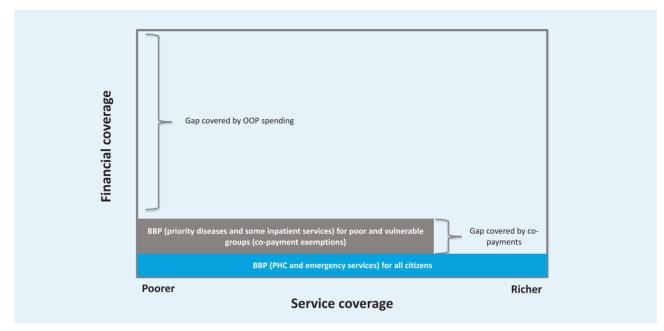
# LEGAL COVERAGE

After the collapse of the Soviet Union, the Government of Armenia broke away from the existing Semashko system-which guaranteed free primary, secondary and tertiary medical services to the entire population-due to concerns that it was not financially sustainable.<sup>2</sup> In 1999, the Basic Benefit Package (BBP) was introduced as a means of earmarking budgetary resources to target the so-called 'socially important diseases' among the socially vulnerable population. Under the BBP, public resources are utilized to finance primary health care (PHC) and emergency services for all Armenian citizens, while the general population (excluding the poor, the vulnerable and special groups) pays a co-payment for most other services, based on a pricelist approved by the Ministry of Health (MoH).

Indeed, the BBP is divided into two parts (see Figure 4.1): (i) coverage for all Armenian citizens for PHC and emergency services; and (ii) extended coverage for the poor, the vulnerable and special groups only (including all children up to the age of 7),<sup>3</sup> who are exempt from co-payments for priority diseases including tuberculosis, infections, spontaneous vaginal delivery, mental health, malignant cancer, hematology, chemotherapy, hemodialysis, antenatal care and delivery services. In addition, selected inpatient services are provided for free to these groups. BBP services available to the whole population are mostly outpatient services that include primary care, maternity services and sanitary epidemiological services. Diseases that include 'high-tech and expensive services' require full out-of-pocket (OOP) payments from all.

#### Figure 4.1:





Source: Authors' creation.

Table 4.1 provides a summary of the legal coverage of the BBP. The programme is periodically reviewed, with the range of services and/or population groups covered being extended or reduced, depending on the level of funding available.

#### Table 4.1:

#### Healthcare benefits across the lifecycle in Armenia

Main statutory features of the BBP							
Scheme	Type of scheme	Regulatory framework	Legally covered population	Financing arrange- ment	Qualifying conditions	Description of benefits	Adminis- trative responsibility
Basic Benefit Package (BBP)	Means- tested, non-contri- butory	Law on Medical Care and Services (1996) State Health Targeting Program (AL- 139) (2000)	Citizens of Armenia, foreign citizens and stateless persons residing in Armenia	State budget and co- payments	No minimum qualifying period See Annex 3 for a description of the conditions for the 'poor', the vulnerable and special groups	State-provided PHC and emergency healthcare services financed from public funds and co- payments, with co- payment exemptions for the poor and vulnerable, including children; selected inpatient services are provided for free to the poor, the vulnerable and other specific categories <sup>4</sup>	

## 4.2 EFFECTIVE COVERAGE

Expanding health coverage is primarily about removing financial barriers through suitable health financing mechanisms to reduce OOP spending. Access, on the other hand, depends on various social determinants and on health system factors such as sufficient delivery service points, drugs and equipment as well as the availability of primary, secondary and tertiary services and trained providers. Access and utilization are the outcome of both the supply side (for example, the availability of health services in rural areas) and the demand side. On the demand side, sex, age, geographic location and disability are often the concealed determinants of women's and men's differential access.

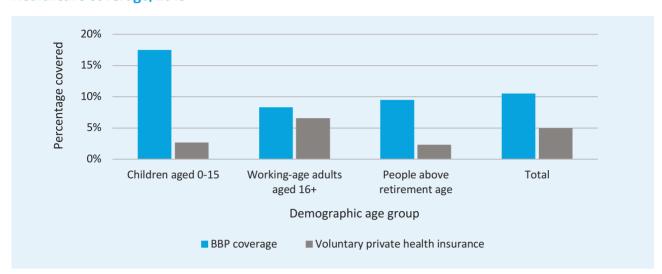
#### 4.2.1 Service coverage

In theory, the BBP covers PHC services for 100 per cent of the population. However, even when there is some financial coverage, most beneficiaries still have to bear direct costs (for example, the cost of medicines or transport) and indirect costs (for example, to cover the loss of income) of seeking health care. It is likely that many forgo basic health care due to the inability to cover the cost of copayments, which explains the low coverage rates of the BBP, as shown in Figure 4.2. Even among 'vulnerable groups', coverage is relatively low (28.6 per cent of children aged 0–4; 21.9 per cent of FLSEB beneficiaries; 11.8 per cent of persons in the lowest consumption decile; and 52.3 per cent of persons registered as disabled).

Costs are spread unevenly between certain groups of Armenia's population, due to uneven coverage

of some services. For example, women are likely to shoulder a greater burden of OOP spending on sexual and reproductive health (SRH) services than men. Furthermore, contraceptives are only free of charge for the socially vulnerable, determined by poverty status. As a result, the 'missing middle'—who may not have sufficient amounts of disposable income to spend on medication but are also not considered 'poor'—will miss out. Full treatment for cervical and breast cancer is also not included in the BBP. While antenatal and postnatal care are provided, and vouchers for delivery can even be used in private facilities, fertility services are only available to special groups such as the military and those in rural and remote areas. The rationale behind the latter policy is unclear, particularly when taking into consideration the country's demographic challenges.

#### Figure 4.2:



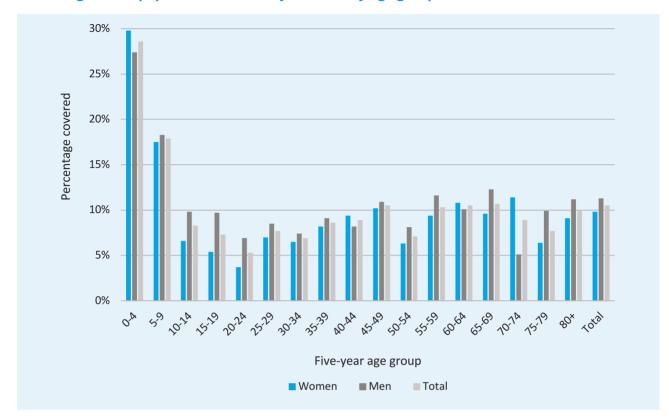


Source: 2019 ILCS.

While coverage is low among all age groups (see Figure 4.2), coverage among children is highest (17.5 per cent) likely due to the fact that all children up to the age of 7 and several other groups within this demographic are considered 'vulnerable' and are exempt from BBP co-payments.<sup>5</sup> Coverage among working-age persons is lowest (8.3 per cent) and increases only slightly for older persons

(9.5 per cent). This could also be attributed to the fact that unemployed pensioners are classified as a 'special group' under the BBP. Finally, a greater share of the male population is covered by the BBP (11.3 per cent) than the female population (9.8 per cent) (see Figure 4.3). This is despite all women of reproductive age being considered a 'special group'.

#### Figure 4.3:



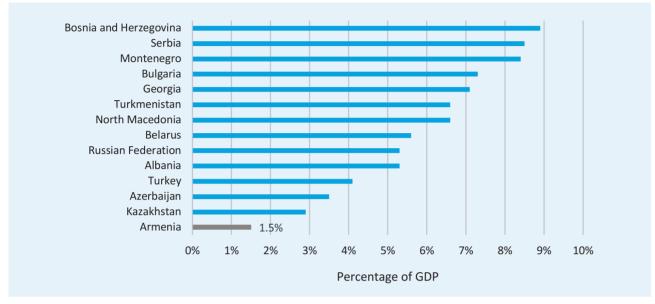
#### Percentage of the population covered by the BBP, by age group and sex, 2019

Source: 2019 ILCS.

#### 4.2.2 Financial coverage

Despite an increase in health expenditure in recent years, at 1.5 per cent of GDP in 2019, public health financing is among the lowest in the region (see Figure 4.4) and in the world, even lower than the average for low-income economies.<sup>6</sup> Total health expenditure per capita was approximately AMD 33,600 (US\$68) in 2019, or 1.5 per cent of GDP per capita. Health's share of government expenditure was about 7 per cent in 2019, lower than the global average.

#### Figure 4.4:

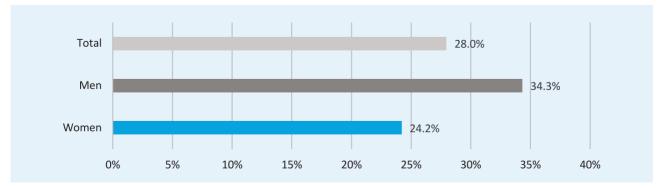


### Current health expenditure in select upper-middle-income countries in the ECA region as a percentage of GDP, latest year available

Source: World Bank n.d. Note: The value for Armenia is for 2019.

Unfortunately, low public health spending levels and an incomplete demand-side health financing reform have resulted in serious shortcomings in financial risk protection outcomes. High copayments for BBP-covered services (typically 50 per cent of the cost but ranging up to 137 per cent), the lack of inpatient care coverage for the non-vulnerable population and the lack of outpatient pharmaceuticals for all have resulted in household OOP expenditure becoming the predominant source of financing for health in the country (84 per cent of total health expenditure in 2018).<sup>7</sup> In 2018, average household expenditure on health care amounted to almost 30 per cent of the minimum wage for the average Armenian, as shown in Figure 4.5.

#### Figure 4.5:



### Average annual household expenditure on health care as a percentage of the minimum annual wage, 2018

Source: Analysis of the 2018 ILCS.

OOP payments are made up of formal copayments for services under the BBP, direct payments for services not covered by the BBP (most notably hospital care for the non-vulnerable and outpatient pharmaceuticals for all) and informal payments. Although BBP-provider reimbursements are supposed to cover the full cost of care provided, recent estimates reveal that they actually cover roughly half of the costs of most services.<sup>8</sup> Medicines, on the other hand, make up approximately three guarters of total household OOP health expenditure. Very few medicines are covered by the BBP, and although its Special Drug Programme is supposed to cover the cost of essential drugs, its budget is limited, and beneficiaries are poorly targeted. For example, FB beneficiaries are not eligible. Moreover, pharmaceutical products are subject to a 20 per cent VAT.

Thus, reductions in OOP spending are unlikely to be seen unless there is a significant increase in other sources of financing, specifically government funds, to cover essential health services. This is particularly important in the context of an ageing population with increased health needs. Due to tight fiscal space, Armenia should consider introducing a mandatory health insurance scheme to reduce OOP costs. This would allow the country to pool funds from non-vulnerable groups and their employers in order to pay premiums. When the State Health Agency (SHA) was first established to administer the BBP, it was envisioned as a first step towards the implementation of a mandatory Social Health Insurance Fund, but it could still become a strategic purchaser in a single purchaser and payer system.

#### Box 4.1:

#### Maternity protection and its impact on health

Maternity protection can address some of the health and nutrition issues faced by women and their children, depending on its provisions. A number of studies have investigated the health outcomes of maternity income protection, or lack of it, specifically. Globally, there is strong evidence that paid maternity leave is associated with lower infant mortality<sup>9</sup> and improved child health outcomes.<sup>10</sup> A study conducted in 20 low- and middle-income countries found that each additional month of paid leave was associated with a 13 per cent relative reduction in infant mortality, with the strongest effect in the post-neonatal period.<sup>11</sup> These results were confirmed in a study across 121 developing countries, which found that the amount of compensation matters and that the greatest impacts are in countries with lower GDP rates.<sup>12</sup>

There are two ways that paid maternity leave can have a significant positive effect on the health of children. Firstly, mothers who receive cash benefits are more likely to breastfeed their babies and for a longer period and are more likely to attend well-baby visits.<sup>13</sup> Breastfeeding is considered one of the most effective infant health interventions. Secondly, it supports parents' ability to access immunizations and postnatal care.<sup>14</sup> Finally, paid leave enables women to recover physically from childbirth before returning to work.<sup>15</sup> Paid parental leave can also have benefits for mental health, specifically depressive symptoms in mothers.<sup>16</sup>

#### Source: ILO and CSDA 2019.

In the face of these challenges, the global trend has been an increased use of demand-side financing. This is best exemplified by the increased focus on the need to provide access to a subset of services for specific populations. Stakeholder interviews revealed that most of these efforts have been promoted by development partners and have particularly targeted child malnutrition through 'the first 1,000 days' campaigns. The programmes have focused on raising awareness about the importance of breastfeeding. Indeed, the Government has adopted the Law on the Promotion of Breastfeeding and Baby Food Circulation (2014). However, these initiatives fall short of addressing the financial challenges that might be preventing women from engaging in

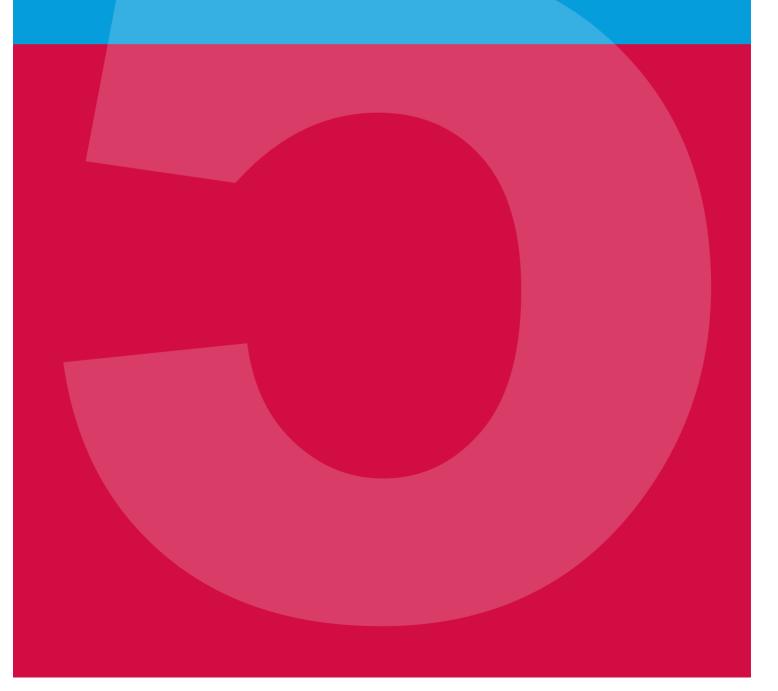
breastfeeding during the recommended period, such as the need to return to work.

Moreover, attention should be paid at ensuring that campaigns like these do not reinforce gender stereotypes about the ultimate responsibility for children's well-being and nutrition. A gender-sensitive design should consider women's constraints relating to household responsibilities and income generation. The first 1,000 days constitute a particularly vulnerable period for both the child and for the mother. In a full-fledged lifecycle social protection system, adequate maternity and child benefits would support the goal of malnutrition prevention more effectively.

## 4.3 <u>SUMMARY</u>

The country's health system faces several challenges. Achievement of universal health care implies access to quality health services when needed for the entire population without facing undue financial hardship in the process—that is, improvements in both **service coverage** and **financial coverage**. Armenia fares poorly with regard to the latter. Recent reforms have resulted in a system where general government revenuefinanced public spending for health provides extensive coverage through a BBP of essential health services. However, the Government's public financing for health is among the lowest in the region. Co-payments for services covered under the BBP as well as the lack of coverage for expensive aspects of health care, in particular hospital care and outpatient pharmaceuticals, have resulted in OOP spending by households being the predominant source of financing for health in the country. High levels of OOP spending increase the risk of households falling into poverty when faced with significant health spending and reduce the potential redistributive capacity of the health financing system.

# BASIC INCOME SECURITY FOR CHILDREN IN ARMENIA



Social protection systems, and in particular social protection floors, play a crucial role in addressing child poverty and socioeconomic vulnerabilities. Evidence clearly shows the impacts of social protection, and cash benefits in particular, on poverty, food security, health and access to education.<sup>1</sup> Social protection for children is essential for reducing and preventing child poverty and achieving the SDG of ending

extreme child poverty and halving child poverty by 2030. Children not only have a fundamental right to social security but also represent the future workforce, the future tax base and the future caregivers for an ageing society like Armenia's. Child benefits can be a collective tool for alleviating the costs that parents bare in bringing up children, thereby allowing people to build families if they choose to.

# 5.1

# <u>CONTEXT AND OVERVIEW</u> OF BENEFITS FOR CHILDREN

# 5.1.1 An emphasis on household transfers and poverty targeting

Despite the relatively comprehensive coverage of Armenia's social protection system and the universal legal provisions for a number of core contingencies, Armenia has taken a different direction in its coverage of children and families. Rather than extending the universal and multitiered designs, it has instead pursued a povertytargeted approach to attempt to close the gaps in lifecycle provisions, particularly for children.

Instead of offering benefits to children either as a right, as a reflection of their inherent vulnerability as children or as a way to share the costs of bringing up children across all of society, under the logic of a poverty-targeted approach, benefits are paid based of perceived 'need' in Armenia. Unlike the approach to health care through the BBP—as well as the old-age, disability, survivors' and maternity benefits—benefits for children are embedded (hidden) within a poverty-targeted household benefit, the Family Living Standards Enhancement Benefits (FLSEB). Only those children who live in the 10 per cent of households that qualify as 'moderately (or very) poor'—that is, living below the national lower poverty line—receive benefits.

This approach reflects a common conflation in international development and social protection circles between poverty-targeted flagship household transfers (like the 'Paros' programme) and child benefits, the latter of which are typically understood to be paid on a per-child basis. The distinction is important because evidence suggests that individual entitlements are more conducive to the realization of the right to social security than are household benefits. This is because individual lifecycle benefits, such as oldage pensions or child benefits, are not only more likely to be enshrined and specified in legislation but also lend themselves more readily to systems of redress and accountability than povertytargeted benefits paid at the household level, where individual rights are typically not explicit and benefits are more diffusely dispersed across numerous members of a household.<sup>2</sup> Indeed, the payment of benefits at the household level can have negative implications for gender equality in light of unequal intrahousehold dynamics. In addition, poverty targeting places a very high administrative burden on the Government to accurately identify the children it deems to be needy enough to deserve assistance against a background of highly dynamic household income. Indeed, as explained in Box 5.1, there is growing global evidence that poverty targeting, especially when based on a 'proxy means test' such as the one used in Armenia, results in large exclusion errors, leaving out many children and families who would otherwise be considered poor.

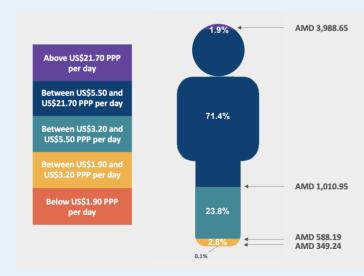
#### Box 5.1:

### Poverty targeting is associated with high exclusion errors

While the concept of poverty targeting is intuitively attractive in resource-constrained political and fiscal contexts, the potentially high costs of inaccuracies in targeting mechanisms, including high levels of exclusion, are rarely taken into account in high-level policy discussions.<sup>3</sup>

In fact, many more people are vulnerable in Armenia than national poverty statistics suggest. Figure 5.1 shows the percentage of the population in Armenia living below various international poverty lines (including extreme poverty) and the median poverty lines for lower-middle-income countries, upper-middle-income countries and high-income countries. According to national statistics, around 10.2 per cent of Armenians were living under the lower poverty line in 2019 and, as such, were the target group for the FLSEB. However, when using the median poverty line for upper-middle-income countries, some 26.7 per cent of people would be considered poor, including 27.3 per cent of women and 26.2 per cent of men.<sup>4</sup> Using the poverty line for high-income countries, nearly everyone (98.1 per cent) in Armenia would be considered poor.

#### Figure 5.1:



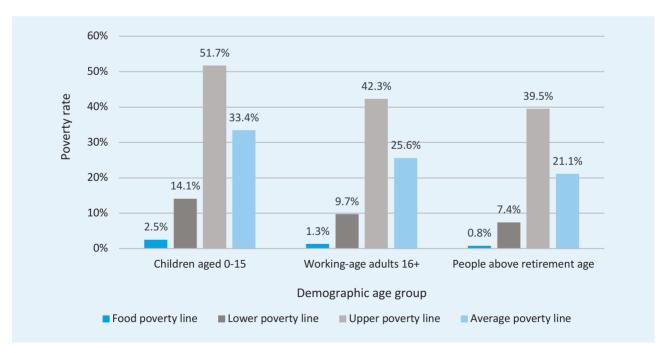
# Percentage of the population with per capita consumption below international poverty lines, 2019

Source: Based on analysis of the 2019 ILCS and World Bank Open Data. Note: The values provided to the right of the diagram are nominal values in AMD. In reality, people's incomes (and consumption) are highly volatile as a result of households experiencing risks and challenges or responding to opportunities. Studies have shown that households commonly move between consumption quintiles within short periods of time.<sup>5</sup> Therefore, the generalized poverty in Armenia combined with volatile incomes means that there is, in fact, no static group of 'poor' persons. Rather, it is more appropriate to view poverty as a constant risk faced by everyone throughout the lifecycle as their circumstances change. It also implies that any poverty-targeting formula and census would struggle to keep pace with the rapid and ever-changing realities. Indeed, studies have found that Armenia's FLSEB, which is determined by a proxy means test (PMT), has exclusion errors of 49 per cent.<sup>6</sup>

Children in Armenia are more likely than other age groups to be considered poor, as shown in Figure 5.2. According to an analysis of the 2019 ILCS, around 51.7 per cent of children (51.9 per cent of girls and 51.4 per cent of boys) were living below the national upper poverty line and would be considered 'poor', compared with 42.3 per cent of people of working age (42.8 per cent of working age women and 41.8 per cent of working age men) and 39.5 per cent of people above retirement age (38.7 per cent of women and 40.6 per cent of men). Similarly, 2.5 per cent of children (3.0 per cent of girls and 2.0 per cent of boys) are living below the national food poverty line (considered 'extremely poor') and are significantly worse off than other age groups. Therefore, ensuring children's welfare through social protection should be of great concern.

#### Figure 5.2:





Source: Analysis of the 2019 ILCS.

Children are disproportionately affected by poverty due to the vulnerability of their stage in the lifecycle, as they are dependent on a complex combination of household income, access to opportunities and social inclusion. Children who grow up impoverished often lack the food, sanitation, shelter, health care and education they need to survive and thrive. While poverty in childhood is felt most immediately by children themselves, as they become the next generation, its impacts are also felt by the wider society and economy. Child poverty has broad and long-term impacts: if potential is curtailed in childhood, productivity in adulthood will be diminished and a nation's pool of talent reduced, resulting in lower incomes and reduced economic growth.7

In addition, gender inequalities are deep-rooted in Armenia and begin at birth. With an estimated population of almost 3 million, more than half of whom are women (53 per cent), Armenia displays some striking demographic imbalances, which in some cases can be seen as symptomatic of deeper gender inequalities.8 Men tend to outnumber women in the younger age groups (aged 0-24), while more than 60 per cent of the population aged 65 and above are women.<sup>9</sup> The slightly skewed sex ratio among younger age groups can be explained by high sex ratios at birth-which key findings have linked directly to gender-biased sex selection, fueled by deeply entrenched norms that value a preference for sons-in conjunction with falling fertility rates.<sup>10</sup> Shorter life expectancy among men, alongside the high levels of male migration, explain the sex imbalance among the older age cohorts.<sup>11</sup> The likely consequences of this demographic outlook are a rising share of female-headed households; women's greater vulnerability to poverty in old age; and worsening fertility rates, as the 'missing girls' who are not born today (due to a preference for sons) translate into fewer women of childbearing age in the future.<sup>12</sup>

Primary and secondary school net enrolment is high among both boys and girls (88.9 per cent in primary and 84.6 per cent in secondary), although a slight majority of pupils in school are boys, reflecting an unbalanced sex ratio among the younger population.<sup>13</sup> Gender outcomes are more unequal at the university level, where a larger share of young women than men are enrolled. Women and men tend to specialize in different subjects and fields of study (the social sciences, education and health care among women and technical fields among men), laying the foundations for much of the gender-based sectoral, occupational and wage differences observed in the labour market.<sup>14</sup>

Against this backdrop, Armenia has sought to reduce poverty through social protection to improve the prospects for children by attempting to focus resources on the poorest and most vulnerable children. However, global evidence suggests that broad-based, inclusive lifecycle schemes are paradoxically more effective than so-called 'anti-poverty' programmes at reducing poverty. For example, in Georgia, old-age pensions accounted for nearly 70 per cent of the overall 29 per cent reduction in child poverty due to social transfers, while the flagship Targeted Social Assistance programme accounted for only 20 per cent of the reduction.<sup>15</sup> This is because oldage pensions reach many more people indirectly than poverty-targeted social assistance. This phenomenon can be observed in Armenia as well, where more than 40 per cent of children live with an old-age or disability pensioner (nearly a third with an old-age pensioner and 1 in 10 with a disability pensioner)—considerably higher than the share of children living in a household with at least one member receiving the FLSEB (23.9 per cent), as shown in Table 5.1. Likewise, only 10.4 per cent of working-age adults live in households that receive the FLSEB, while around 30 per cent live with an old-age pensioner.

### Table 5.1:

# Percentage of population living in a household with at least one member who receives transfers according to type of scheme, by demographic age group, 2019

	Poverty- targeted FLSEB	Old-age (state) pension	Old-age (social) benefit	Disability (state) pension	Disability (social) benefit
Children aged 0–15	23.9%	30.7%	0.9%	3.4%	6.8%
Working-age adults aged 16+	10.4%	29.8%	0.7%	3.2%	7.1%
People above retirement age	11.3%	93.8%	1.9%	4.1%	3.8%
Total	13.4%	41.7%	0.9%	3.4%	6.5%

Source: Analysis of the 2019 ILCS.

This more-extensive reach, together with the higher transfer values typically paid under lifecycle schemes, makes such schemes much more powerful drivers of poverty reduction. Section 8.1 explores the performance of Armenia's existing system vis-à-vis poverty and inequality in more detail.

# 5.1.2 Key social protection schemes aimed at children

The Government has embraced the need for child-sensitive social protection through the introduction of a child-specific benefit—the Family Benefit (FB)—within the framework of the FLSEB.

In 2017, the Government adopted the Strategic Programme for the Protection of the Rights of the Child for the period 2017-2021. The goal of the programme is to provide for the protection of children living in the most difficult life circumstances. As noted in the programme, Armenia lacks a centralized body and approach in the protection of the rights of the child. Numerous agencies and government bodies provide services and policy guidelines in a fragmented manner and overwhelmingly focus on children requiring special protection from the State. At present, there is no legal or political commitment specifically recognizing children's universal right to income security. Consequently, many vulnerable children go without coverage.

However, Armenia offers universal disability benefits to children. Furthermore, as of 2019, the benefit amount has been set at the flat rate of AMD 26,500 per month, regardless of the child's degree of disability. The fact that this is at the same level as such benefits as the social pension suggests that the benefit is intended to go beyond compensating the extra cost of raising a child with a disability, instead to actually function as income replacement. This issue is taken up further in the discussion of adequacy, below.

Children are also eligible to receive survivors' protection upon the death of one or two breadwinners. If the breadwinner was not eligible for a contributory survivors' pension, children become eligible for a non-contributory survivors' benefit in the amount of AMD 26,500 per month.<sup>16</sup> This structure exemplifies a multi-tiered design where contributory and non-contributory benefits together ensure universal legal protection, a

principle which is not currently extended to the main child-focused benefit in Armenia, the FB.

The main social protection income transfers paid on a per-child basis in Armenia include the following:

- Childbirth lump sum
- The means-tested Family Benefit paid within the FLSEB

- Disability (social) benefit
- Survivors' (social) benefit and (state) pension

The main statutory features of Armenia's lifecycle benefits aimed at children are summarized in Table 5.2. The following sections assess the extent to which children are legally covered, how effective existing programmes are at reaching children and how adequate they are relative to various national and international standards.

### Table 5.2:

# Lifecycle social security schemes for children in Armenia

	Statutory features of main schemes for children								
Scheme	Type of scheme	Regulatory framework	Legally covered population	Financing arrange- ment	Qualifying conditions	Description of benefits	Adminis- trative respo- nsibility		
Childbirth lump sum	Universal (non-means- tested, non- contributory)	Benefits (2013) Decree No. 275-N on Defining the	Lawful residents of Armenia, stateless persons and asylum seekers	State budget	The birth must be officially registered	AMD 300,000 (US\$560) for the first and second child AMD 1 million (US\$1,875) for the third and fourth child AMD 1.5 million (US\$2,800) for the fifth child and subsequent children	MoLSA/SSA		
Family Benefit (FB)	Means- tested, non- contributory	Benefits (2013) Law on Social	Lawful residents of Armenia, stateless persons and asylum seekers	State budget	registered in	AMD 31,350 per household per month (average) Calculated as the base benefit (AMD 18,000 per month) plus an addition for each child <sup>17</sup> No indexation rule is applied	MoLSA/ TOSS		

		<u> </u>					(continued)
		Statutor	y features of	main scheme	es for children		
Scheme	Type of scheme	Regulatory framework	Legally covered population	Financing arrange- ment	Qualifying conditions	Description of benefits	Adminis- trative respo- nsibility
Disability (social) benefit	Universal (non-means- tested, non- contributory)	Law on State Benefits (2013) Law on Social Assistance (2014) Decree No. 1489-N on Defining the Size of Social Benefits and Funeral Allowances (2013)	Lawful residents of Armenia, stateless persons and asylum seekers	State budget	Children aged 0–18 who are officially recognized as disabled (certified by the SMEC)	AMD 26,500 (US\$50) per child per month No indexation rule is applied	MoLSA/SSA
Survivors' (social) benefit	Universal (non-means- tested, non- contributory)	Law on State Benefits (2013) Law on Social Assistance (2014) Decree No. 1489-N on Defining the Size of Social Benefits and Funeral Allowances (2013)	Lawful residents of Armenia, stateless persons and asylum seekers	State budget	Children aged 0–18 or full-time students up to the age of 23 who lost a breadwinner, if the breadwinner was not eligible for a state (labour) or military pension	AMD 26,500 (US\$50) per child per month in the case of the loss of one breadwinner AMD 90,000 (US\$170) per child per month in the case of the loss of two breadwinners	MoLSA/SSA
Survivors' (state) pension	Contributory	Labour Code (2004) Law on State Pensions (2010) Decree No. 1734-N on the Basic Pension, Minimum Pension and Funeral Allowances (2011)	Lawful residents of Armenia, stateless persons and asylum seekers	State budget	aged 0–18 who lost a	AMD 28,933 (US\$55) per child per month in the case of the loss of one breadwinner (average) AMD 91,178 (US\$170) per child per month in the case of the loss of two breadwinners (average) Calculated as the basic pension amount plus the value of service years multiplied by the personal coefficient <sup>18</sup>	MoLSA/SSA

# 5.2 <u>LEGAL COVERAGE OF</u> <u>CHILDREN</u>

The right to social protection applies to everyone at every stage of life and is clearly spelled out in ILO conventions and recommendations, as well as in the UN Convention on the Rights of the Child, to which Armenia is a signatory. Still, there is no universal child benefit in Armenia. Children can receive non-contributory benefits if their families' incomes fall below a certain threshold or if they become orphaned or disabled.

# Family Benefit (FB)

The FLSEB is the second largest programme (after state pensions) to come under the social protection budget in Armenia and is considered

a formal 'protective safety net' programme. It is based on the former 'Paros' system, established in 1994 with the aim to provide for targeting and social justice in the distribution of humanitarian assistance. The FLSEB, as it is known today, came into being in 2014, with the split between benefits given to families with children (FB) and families without children (SB). The FB component is a per-child transfer of between AMD 5,500 and AMD 8,000 per month per child,<sup>19</sup> paid as a top-up to the base household transfer value of AMD 18,000 per month. Table 5.3 summarizes the parameters and basic features of the FLSEB.

# Table 5.3:

#### Summary of the parameters of the poverty-targeted FLSEB

FLSEB benefit	Target population	Objective	Qualifying conditions	Benefit level
Family Benefit (FB)	Moderately (very) and extremely poor families (those living	To enhance the overall living situation of vulnerable families	Must be registered in the FB system and assigned a	AMD 31,350 per household per month (average)
	ower poverty line) with children aged D-18 with children aged D-18 with children aged D-18 with children aged D-18 with children aged D-18		vulnerability score above the threshold of 30 points	Calculated as the base benefit (AMD 18,000 per month) plus an addition (top- up) for each child <sup>20</sup>
				No indexation rule is applied
Social Benefit (SB)	Moderately (very) and extremely poor families (those living below the national lower poverty line) without children	Same as for the FB	Must be registered in the FB system and assigned a vulnerability score above the threshold of 30 points	AMD 18,000 per household per month (average) No indexation rule is applied
			No children under the age of 18 in the household	

FLSEB benefit	Target population	Objective	Qualifying conditions	Benefit level
Quarterly Emergency Assistance (EA)	Families in difficult life circumstances	To take care of a difficult life situation of a family that requires an immediate solution	Must be registered in the FB system but ineligible for the FB or SB Must be assigned a vulnerability score above the threshold of 0 points and in a difficult life situation (e.g. emergencies and/or short-term financial problems) requiring an immediate solution	AMD 18,000 per household per month (average) No indexation rule is applied

Armenia was one of the first countries in the region to introduce a proxy means-tested benefit in 1998. The FLSEB is a reformed version of previous policies. The current FLSEB is regulated by the Law on Social Assistance, the Law on State Budget and particularly the Law on State Benefits (2013), which emphasizes the goal of assisting vulnerable families in enhancing their overall living situation and preventing further decline of living standards. The Family Social Assessment System (FSAS) comprises the procedure for assessing family insecurity and therefore eligibility for FLSEB benefits. Insecurity is measured considering the income of each family member, family composition and social status, among other characteristics. The FLSEB includes the following benefits:

- Family Benefit (FB) for insecure households with children under the age of 18.
- Social Benefit (SB) for insecure households without children.
- Lump-sum Emergency Assistance (EA) for FB or SB beneficiaries:
  - Childbirth assistance: paid on top of other benefits upon the birth of each child
  - Schooling assistance: provided when a child is enrolled in first grade
  - Funeral benefit: upon the death of a household member
- Quarterly EA (available to those not entitled to the FB or SB but with a vulnerability score above 0)<sup>21</sup>

As per the Law on State Benefits (2013), those legally covered by the FB include households with a member under the age of 18 that meet the relevant FSAS threshold, which is based on a complex proxy means test formula. A basic family allowance is paid together with a supplement for each child. The amount is differentiated based on the degree of insecurity, place of residence and number of children. The long-term target of the FB is to reach all 'very poor' children. Therefore, it would be reasonable to assume that the intended beneficiary population would be all children living above the food poverty line and below the lower poverty line. According to the 2019 ILCS (Figure 5.2), this includes 11.6 per cent of children in Armenia.

# Childbirth (lump-sum) benefit

The law allows for the combination of the FLSEB with other available benefits, namely the lump-sum childbirth benefit, which is a universal entitlement and is paid to every family of a newborn regardless of their participation in other benefits.

The Law on State Benefits (2013) provides the right of all parents, adoptive parents or guardians to a one-time childbirth allowance for every child born—regardless of their poverty or employment status. The amount of the lump sum varies by the order of the newborn child, taking into

consideration the number of previous children of the applicant. For the first and second child, the benefit amount is AMD 300,000. For the third and fourth child, the benefit jumps to AMD 1 million. For the fifth and subsequent children, the benefit is AMD 1.5 million. For reference, this equates to roughly 10, 36 and 55 times the value of a monthly old-age benefit (or 1, 2 or 3.7 years' worth of oldage benefits).

Traditionally, such direct cash benefits paid to parents in respect of child benefits have had the primary purpose of compensating caregivers for the direct costs of children through some form of horizontal redistribution (from childless persons to parents or caregivers). Under this framework, the childbirth lump sum can be considered a true universal social protection benefit. However, the Government's stated primary objective for this benefit is actually to promote an increase in the number of births. In that sense, the childbirth lump sum must be understood as a population policy. And while child benefits can also be designed so as to support population policies like this one, some design elements have limited its potential to compensate parents during the time of the birth.

Specifically, the concept of family capital introduced in the Law on State Benefits restricts the family's access to part of the benefit, which is placed into an account under the name of the newborn child. He or she can access these funds upon turning 18 years old, precisely when the need to compensate parents for the expense of raising a child has ended. Families, however, have recently been allowed to access these funds early in some exceptions. These include, for example, purchasing a home in a rural area. Such reforms have pushed the childbirth benefit further and further away from its potential to act as a child benefit and more explicitly as a tool for demographic management.

### Box 5.2:

## Child benefits as a family and fertility policy

Within a lifecycle approach to social protection, child and family benefits are a crucial foundation to directly address the financial barriers that prevent children from realizing their rights and fulfilling their potential, breaking the vicious cycle of poverty and vulnerability. Worldwide, there is a positive trend towards the expansion of cash transfers for children.<sup>22</sup> At the same time, increasing the fertility rate is becoming a frequently declared policy aim. Among the drivers of low fertility is the incompatibility between a professional career and family life. For many women, the inability to combine paid work with child-rearing often results in a decision to have fewer children or forgo motherhood altogether. This is closely connected with persistent gender inequalities in the division of housework, as in the case of Armenia. More recent factors contributing to fertility decline include labour-market uncertainty and instability coupled with soaring housing prices and increased expenses for raising a child.

Within this context, countries around the world and particularly in Europe have increased their attention on family policies. High-income countries tend to invest between 1 and 4 per cent of their GDP on supporting families.<sup>23</sup> According to a review of global evidence by UNFPA, the relationship between family policies and fertility includes the following:

- Widely available, accessible and high-quality childcare that starts immediately after parental leave finishes and whose opening hours are aligned with parents' working hours is indispensable to sustaining higher fertility rates.
- **Parental leave** is needed to bridge the gap between the birth of a child and his/her entry into formal childcare. Parental leave is more likely to have a positive effect on fertility when it includes adequate income support.
- A more **gender-equal division of childcare** is a major contributor towards enhancing women's motivations to have children while also realizing their career aspirations. **Earmarked paternity leave** as part of the wider parental leave can be effective in this respect.
- **One-time family incentives**, such as Armenia's childbirth lump-sum benefit, can have a modest positive effect on fertility, which is usually short-lived.
- The **subsidized and widely accessible provision of assisted reproduction** tends to have a small positive effect on fertility rates.
- Finally, **child benefits** in the form of cash transfers or tax credits can translate into a reduced direct cost of children and thus increase fertility.

This is to say that adequate child benefits (in both coverage and value) can play a role in boosting a country's family policies. However, they are just one piece of the puzzle. Policies are most effective in supporting women's and men's fertility choices if they respond to various needs across the lifecycle. To begin with, they should foster reconciliation between paid work and childcare, but they also need to provide financial support to families with limited income. If properly designed, the social protection system can support these goals through, for example, gender-sensitive parental leave policies and adequate child benefits. These, however, must be part of a broader set of care policies. The availability of childcare is unequivocally the most important policy towards sustaining higher fertility rates and other intrinsic gender equality goals.

Fertility and family policies also need to reflect changing families and emerging economic and societal families. In Armenia, this means that they need to reflect the rising economic inequality, the structural unemployment and low labour-market participation, the changing gender norms and the unaffordable housing costs for many families. This includes using a gender and family lens to evaluate government policies like gender pay gaps, the lack of unemployment benefits, regressive income and property taxation.

# Disability and survivors' (social) benefit

Tax-financed disability benefits are also provided to all children who are assessed as disabled before the age of 18—making up approximately 16 per cent of all recipients—and these benefits are granted for the entire period of disability. A flat-rate benefit amounting to AMD 26,500 (approximately US\$50) per person per month (child or adult) is paid to each individual with disability status. Disability status is certified by a special commission—the Social Medical Expertise Commission (SMEC), which operates under the MoLSA. The SMEC is the main body responsible for certifying eligibility for certain services and benefits (such as the BBP and disability benefits), as well as overseeing individual rehabilitation plans for persons with disabilities. Disability status in Armenia is granted by assessing the degree of loss of capacity to engage in activities of daily living, including but not limited to work incapacity. See Section 6.5 for a detailed description of the legal and effective coverage of disability benefits for children and adults in Armenia.

Other benefits are provided on a universal basis to children who fall into certain categories, including single and double orphans. Children whose deceased parents were not eligible for a contributory survivors' pension under the provisions of the Law on State Pensions are eligible for a non-contributory survivors' benefit under the Law on Social Assistance and the Law on State Benefits. Therefore, as with disability benefits above, the legal coverage of this group depends on its size relative to the child population.

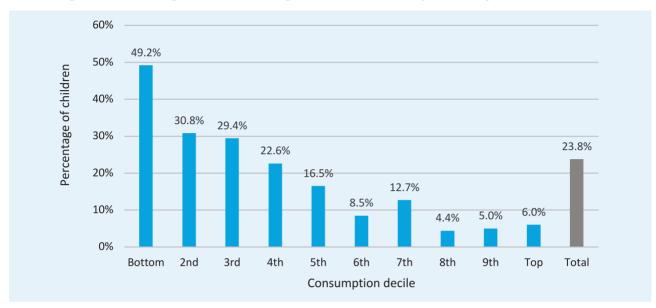
# 5.3

# EFFECTIVE COVERAGE OF CHILDREN

# 5.3.1 Horizontal coverage

According to administrative data from the MoLSA/ SSA, 91,302 families received an FLSEB benefit in 2019, two thirds (61,400) of whom received the FB for families with children and 5,105 of whom received the EA. Analysis of the 2019 ILCS suggests that, overall, around 24 per cent of all children aged 0–14 lived in households receiving the FLSEB benefit and, by extension, the child-focused FB. However, as shown in Figure 5.3, more than half of children in the lowest consumption decile are excluded from the programme, and nearly 70 per cent of those in the second lowest decile are not receiving it. The analysis suggests that the FLSEB is not only failing—by design—to provide a child benefit as an inherent right of citizenship but also is failing at its own objective: to reach the most vulnerable children in Armenia.

### Figure 5.3:

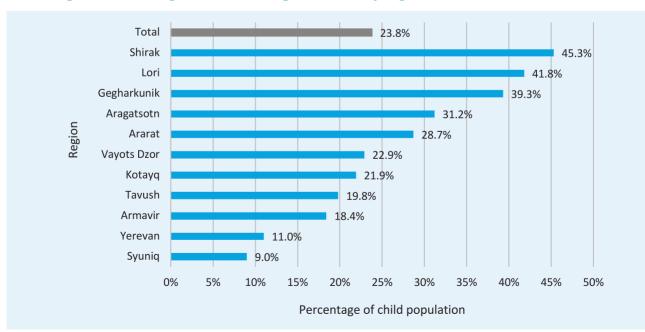


### Percentage of children aged 0-14 receiving an FLSEB benefit, by consumption decile, 2019

Source: Analysis of the 2019 ILCS.

Analysis of the 2019 ILCS also reveals significant regional variation in the receipt of the FLSEB by children in Armenia, reflecting substantial regional wealth disparities, as shown in Figure 5.4. For example, more than 45 per cent of children in Shirak, nearly 42 per cent of children in Lori and more than 39 per cent of children in Gegharkunik live in households deemed poor enough to be eligible for the FLSEB, compared with only 9 per cent of those in Syunik and only 11 per cent in Yerevan.

### Figure 5.4:

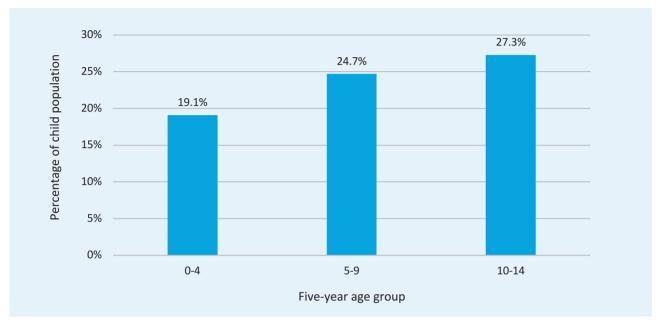


Percentage of children aged 0-14 receiving the FLSEB, by region, 2019

Source: Analysis of the 2019 ILCS.

In addition, receipt of the FLSEB varies by the age of the child, as shown in Figure 5.5. Older children are significantly more likely to live in FLSEB households than younger children, with 19.1 per cent of children aged 0–4 receiving the benefit compared with 27 per cent of those aged 10–14.

### Figure 5.5:





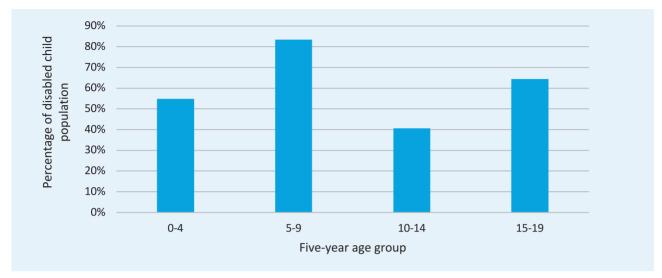
Source: Analysis of the 2019 ILCS.

The 2019 ILCS reveals a number of other patterns in children's access to the FLSEB (and, by extension, the FB top-up), including:

- Children in rural areas are more likely to receive the benefit: 31 per cent of children in rural areas receive the FLSEB (and FB), versus just 19 per cent of those in urban areas.
- There is a small gender gap in the receipt of the FLSEB (and FB) among children: 22.8 per cent of girls receive the benefit, versus 24.9 per cent of boys.

In addition to the FLSEB, the 2019 ILCS offers insight into the effective coverage of children who have been officially assessed with a disability in Armenia. Indeed, despite the universal legal provision of disability benefits for children, effective coverage rates appear to be low. Of the children officially registered as disabled, only around 60.8 per cent report receiving the disability social benefit, which is slightly higher than the share of adults registered as disabled who receive benefits (51 per cent). The likelihood of receiving a disability social benefit varies according to the age of the child, as shown in Figure 5.6.

### Figure 5.6:



# Percentage of children assessed as disabled who are receiving a disability social benefit by age group, 2019

Source: Analysis of the 2019 ILCS.

# 5.3.2 Vertical coverage (adequacy)

International guidelines for setting adequate child and family benefits are relatively low compared with the transfer values in countries around the world that actually provide them. For example, ILO Convention No. 102 suggests a benchmark of 3 per cent of the average wage of an ordinary adult. However, when examining child benefit transfer values internationally, countries provide a range of values. High-income countries that provide child benefits as a right of citizenship tend to provide per-child transfers valued at between 3 and 6 per cent of GDP per capita. In addition, middle-income countries that provide moderate-to-high-coverage child benefits set comparable values. For example, in Mongolia, the transfer value is 4.0 per cent; in South Africa, 5.6 per cent; and in Argentina, 6.3 per cent (see Figure 5.7).

The size of the FB is determined as follows. A base benefit is paid to all families who also receive a top-up for each family member under 18 years of age. The value of the top-ups depends on the family's overall vulnerability score, residency and number of children. These values are summarized in Table 5.4 below.

# Table 5.4:

	FSAS vulnerability score between 30.01 and 35.00			rability score .01 and 39.00	FSAS vulnerability score of 39.01 or higher		
	Ordinary communities	High mountainous and close- to-border communities	Ordinary communities	High mountainous and close- to-border communities	Ordinary communities	High mountainous and close- to-border communities	
Addition for a member under the age of 18	AMD 5,500 (US\$10)	AMD 6,000 (US\$11)	AMD 6,000 (US\$11)	AMD 6,500 (US\$12)	AMD 6,500 (US\$12)	AMD 7,000 (US\$13)	
Addition for four or more members under the age of 18	AMD 6,500 (US\$12)	AMD 7,000 (US\$13)	AMD 7,000 (US\$13)	AMD 7,500 (US\$14)	AMD 7,500 (US\$14)	AMD 8,000 (US\$15)	

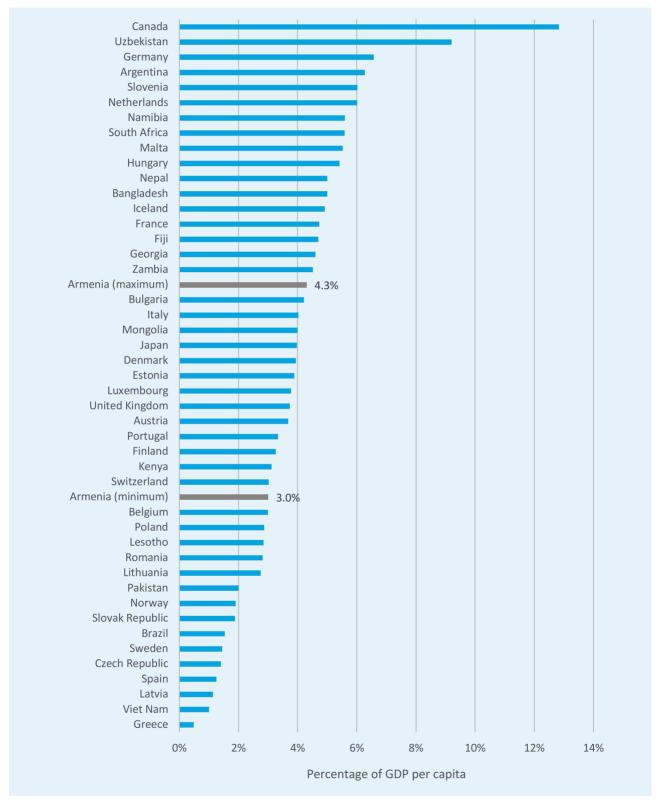
Value of FB top-ups, 2019

In terms of adequacy, rather than assessing the full value of the FB, it is most relevant to assess only the value of the top-ups, as these represent the FLSEB definition of the additional cost of raising a child. The transfer value of the minimum available top-up (for the first, second and third child in an ordinary community in a household with a vulnerability score between 30.01 and 35.00) amounts to 3.0 per cent of GDP per capita (2019 current prices). The transfer value of the maximum available top-up (for the fourth child and subsequent children in a high mountainous or close-to-border community in a household with a vulnerability score of 39.01 or higher) amounts to 4.3 per cent of GDP per capita (2019 current prices).

Given the lack of robust international guidelines on the appropriate value of child benefits, it is useful to compare Armenia's experience with that of other countries, as shown in Figure 5.7. The analysis suggests that Armenia performs relatively well, given that the minimum and maximum top-up values surpass the transfer values of many high-income countries, for example Norway (1.9 per cent of GDP per capita), Sweden (1.4 per cent) and the United Kingdom (3.7 per cent).<sup>24</sup> However, it falls behind some other upper-middle-income countries, including neighbouring Georgia (4.6 per cent), Namibia (5.6 per cent) and Uzbekistan (9.2 per cent).

## Figure 5.7:

# Comparison of per-child benefit values in select middle- and upper-income countries, latest year available (percentage of GDP per capita)



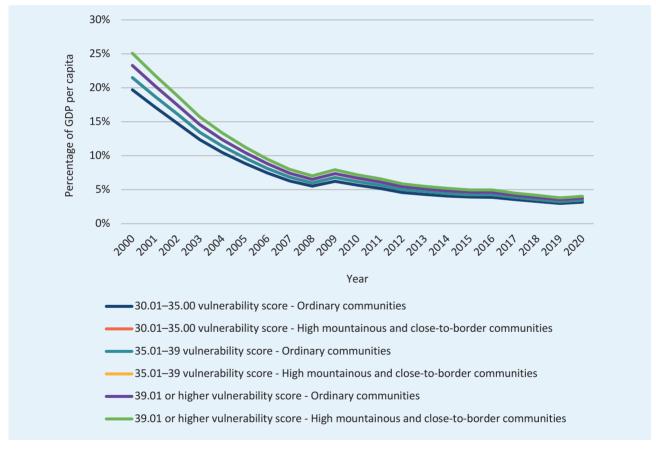
Source: OECD Family Database (http://www.oecd.org/els/soc/oecdfamilydatabasethefamilysupportcalculator.htm) and various national sources.

Note: The values for Armenia are from 2019.

Interestingly, when assessing the relative value of the top-ups over time, we find that in the year 2000—just two years after the FLSEB was first introduced—the benefit amount was considerably more generous, in relative terms (see Figure 5.8). Whether this reflects an original intention to provide a generous benefit, and for what purpose, is hard to say. However, the dramatic erosion in the relative value of the benefit over the past two decades does call into question whether the original intention of the benefit could still be met by such a lower value. In any case, we can conclude that despite the Government's recurrent adjustments, the benefit value of this child support transfer has not kept pace with the growth of the economy. This raises the importance of adequate indexation mechanisms.

#### Figure 5.8:

# Evolution of the relative value of the FB top-ups according to vulnerability category, as a percentage of GDP per capita, 2000–2020



Source: Administrative data.

Note: The '30.01–35.00 vulnerability score - High mountainous and close-to-border communities' category appears absent because the top-up values are identical to those of the '35.01–39.00 vulnerability score - Ordinary communities' category. Further, the '35.01–39.00 vulnerability score - High mountainous and close-to-border communities' category also appears absent because the top-up values are identical to those of the '39.01 or higher' category.

# 5.₄ <u>SUMMARY</u>

Children are significantly more likely than other age groups to live in poverty: according to the 2019 ILCS, 2.5 per cent of children were living below the food poverty line, compared with only 1.3 per cent of people of working age and 0.8 per cent of people above retirement age. And many more children are considered 'poor', with nearly 51.7 per cent living below the upper poverty line. Therefore, ensuring their welfare through social protection should be of paramount concern.

Armenia's social protection system offers a universal entitlement to childbirth benefits provided as a lump sum but which, through the concept of family capital, is not actually available to the family during the time of the shock (of the arrival of a child) or necessarily related to child expenditures. Actual child benefits, on the other hand, are limited to a narrowly targeted population, leaving a large gap in coverage. Whereas overall, almost two fifths (39 per cent) of all children in Armenia receive a social protection benefit, only around one quarter (24 per cent), including less than half in the poorest income decile, live in a household receiving the poverty-targeted FLSEB. Therefore, the FB-aimed at poor families with children-is still missing a significant number of children who are otherwise vulnerable, despite the Government's commitment to improving the targeting system.

At the same time, while other lifecycle benefits (such as disability and survivors' benefits and the survivors' pension) seem to be effectively reaching those who apply (and for disability benefits, those who are assessed as disabled), a lack of knowledge about the true size of the disabled child population or child survivor population prevents us from knowing how many children who might legitimately qualify for these benefits are being excluded, whether due to a lack of knowledge of their rights or other barriers to access.

When assessing the value of the FB top-up over time, the assessment finds that it has eroded dramatically since the benefit was introduced in 1998. This raises questions about whether the original intention of the benefit can still be met. It can be concluded that despite the Government's recurrent adjustments, the transfer value has not kept pace with the growth of Armenia's economy, which highlights the importance of adequate indexation mechanisms.

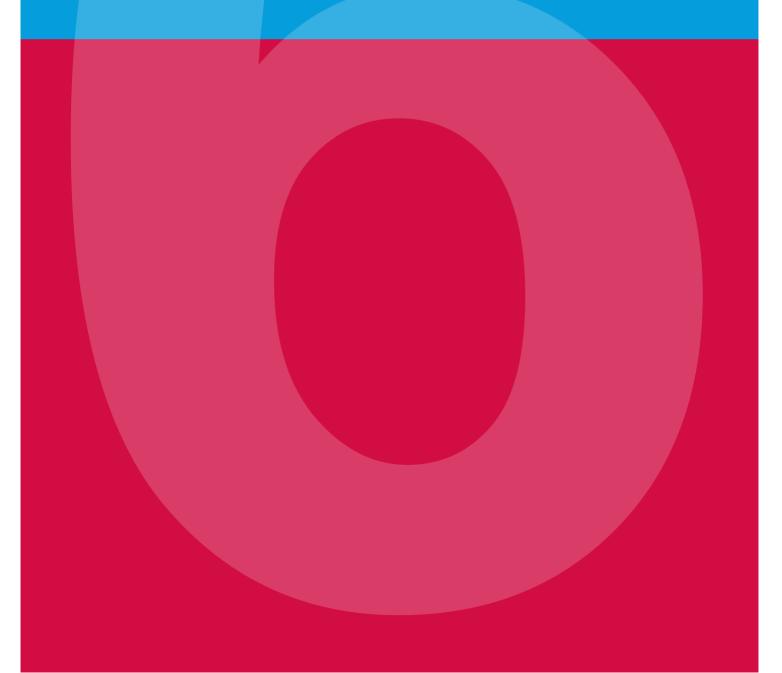
Table 5.5 summarizes the legal and effective coverage of children through lifecycle benefits in Armenia. The next chapter turns to the social protection coverage of people of working age in Armenia.

# Table 5.5:

# Summary of legal and effective coverage of children in Armenia

Dimensi	on of coverage	Family Benefit (FB)	Childbirth (lump- sum) benefit	Disability (social) benefit	Survivors' (labour and social) benefits
	Target group	Families with children under 18 years of age, registered in the FB system and assigned a vulnerability score above the threshold of 30 points	All newborns	All children with disabilities	All children with one or both parents deceased
Legal coverage	Share of all children	<ul> <li>Actual share of families/children unknown, but:</li> <li>11.6% of all children (those living above the food poverty line and below the lower poverty line)</li> </ul>	100% of children	Actual share of children with disabilities in child population unknown; global estimates are around 5%	Actual share of orphans in wider population unknown
Effective coverage	Horizontal (extent of population)	<ul> <li>61,400 families with children</li> <li>23.8% of all children, but:</li> <li>Only 49.2% of children in the lowest consumption decile</li> <li>Only 30.8% of children in the second lowest consumption decile</li> </ul>	Unknown share of children	<ul> <li>0.5% of all children, but:</li> <li>60.4% of children assessed as disabled</li> <li>Unknown number of unassessed children</li> </ul>	Survivors' labour benefit: 0.1% of all children Survivors' social benefit: 0.2% of all children Unknown number of children who have lost one or both parents but have not applied for benefits
	Vertical (adequacy/ level of benefit)	Medium	N/A	Not assessed	Not assessed

# BASIC INCOME SECURITY FOR PEOPLE OF WORKING AGE IN ARMENIA



People of working age are the backbone of a thriving economy. But at any given moment, they can fall ill, become disabled, lose their job or simply decide to grow their family. A robust social protection system that can offer security for these common lifecycle risks can ensure that workers not only stay out of poverty but also can continue to be productive. In a multi-tiered system, this includes contributory benefits for workers who are able to participate in them, as well as non-contributory floors for everyone else. In Armenia's contributory system, legal coverage includes salaried workers and, remarkably, the self-employed. While the effective coverage of the latter will be restricted by their actual incomes and thresholds set for participation in the PIT, the availability of state resources to expand coverage to this group of workers is a major strength of the Armenian system.

Still, in the context of the labour market, the system serves women and men unevenly. State pensions are only available to workers with sufficient years of service, and other benefits like childcare transfers are only provided to employees. Legal coverage will thus mirror patterns in the labour market, where women's lower participation rates and their overrepresentation among those working as self-employed or unpaid family workers (particularly in agriculture) as well as domestic workers and unpaid care occupations, exclude them from the scope of existing legislation, particularly the Labour Code and the Law on State Pensions.

# 6.1

# <u>CONTEXT AND OVERVIEW</u> OF BENEFITS FOR WORKING-AGE PEOPLE

# 6.1.1 High inactivity, wide gender gaps

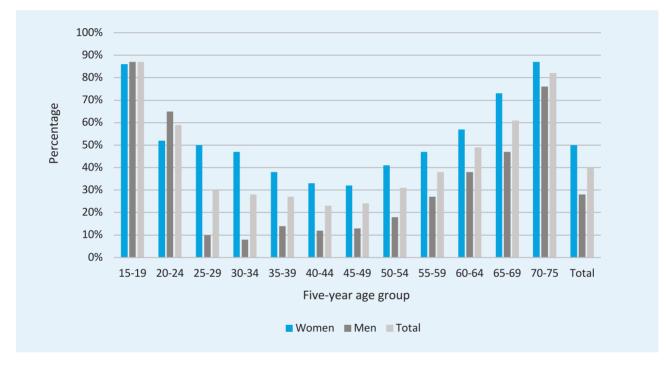
For persons aged 15–64 in Armenia, the economically active population amounts to 63 per cent. The unemployment rate among the active population remains high, at 18 per cent. This means that approximately four fifths of the working-age population in the labour force are in employment (56 per cent male and 44 per cent female). Employment rates for men have fully recovered since the 2008 crisis, but women

have not experienced a full recovery. Female employment was at 52 per cent in 2017. The same trend can be expected following the COVID-19 crisis, which has affected women the most.

The inactivity rate is the highest for the youth. While the share of youth (aged 15–29) who are NEET in Armenia has decreased dramatically in the past decade, it remains considerably high, and the share of female youth who are NEET (28.7 per cent)<sup>1</sup> remains higher than that of male youth who are NEET (28.07 per cent). This disadvantage is more pronounced in rural areas and among those aged 25–29, implying that most young rural women remain economically inactive and

out of the labour force for longer periods after completing their education.<sup>2</sup> On the whole, men are much more likely to transition into work or an active job search, while women are likely to drop out of the labour market altogether, especially in rural areas where family formation begins earlier.

### Figure 6.1:

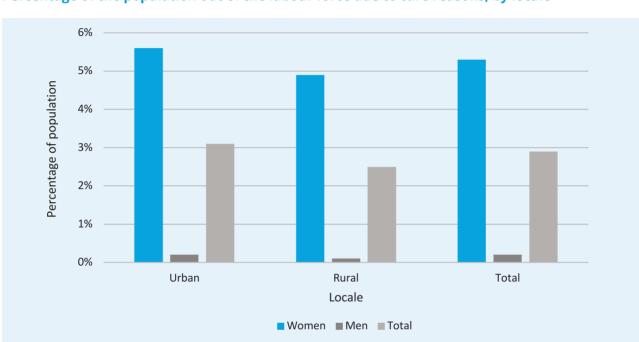


### Share of economically inactive population, by age and sex, 2019

Source: Analysis of the 2019 LFS.

Excluding adolescence and old age, the share of inactive women peaks between the ages of 20 and 34—key childbearing years—and exceeds 45 per cent. Although the share of working women begins to rise after the age of 45 and children are probably settled in school, the gender employment gap remains significant, pointing at a challenging transition from maternity back to work. Even at the peak of female activity at ages 45–49, only 68 per cent of women are active. This late peak means that most women will not have access to employment benefits such as sickness and employment injury insurance for long periods and will struggle to meet the minimum qualifying period of 25 years of service to receive full state pensions. However, more widely, this reality points to a pressing need to introduce gendersensitive labour-market policies that facilitate female labour-market participation.

Women's high inactivity rates are primarily explained by family caregiving and domestic responsibilities. Gender gaps in inactivity rates are most salient among the 25–34 age groups, coinciding with the ages when women are likely to have young children. The great majority of women in this age group (78.1 per cent) cited childcare as their main reason for being out of the labour force.<sup>3</sup> This proportion drops to 14.8 per cent for women aged 40–54, signalling that once children are older, it becomes somewhat easier to reconcile unpaid care work with paid work in the labour market. This also points at an important gap in childcare support policies for young children.



Percentage of the population out of the labour force due to care reasons, by locale

Source: 2019 ILCS.

Figure 6.2:

Note: The figures reflect those caring for children or sick family members.

Official data corroborate this, as seen in Figure 6.2, where the significant increased burden of care placed on women compared to men becomes evident. In fact, leaving the labour force due to care reasons seems to be an issue exclusively affecting women. A multivariate analysis conducted by the World Bank in Armenia also showed that marriage and motherhood are strongly associated with lower female labour-force participation.<sup>4</sup> In urban areas in particular, there is a negative relationship between the probability that a woman is working or looking

for work and the presence of children aged 0–3 in the household—a correlation that does not exist among men.<sup>5</sup> According to qualitative research relating to low-income and vulnerable women, cultural norms play an important role in keeping women inactive.<sup>6</sup> Despite this overwhelming evidence, government and employer representatives interviewed during the course of this research repeatedly stated that gender inequality, in the labour market or elsewhere, was not of significant concern in Armenia.

## Box 6.1:

# The gender pay gap in Armenia

Following these employment patterns and the entrenched gender norms affecting women's involvement in the labour market, Armenia has one of the highest gender wage gaps in the ECA region. A recent study by UN Women and ARMSTAT shows a gap of 28.4 per cent. According to the same study, the average salary of women makes up 84.3 per cent of those of men in agriculture, despite there being greater female representation in the sector. This corroborates their larger share as unpaid family workers.

- There is a large gender gap. Not only do women have less access to employment and are more likely to work part-time, they also are paid less when they do work. Indeed, in all sectors and across education levels, women earn less than men. The gap in earnings is higher at the top, in the highest-earning sectors such as ICT and finance. This contributes to reducing the incentives for women to become active, even when they have higher levels of education.
- The raw (unadjusted) gender pay gap in Armenia is estimated at 23.1 per cent.
- The adjusted gender pay gap in Armenia is estimated at 28.4 per cent. It is larger than the unadjusted gender pay gap, suggesting that working women have better labour-market characteristics than men. This also relates to women's potentially more positive selection into the labour market, despite the fact that non-working women (unemployed and inactive) also do possess considerable levels of education. Therefore, qualifications cannot explain the gender pay gap in Armenia; quite the contrary, they amplify it.
- Women work fewer hours than men, and such differences are spread among ages, occupations and economic statuses. However, the inequalities are more important given family structure. Women spend comparatively more time than men doing household chores; caring for sick, elderly and disabled family members; and caring for children.
- Mothers in couples are most prone to low employment incidents and large gender employment gaps, especially at a young (childbearing) age.
- The gender wage gap in Armenia is among the largest of the ECA countries. The World Bank Systematic Country Diagnosis notes that the difference is largely attributable to different returns to education rather than differences in characteristics, including education.<sup>7</sup> Indeed, in all sectors and across education levels, women earn less than men. This is especially the case for higherearning individuals.

Source: UN Women and ARMSTAT 2020.

# 6.1.2 Key social protection schemes aimed at working-age people

Within the labour-market context set out above. it is understandable that policy efforts towards people of working age have been dominated by employment policy. In contrast, relatively little attention has been paid towards expanding social protection for people of working age, particularly to women. In fact, the most significant social protection policy reform in this area was actually the 2015 abolishment of unemployment benefits—a core lifecycle benefit defined under ILO Convention No. 102. Unlike benefits for childhood and old age, many social protection benefits for people of working age are of a shortterm nature. Consequently, there has been an emphasis on ensuring income smoothing during specific periods like maternity, unemployment and sickness. Contributory benefits linked to formal employment and previous earnings are thus much more common. There are two key implications to this.

First, it is important to understand that entitlement to contributory working-age benefits often depends on employment status, working trajectories, contributions and earnings. These schemes tend to be gender-blind, meaning that most of their provisions do not treat women differently from men. Yet, by assuming full-time, formal, life-long employment as the norm, such programmes implicitly discriminate against women, who are more likely to experience interruptions to their employment and contributory careers due to an increased burden of care (see Figure 6.2). In Armenia, for example, working mothers are most prone to low employment incidents and large gender employment gaps, especially at a young (childbearing) age.

Second, this means not only that social protection floors can still play a role during this period of the lifecycle but also that they are most relevant for workers disadvantaged in the contributory system. These workers include not only women but also any workers, male or female, engaged primarily in the informal economy. In contexts where a limited share of working-age people are participating in employment-based schemes, there is a particular need to include non-contributory mechanisms that guarantee a minimum level of protection to all. In addition to complementing earnings-related benefits, non-contributory benefits are most important to provide a substitute for workers who fail to meet the qualifying conditions for the applicable regime.

So far, in Armenia, this principle has been implemented to expand maternity protection. Although much room for improvement remains to ensure adequate maternity protection for all, it is one of the country's greatest social protection achievements to have recently reached universal legal coverage of maternity income support benefits. Another notable achievement is the provision of regular, predictable transfers for disability. Other working-age contingencies are only minimally covered in Armenia. There is limited protection provided for cash sickness benefits and employment injury. And as mentioned previously, unemployment benefits were recently abolished (see Section 6.6.2 for details).

During working age, people can expect to receive the following lifecycle benefits in Armenia:

 Maternity benefit for working and nonworking women

- Childcare allowance for working women
- Disability pensions and benefits
- Survivors' pensions and benefits
- Paid sick leave
- Employment injury

Legal coverage of the working-age population in Armenia is either provided on a universal basis through multi-tiered systems (e.g. disability and maternity benefits) or is limited to the formally employed population (e.g. sickness and employment injury benefits). This means that the majority of people working informally (or not working) have no income protection for these common risks, placing a higher burden on families and communities to absorb the impacts privately.

The following sections assess the extent to which working-age adults are legally covered for the contingencies outlined in Convention No. 102; the effectiveness of existing programmes at reaching said adults when they experience these contingencies; and the adequacy of the existing lifecycle benefits relative to various national and international standards.

## **Table 6.1:**

### Lifecycle social security schemes for people of working age in Armenia

		Statutor	y features of	main schemes fo	r working age		
Scheme	Type of scheme	Regulatory framework	Legally covered population	Financing arrangement	Qualifying conditions	Description of benefits	Adminis- trative responsibility
Maternity benefit for working women	Contributory	Labour Code (2004) Law on Temporary Incapacity and Maternity Benefits (2010)	Formally employed and self- employed women	Employer funds (covering the period between and inclusive of day 2 and day 6 of maternity leave) State budget (covering the period between and inclusive of day 7 and day 140 of maternity leave)	Temporary incapacity to work due to pregnancy and childbirth	Lump-sum benefit equals the average monthly income divided by 30.4 (average number of days in a month) multiplied by 140 (the number of calendar days of the maternity leave period); a ceiling of 15 and 5 minimum wages is applied to the benefit for salaried and self- employed workers, respectively <sup>8</sup> No indexation rule is applied	Employers, for formally employed women MoLSA/SSA, for self-employed women
Maternity benefit for non-working women	Universal (non-means- tested, non- contributory)	Law on Temporary Incapacity and Maternity Benefits (2010) Law on State Benefits (2013) and amendments to the Law on State Benefits (2020)	Women who are not formally employed or self- employed	State budget	Temporary incapacity to work due to pregnancy and childbirth	Lump-sum benefit equals 50% of the minimum wage, divided by 30.4 (average number of days in a month) and multiplied by 140 days (the number of calendar days of the maternity leave period) The benefit floor therefore amounts to AMD 156,579 (US\$295) No indexation rule is applied	MoLSA/SSA

		Statutor	y features of	main schemes fo	r working age		
Scheme	Type of scheme	Regulatory framework	Legally covered population	Financing arrangement	Qualifying conditions	Description of benefits	Adminis- trative responsibility
Childcare allowance for working women	Contributory	Labour Code (2004) Law on Temporary Incapacity and Maternity Benefits (2010) Law on State Benefits (2013)	Formally employed women (or other parent/ guardian taking care of a child)	State budget	Temporary incapacity to work due to childbirth Child must be under the age of 2	AMD 18,000 per person per month (US\$35) No indexation rule is applied	MoLSA/SSA
Disability (social) benefit	Universal (non-means- tested, non- contributory)	Law on State Benefits (2013) Law on Social Assistance (2014) Decree No. 1489-N on Defining the Size of Social Benefits and Funeral Allowances (2013)	Lawful residents of Armenia, stateless persons and asylum seekers	State budget	Must be officially recognized as disabled (certified by the SMEC) Must be ineligible for a state (labour) or military pension	AMD 26,500 (US\$50) per person per month No indexation rule is applied	MoLSA/SSA
Disability (state) pension	Contributory	Labour Code (2004) Law on State Pensions (2010) Decree No. 1734-N on the Basic Pension, Minimum Pension and Funeral Allowances (2011)	Lawful residents of Armenia, stateless persons and asylum seekers	State budget	Must be officially recognized as disabled (certified by the SMEC) and have completed the correct length of service (number of years paying PIT as per the defined age group) <sup>9</sup>	AMD 41,228 (US\$77) per person per month (average) Calculated as the basic pension amount plus the value of service years multiplied by the personal coefficient <sup>10</sup>	MoLSA/SSA
Survivors' (social) benefit	Universal (non-means- tested, non- contributory)	Law on State Benefits (2013) Law on Social Assistance (2014) Decree No. 1489-N on Defining the Size of Social Benefits and Funeral Allowances (2013)	Lawful residents of Armenia, stateless persons and asylum seekers	State budget	Full-time student under the age of 26, in the case of the loss of a breadwinner Spouse, in the case of the loss of a breadwinner Parent/ guardian of a child under the age of 14 who has lost a breadwinner In all cases, the breadwinner must have been ineligible for a state (labour) or military pension	AMD 26,500 (US\$50) per child per month	MoLSA/SSA

		Statutor	y features of	main schemes fo	r working age		
Scheme	Type of scheme	Regulatory framework	Legally covered population	Financing arrangement	Qualifying conditions	Description of benefits	Adminis- trative responsibility
Survivors' (state) pension	Contributory	Labour Code (2004) Law on State Pensions (2010) Decree No. 1734-N on the Basic Pension, Minimum Pension and Funeral Allowances (2011)	Lawful residents of Armenia, stateless persons and asylum seekers	State budget	Sibling or grandchild (under the age of 18) of the deceased whose parents/ guardians have a third-degree limitation on their ability to work Persons over the age of 18 who have been recognized as disabled since before the age of 18 and have a third-degree limitation on their ability to work Non-working parents/ spouses of the deceased who reached the age of eligibility for retirement before the date of the breadwinner's death The deceased's spouse/ guardian of a child, sibling or grandchild (under the age of 14)	AMD 30,862 (US\$58) in the case of the loss of one breadwinner (average) AMD 102,658 (US\$193) in the case of both breadwinners (average) Calculated as the basic pension amount plus the value of service years multiplied by the personal coefficient <sup>11</sup>	Molsa/ssa
Sickness ('temporary disability') benefits	Contributory	Labour Code (2004) Law on Temporary Incapacity and Maternity Benefits (2010) Law on Employment (2013)	Formally employed and self- employed persons (excluding those employed in family businesses)	Employer funds (covering the period between and inclusive of day 2 and day 6) State budget (covering the remainder of the sickness period)	Must have paid PIT	AMD 93,229 (US\$175) per person per month (average) <sup>12</sup> Calculated as 80% of the average monthly salary	MoLSA/SSA

	Statutory features of main schemes for working age									
Scheme	Type of scheme	Regulatory framework	Legally covered population	Financing arrangement	Qualifying conditions	Description of benefits	Adminis- trative responsibility			
Employment injury ('occupational disability') benefits	Contributory	Labour Code (2004) Law on Temporary Incapacity and Maternity Benefits (2010) Law on State Benefits (2013) Law on Employment (2013)	Formally employed persons over the age of 18	State budget	Persons recognized as disabled or in poor health by a competent state body conducting a medical and social examination, if they had a given length of service at the time of establishing a disability or applying for a pension	AMD 37,258 (US\$76) per person per month for an occupational injury (2018 average) AMD 44,909 (US\$92) per person per month for an occupational illness (2018 average) <sup>13</sup>	MoLSA/MSEA			

# 6.2

# MATERNITY PROTECTION

# 6.2.1 Legal coverage

Maternity protection is a vital tool for ensuring that women can reach their full potential, enabling them to enter and remain in the labour market regardless of their motherhood choices. It is also fundamental to promoting child and maternal health. As the ILO explains, "the goal of maternity protection legislation is to enable women to combine their productive and reproductive roles successfully and to promote equal opportunities and treatment in employment and occupation."<sup>14</sup>

ILO Convention No. 183 and Recommendation No. 191 define several core elements of maternity protection:

- Medical benefits
- Employment protection and non-discrimination
- Health protection in the workplace

- Breastfeeding arrangements at work
- Maternity leave
- Income security (cash benefits)

As stated in Chapter 4, the BBP in Armenia covers antenatal, postnatal and delivery services, as well as medical care for newborn children. In terms of employment protection, the Labour Code of November 2004 specifies that employees have a right to parental leave for the care of a child during his/her first three years of life. The law guarantees that workers can retain their jobs for this threeyear period. The Labour Code also outlines minimum standards for occupational health and safety during pregnancy and provides for paid breaks for breastfeeding. These provisions are further regulated through the Law on Temporary Incapacity and Maternity Benefits (2010). However, as stated, these provisions apply only to salaried employees; therefore, all other types of workers in informal employment lack these employment protections and face the risk of losing their employment during this vulnerable period.

# **Maternity leave**

In addition to parental leave, which includes only employment protection, the Labour Code specifies another special-purpose leave, namely a maternity leave period of 140 days. More recently, this same period has been used as the basis for providing minimum income security to wider groups of workers.

In the Labour Code, the personal scope of this provision includes only employees. Whereas employees represent 57.6 per cent of women in the labour force, and just 30.3 per cent of all workingage women, the provision is only applicable to those who are formally employed. Overall, informal employment accounts for around 37 per cent of total female employment in Armenia, and many others are unemployed or unpaid family workers. All told, less than half of women in the labour force are eligible for maternity leave.

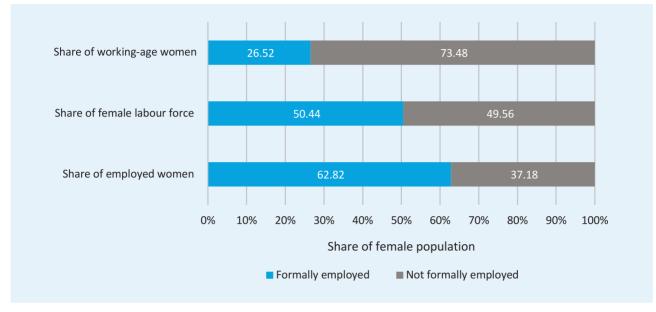
# **Income security**

Maternity cash benefits are essential to compensate for the loss of income resulting from the interruption of women's economic activities before and after birth. It also helps women cater for the additional costs resulting from pregnancy and birth. The Law on Temporary Incapacity and Maternity Benefits states that individuals are eligible for cash benefits during the maternity leave period of 140 days. This applies whether they are in an employment relationship at the time of the contingency or whether they are selfemployed people who have been paying income taxes. It explicitly excludes family workers. Because of this tight link to formal employment, women who lose their jobs while pregnant are not eligible for this benefit, even if they have a long previous service history. This is clearly a legal gap. Although derived from the employment situation and tax contributions, the claim and benefits of maternity leave should remain personal and independent from the contractual relationship between the employer and the employee.

Finally, in 2019, the amendment to the Law on State Benefits expanded the coverage of maternity cash benefits to all non-working women, effectively ensuring universal coverage of maternity income protection. During stakeholder interviews, MoLSA representatives characterized the purpose of this coverage extension as a measure to promote motherhood, pointing to the frequent overlap between social protection and population policy objectives.

Despite its name, the 'maternity benefit for working women' is reserved for those working women who are formally employed, including registered self-employed workers. According to the 2019 Labour Force Survey (LFS), around 62 per cent of employed women were formally employed, which amounts to around half of the female labour force and only around 27 per cent of the working-age population who would be entitled to the maternity benefit for working women (Figure 6.3). Working women who are informally employed—alongside all women providing unpaid family labour, unemployed women and those not in the labour force—are entitled to the maternity benefit for non-working women. In all, this represents 37 per cent of employed women, nearly half of the labour force and, given the high rates of economic inactivity among women, almost three quarters of the female working-age population.

### Figure 6.3:



#### Formal and informal employment among women in Armenia, 2019

Source: Derived based on ILOSTAT and authors' own analysis of the 2019 LFS.

# Childcare allowance and nanny programme

The Law on State Benefits provides an entitlement—in the amount of AMD 18,000 per month—to childcare allowances for parents of children under the age of 2 who are still on parental leave. The objective of this benefit is to provide

partial compensation for expenses associated with raising a child; thus, it is the closest provision that the Armenian system has to a traditional lifecycle family benefit. The nanny programme consists of a partial subsidy to caregivers on parental leave to finance childcare (to hire a nanny) in order to enable them to return to work.

# 6.2.2 Effective coverage

# Horizontal coverage

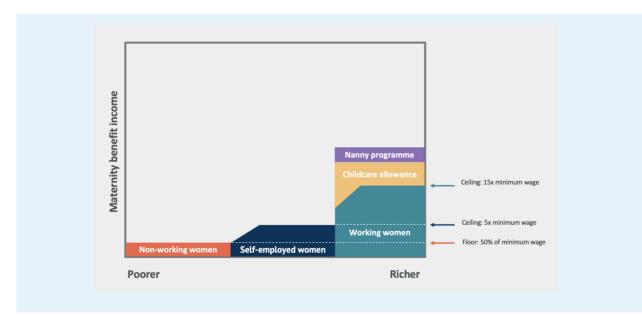
After 2019, legal coverage became universal, so we would expect to see the total number of benefits matching the number of expected new mothers in the total population. However, the sample size of those who reported receiving maternity benefits in the ILCS is too small to draw meaningful conclusions, and no administrative data were available at the time of drafting to be able to estimate potential take-up levels against population estimates. Therefore, the analysis of maternity benefits focuses on the conceptual level deriving from the previous analysis of legal coverage, high-level design and the overall structure of the labour market.

It is worth noting that accelerating progress towards more inclusive maternity leave may not be enough to improve female labour-force participation. Discriminatory social values and gender stereotypes can continue to hinder women's access to labour markets, increasing their economic vulnerability. Social protection policies must explicitly seek to compensate women for this increased vulnerability, but wider policies addressing the source of these vulnerabilities are also needed to improve the extent and quality of female labour-force participation. It is also important to note that if paid leave is available only to women, it may reinforce the idea that women are primarily responsible for caregiving while men are the primary earners. While maternity regulations in Armenia do not specify that it must be the mother who takes parental leave, for example, anecdotally we know that this is the case. Again, in the context of gendered social norms, genderneutral norms are not sufficient; and, in this case, a provision requiring fathers to take part in the parental leave period might be advisable in order to ensure that the provision of paternity leave leads to the strengthening of women's position in the labour market.

Overall, maternity protection is a complex set-up in Armenia. And while there is now a universal minimum income floor, there is still a gap with respect to the other elements of maternity protection, which currently only cover salaried women (see Figure 6.4 below). This is further exacerbated by the introduction of additional benefits also restricted to this group, as are the childcare allowance and most recently the nanny programme.

### Figure 6.4:





Source: Authors' creation.

# Vertical coverage (adequacy)

In addition to horizontal coverage, the adequacy of protection is measured by the duration of leave and the monetary value of the wage replacement. Variations in these lead to different effects in the way that paid maternity leave enables women's economic opportunities.<sup>15</sup> For example, when leave is too short, mothers might not feel ready to return to work and end up dropping out of the workforce altogether. However, when leave periods are too long and are mainly taken up by women, they may also weaken women's advancement in paid work.<sup>16</sup> An ILO review of international evidence attributes a marginal wage penalty effect to each year of leave, after 12 months.<sup>17</sup>

In Armenia, strangely, the existence of two specialpurpose leaves under the maternity system means that the country experiences both of these challenges. On the one hand, maternity leave is guaranteed for everyone at a minimum level of income protection, but it is unclear whether this protection meets ILO minimum standards on duration. At any rate, it is not as generous as it might appear at surface level. On the other hand, the existence of parental leave protects a mother's employment for a total of three years. Because there are no widely available and affordable childcare services for children under the age of 3, mothers might have no choice but to remain out of the labour market for the entire period, for each child they have. In that sense, the leave period is long enough to foresee these women falling behind in their career tracks, compared to their male peers. These issues are explored in depth in Box 6.2.

### Box 6.2:

### The balance between prenatal and postnatal leave

The ILO Maternity Protection Convention, 2000 (No. 183), mandates a minimum leave period of 14 weeks, with at least six weeks post-partum. It does not specify any minimum period for prenatal leave, but it does state that this period shall be extended by any period elapsing between the presumed date of delivery and the actual date of delivery, without any reduction in any compulsory portion of postnatal leave. The Convention also states that cash benefits should be provided for the duration of this leave. The Maternity Protection Recommendation, 2000 (No. 191), increases this period to 18 weeks and calls for measures to ensure that a woman is entitled to choose freely the time at which she takes any non-compulsory portion of her maternity leave, before or after childbirth.

Before the birth, time off work enables pregnant women to rest, which is essential for mothers to be physically and psychologically ready for the delivery. The required duration of the prenatal leave depends on the health conditions of the mother and her baby but also on the occupational hazards she may be exposed to in the workplace. Medical experts recommend a period of two to six weeks prior to the birth. Armenia's total period of maternity leave equals 140 days and is strictly divided into 70 days before and 70 days after the birth, leaving no room for women to schedule their leave according to their individual and family needs and preferences. The total 140 days of leave amount to 10 weeks before and 10 weeks after the delivery.

It is unclear why such a large portion of the leave is allocated to the prenatal period, but it seems inconsistent with the original purpose of maternity cash benefits, which aim to compensate for the loss of income resulting from the interruption of women's economic activities, which does not need to begin as early as 10 weeks before the due date. During the bulk of this prenatal period, most women are still able to work and thus receive their income directly from their employment instead of consuming their maternity leave. It could be said that by paying half of the cash benefits before the arrival of the child, the current policy is effectively limiting the period of paid maternity leave to just 10 weeks, which would be below ILO minimum standards. After the delivery, maternity leave is crucial for physical recovery, for bonding with the baby, to establish breastfeeding and to attend medical examinations and infant immunizations.

Furthermore, studies have shown that leave shorter than 12 weeks can have detrimental effects on women's decision to return to work. This is confirmed in the case of Armenia through the continued gender gaps in labour-market participation, which make it apparent that mothers still have to face the costs associated with very short post-partum leave provisions, including the risk of leaving the workforce. Considering that the benefits should also facilitate the care of the newborn child, it is understandable why most countries around the world allocate the bulk of the leave period for when the child has arrived. It is recommended that women are allowed to schedule their leave according to their individual and family needs and preferences. Women who want to maintain an equal prenatal leave may do so, but others might choose to continue working so as to extend their postnatal leave. This flexibility in the existing policy would come at no extra cost to the state budget and could, perhaps, also benefit employers as women would not be required to start their leave when they are still able and willing to work.

The level of wage replacement also affects the extent to which paid leave can contribute to gender equality outcomes. Cash benefits provide income (as a flat rate or as a percentage of a worker's wage) to a working mother before and after the birth of her child. ILO Convention No. 183 provides that the cash benefit paid during maternity leave should be at least two thirds of a woman's previous earnings, or a comparable group of other methods are used to determine cash benefits, for a minimum of 14 weeks. Recommendation No. 191 increased this to 100 per cent of previous earnings for a minimum of 18 weeks. The level of cash benefits in Armenia is summarized as follows:

- Cash benefits for salaried and self-employed women are calculated from the average monthly salary of the 12 months prior to the leave period. The 'income' in this case refers to the salary that is subject to income tax. The benefit amount equals the average monthly income divided by 30.4 (the average number of days in a month) multiplied by 140 (the number of calendar days of the maternity leave period). A ceiling of 15 and 5 minimum wages is applied to the benefit for salaried and self-employed workers, respectively.
- A floor of 50 per cent of the minimum wage is also applied for both types of workers. If the worker was already on care leave during

part of the preceding 12 months, then the benefit is calculated based on their latest monthly salary before the leave period. This is a problem given that benefits are not explicitly indexed, which means that if a woman takes two consecutive three-year leaves, her benefit will devaluate over six years.

 The maternity benefit for non-working mothers is a one-time cash allowance granted on the basis of a temporary disability certificate issued by a medical institution. The amount of the benefit is set at 50 per cent of the minimum wage, divided by 30.4 and multiplied by 140 days of maternity leave. This means that, in essence, there is a social protection floor for maternity set at the level of 50 per cent of the minimum wage, which is currently equal to AMD 156,579.

Table 6.2 summarizes the adequacy of the maternity benefits for different groups of women relative to the monthly values that would be required under Convention No. 183 and Recommendation No. 191, using the reference wage of the average monthly earnings for female employees aged 25–54 recorded in ILOSTAT 2019 of AMD 100,644 (US\$190) and AMD 72,083 (US\$135) per month, for urban and rural areas, respectively. For non-working women, we use the minimum wage as a reference wage for previous earnings.

#### **Table 6.2:**

Minimum adequate maternity benefit levels (AMD per month) in Armenia, by employment type, 2019

National benefit	Locale	Value of national benefit (ceiling), AMD	Average monthly earnings for prime-age female employees (aged 25–54), AMD	C183 standard of two thirds of previous earnings, AMD	R191 standard of 100% of previous earnings, AMD
Salaried women	Urban	825,000	100,644	67,096	100,644
	Rural	825,000	72,084	48,056	72,084
	Total	825,000	91,742	61,162	91,742
Self-employed	Urban	275,000	100,644	67,096	100,644
women	Rural	275,000	72,084	48,056	72,084
	Total	275,000	91,742	61,162	91,742
Non-working women	-	27,500	55,000	36,667	55,000

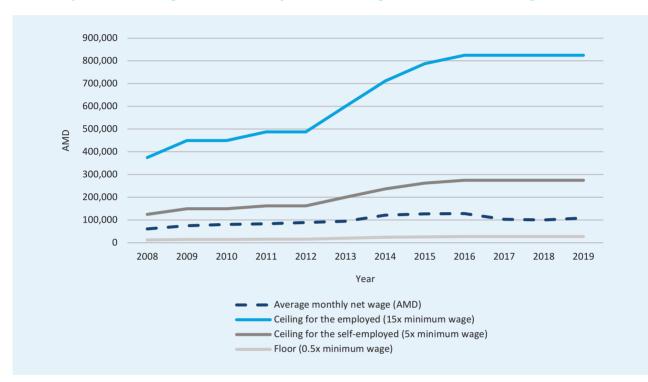
Source: Average monthly earnings reported by ILOSTAT.

Note: The average income as reported by ARMSTAT for 2019 (AMD 145,198) is significantly higher than the average income reported by ILOSTAT and used here. However, ARMSTAT does not report gender-disaggregated data for this indicator.

A simple analysis shows that the ceilings are high enough that the average female worker, both rural and urban, salaried and self-employed, is not affected by them (see Figure 6.5 below). However, it is important to note that we are comparing the benefit ceilings with average incomes, and thus what this table shows is that the scheme is capped at a sufficiently high level to compensate average women workers. This does not mean that the benefit itself is sufficient. An actuarial valuation would be recommended in order to assess the adequacy of actual benefits paid against actual incomes reported, as well as to determine the full extent of the impact of these ceilings on the achievement of ILO standards set in Convention No. 183.

#### Figure 6.5:

Maternity benefit ceilings and floor compared to average net and nominal wages, 2019



Source: ARMSTAT 2019.

Under the current design, in theory, higherearning women in urban areas could be at a disadvantage relative to international standards. Together with the observed increase in the gender pay gap among higher-earning workers, this could affect women's choices and opportunities to move up in their careers while having a family. The establishment of a ceiling is actually incompatible with the full income replacement level promoted by Recommendation No. 191. However, the biggest risk these women experience with regard to maternity protection continues to be the short duration of benefits relative to the period of need, as well as the fact that salaried women can lose their entitlement if they are not employed at the time of delivery, regardless of their past years of service. These risks are further exacerbated by the Armenian system's lack of income support during unemployment periods.

When it comes to the maternity benefit for nonworking mothers, while the extension of minimum income protection is overall a very positive step, as a general rule, lump-sum benefits are not considered social security by most definitions since they fail to provide regular, predictable income security over the duration of the risk. Reorganizing this benefit into monthly payments would be advisable and easily implementable given that it is paid exclusively through bank transactions. Moreover, because the amount of cash benefits should be sufficient to provide an adequate standard of living for mother and child, authorities should consider progressively raising this floor to match the minimum wage, as a nationally defined benchmark for minimum income.

The replacement rate of maternity income support varies between employed, self-employed and non-working women, but for all of them, the benefit ends 70 days after the birth, along with the official period of maternity leave. However, in practice, this is barely the beginning of the threevear parental leave period, during which time childcare is still needed and no childcare services are widely available or affordable. So while, in theory, Armenia provides income support during the full period of maternity leave, the legal division between maternity and parental leave hides the fact that this income support covers just a portion of the time when childcare responsibilities are incompatible with full-time participation in the labour market, leaving families exposed to a substantial reduction in household income for three years, or until the child can attend day care. Ideally, social protection systems address this gap by timing the duration of maternity leave cash benefits with the age of day-care enrolment. Finally, it is important to acknowledge that maternity benefits are very short-term by nature and will never compensate for the cost associated with raising an additional child. In a comprehensive social protection system, this is the role of family benefits.

In Armenia, the Law on State Benefits provides an entitlement—in the amount of AMD 18,000 per month (or 26 per cent of the 2020 minimum monthly wage)—to childcare allowances for parents of children under the age of 2 who are still on parental leave. The objective of this benefit is to provide partial compensation for expenses associated with raising a child; thus, it is the closest provision that the Armenian system has to a traditional lifecycle family benefit. However, due to its limited duration, which strictly overlaps with parental leave, the benefit is neither a substantial family benefit nor is it sufficient to fill the need for continued income replacement during parental leave.

As Figure 6.6 below shows, adequate income protection—as defined by ILO standards—is only provided for a short portion of the total three-year period when families have no access to childcare except for the care they can provide themselves. In this sense, it is important to understand that despite the fact that the Armenian legal framework makes a distinction between maternity and parental leave as two different types of specialpurpose leave, in practice, the right to parental leave cannot be fulfilled without commensurate income protection, which is only available through maternity leave. Also evident from the graph is the inequality in provisions between salaried women and others.

#### Figure 6.6:



#### Income protection throughout the parental leave period in Armenia

Source: Authors' depiction.

Note: The proportions here are not proportional but indicative with the purpose of illustrating the gaps between groups.

Ultimately, the absence of income replacement beyond the first 70 days of parental leave has resulted in a situation whereby women feel the need to rejoin the workforce in order to sustain their living standards. However, the lack of widely available and affordable childcare complicates this, something that the parental leave was intended to mitigate but has failed to do without accompanying income replacement benefits. In response to the pressure that women experience to maintain their income, the Government has introduced what has been termed as an employment promotion measure: the 'nanny programme'.

This programme consists of a partial subsidy to caregivers on parental leave to finance childcare (to hire a nanny) in order to enable them to return to work. In essence, it is a subsidy to enable individuals to exit parental leave, a measure established to mitigate the absence of sufficient childcare availability in the first place. Again, this points to the insufficiency of income replacement in the current maternity protection system, as well as the recurring blurred lines between social protection policy and other policy areas. It exemplifies how weaknesses in the design of the social protection system might create the need to introduce employment promotion programmes. Rather than introducing a subsidy to hire private nannies, a more coherent and straightforward response to the gaps in the maternity system would be to support wider childcare guarantees, either via paid parental leave or public services.

The World Bank has recently also advised that one of the key steps that Armenia can take towards facilitating labour-force participation is institutionalizing quality childcare services.<sup>18</sup> This would address several problems at once: the cost of childbearing and its impacts on fertility as well as the burden on women to balance unpaid care with work. Such an initiative may also give rise to a formal childcare industry that can both help reduce the demographic burden and provide employment opportunities for women in the lower-skill segment, both in urban and rural areas. As noted in the report, high-quality early childhood development interventions can also provide the basis for skills development and higher productivity. This and other policies to rationalize the maternity protection system would act as short-term measures to complement the country's long-term population goals.

Overall, the shortcomings of the maternity system in Armenia are significant. In its current set-up, the system provides minimum income protection to all but is still too limited to support other strategic goals, including the enablement of women's economic opportunities and the creation of a balance between care and labour that might be conducive to increased fertility levels. This would require higher-level benefits of a significant length, as provided in OECD countries struggling with an ageing population.

#### 6.3

# EMPLOYMENT INJURY

Protection against employment injuries and occupational diseases is a core part of any social protection system. Employment injury benefits in most countries consist of medical care for injured workers and earnings-related periodic cash benefits to disabled workers (or to survivors of deceased workers, including funeral grants). Many countries use social insurance systems to address the risk of work-related injuries and diseases. These systems follow the following principles:<sup>19</sup>

- 'No fault', namely an injured worker or survivors of a deceased worker should qualify for benefits without the need to prove 'fault' of the employer
- 2. Collective sharing of liability among employers
- 3. Neutral governance of administration of the scheme, namely the right to a benefit is established outside of the contractual relationship between a worker and her employer

Many national employment injury schemes have a set of wider objectives, such as rehabilitation and re-employment of injured or sick workers, as well as the promotion and maintenance of safety and health in the workplace. These objectives can only be achieved if there is an integrated framework on comprehensive occupational safety and health measures, strong inspection and enforcement measures as well as adequate cash and healthcare benefits in the event of workrelated injuries and diseases, accompanied by appropriate physical and vocational rehabilitation services.

A financially sustainable and administratively efficient employment injury scheme is an important step towards preventing injured workers and the families of injured and diseased workers from falling into poverty.

#### 6.3.1 Legal coverage

In Armenia, the Law on State Pensions provides for an occupational disability pension for employed persons recognized as disabled by a competent state body conducting a medical and social examination,<sup>20</sup> if they had a given length of service at the time of establishing a disability or applying for a pension (see Table 6.3). Therefore, in effect, less than half of the labour force is legally covered for these benefits, provided they fulfil the service conditions.

#### Table 6.3:

Age group (years)	Work experience (years)
Up to 23	2
23-26	3
26–29	4
29–32	5
32–35	6
35–38	7
38–41	8
41-44	9
44+	10

#### Age and work experience criteria for an occupational disability pension

Source: Armenia 2010.

However, no specific provision is made for the compensation of medical expenses, which is particularly concerning given the low coverage of the BBP in Armenia, which excludes high-cost items. This is an important gap in the Armenian social protection system, particularly in the wake of the COVID-19 pandemic, which has made evident the importance of having effective employment injury insurance schemes in place to protect infected workers as well as their families.

Whereas in many countries the financial responsibility of compensation for a worker and their surviving family members rests on employers, in Armenia, there is no system of insurance for the life and health of workers in

industry. While the Government has in the past considered a draft law on mandatory social insurance against occupational accidents and occupational diseases—which would have created an authorized agency for social insurance against occupational accidents and diseases—this never came to be.<sup>21</sup> Presumably, this is linked to the system's overall trend in the opposite direction, which has dismantled insurance mechanisms in favour of direct government financing (see Annex 2). The limitations of this approach are most evident in schemes like employment injury, for reasons explored below.

To date, there is no dedicated legislation for the field of occupational safety and health (OSH);

thus, there is no systemic approach to the issues of occupational safety, including injury insurance. Consultations with trade union representatives and officials from the MoLSA confirmed that there are no state guarantees for employment injuries and occupational diseases at present. None of the legislation reviewed within the scope of this report specifically address this area either. From a cursory review, it appears that basic OSH regulations are dispersed among the Labour Code, the Law on the State Labour Inspectorate, the Law on the Regulation of Technical Safety (2005) and the Law on Sanitary-Epidemiological Security of the Population, among other legislation.

The Labour Code establishes that in the event of work-related accidents and occupational diseases, an employee must immediately notify his/her employer. The employer then provides for an official investigation on the cause of the accident or disease but gives no further provision for the redress of such incidents. Government Decree No. 579 from 1992 states that the employer must pay compensation in case the injury is the employer's fault, but there are no comprehensive guidelines on how to make such a determination. Most likely, this means that the burden of proof lays with employees. The Civil Code also includes some general provisions related to compensation in the case of injuries, not only related to labour.

The weak legal framework is accompanied by the lack of a registry of occupational accidents and diseases. It is therefore challenging to assess the incidence of these events and the rates at which they are reported and compensated. This makes it hard for the regulatory framework to keep pace with the country's economic development. According to ILOSTAT, in 2019, the incidence rate (per 100,000) of occupational fatalities and non-fatal occupational injuries was 4.4 and 35.1, respectively. This is compared to the rates of 2.2 and 9.7 in neighbouring Georgia.

It is thus advisable that a comprehensive review of national legislation related to OSH and employment injury protection is carried out in order to adequately assess the system against international standards, specifically ILO Convention No. 102, and establish the need to protect workers in the event of work-related injuries and diseases. An important part of this is to develop a registration system, which will allow for a better analysis of trends, including the industries that are seeing higher rates of accidents and occupational diseases.

Employers are responsible for securing the occupational safety and health of their workers and providing fair, equitable and effective compensation to injured workers and the families of deceased workers. Where compensation mechanisms are not in place, the only hope for redress for an injured worker or his/her survivors lies in direct compensations from his/her employer. Whereas some employers might rely on private insurance to protect themselves from liabilities, there are serious drawbacks to this approach (e.g. discontinuation of contracts with a particular insurer, delays in payment of claims due to lengthy administrative procedures, reluctance of employers to make claims in case their premiums are increased, etc.).

#### Box 6.3:

#### CEACR observations to Armenia (2021)<sup>22</sup>

The ILO Committee of Experts on the Application of Conventions and Recommendations (CEACR) has recently published observations for Armenia on the matter of the country's 2004 ratification of the Workmen's Compensation (Accidents) Convention, 1925 (No. 17). The Committee has noted the observations of the Confederation of Trade Unions of Armenia (CTUA) on the compensation of industrial accidents in the event of the insolvency of the employer or insurer. The Committee had previously requested the Government to take the necessary measures, without delay, to ensure that the 800 injured workers employed by companies liquidated after 2004 (who, following the adoption of Governmental Decision No. 1094-N of 2004, had not been paid compensation) are duly compensated. The Committee called on the Government to provide compensation to the above-mentioned workers and to similarly situated workers henceforth. In this way, the Committee expects that the Government will soon report on the adoption of measures necessary to ensure due and effective compensation for injured workers and their dependents in the event of the insolvency of the employer or insurer.

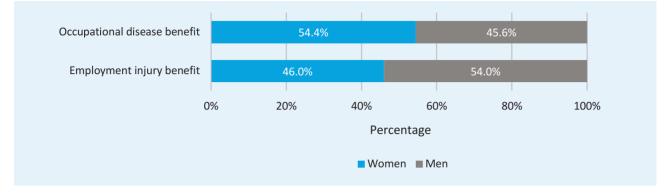
The Committee has therefore encouraged the Government to follow up the Governing Body's decision at its 328th Session (October–November 2016) that member States for which the Convention is in force should ratify the more recent Employment Injury Benefits Convention, 1964 (No. 121) or the Social Security (Minimum Standards) Convention, 1952 (No. 102) in order to reflect the more modern approach to employment injury benefits.

#### 6.3.2 Effective coverage

Administrative data suggest that 1,590 people, or 0.8 per cent of the working-age population, received a disability (state) pension for workrelated injuries or occupational diseases in 2019. Of these claims, 86 per cent were related to workrelated injuries, compared with just 14 per cent related to occupational diseases. Overall, women represented one third of all employment injury pensioners (521); and men, two thirds (1,069). However, as shown in Figure 6.7, women made up the majority of claimants for occupational disease pensions (54.4 per cent) while men made up the majority of work-related injury claimants (54 per cent).

#### Figure 6.7:





Source: Administrative data.

These gender differences likely reflect labourmarket segregation and a relatively higher exposure of men to work-related accidents; however, the overall lower claims for women could also reflect a lower visibility of occupational risks and conditions that are more likely to affect women in the workplace.<sup>23</sup> A full analysis of the gendered nature of occupational diseases and work-related injuries is beyond the scope of this assignment but would be important for understanding the specific and differentiated risks women and men in Armenia are likely to face, the extent to which conditions affecting women are captured in the assessment process, and the degree to which women are aware of the options available to them under the social protection system.

Finally, as noted above, many working women and men in Armenia—around 46 per cent are not in covered employment and therefore lack access to the protections afforded for employment injury risks under the Law on State Pensions. These workers, and their families, are left entirely unprotected in the event of a work-related accident, disease or death.

## 6.4 <u>SICKNESS</u>

Sickness benefits aim at ensuring income security during sickness, quarantine or the sickness of a dependent relative. As such, it is a social protection instrument with a public health objective. Sickness benefits allow workers to stay at home to recuperate until they have fully recovered, thereby protecting their own health and, in the case of communicable diseases, the health of others. The human rights framework and international labour standards consider sickness benefits a key element of social health protection that aims to provide effective access to health care without hardship, as well as income security to compensate for earnings lost due to sickness through public or publicly organized measures.<sup>24</sup> The COVID-19 crisis has demonstrated the importance of ensuring income security during ill health, including quarantine.

Sickness benefits and paid sick leave are crucial for addressing deteriorating health, health-related poverty and loss of productivity.

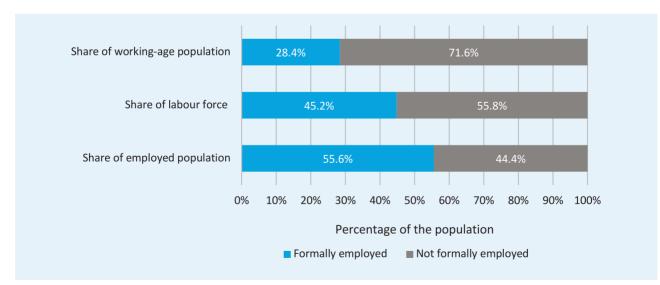
#### 6.4.1 Legal coverage

According to the Law on Temporary Incapacity and Maternity Benefits (2010), sickness or 'temporary disability' benefits are granted in the case of sickness, prosthetic treatment, hospital treatment and caring for sick family members, as well as during maternity leave. Temporary disability benefits are provided if the contingency occurred during the period of being in an employment relationship, as is usual for such benefits. The Law on Temporary Incapacity and Maternity Benefits (2010) defines the scope, including formally employed workers (excluding those employed in family businesses) and self-employed workers who have paid income tax. In this respect, sickness benefits are similar to state pensions. However, in the case of sickness, there is no non-contributory benefit to cover people excluded from the scope of the above-mentioned law.

This means that, legally, just 56 per cent of the employed population, less than half (45 per cent) of the labour force and less than a third of the working-age population (aged 15–64) are covered against this risk (Figure 6.8). These numbers take on a new meaning in the middle of the global pandemic, as they point to large numbers of workers having no income insecurity in the event of quarantine and illness.

#### Figure 6.8:

#### Formal employment in Armenia, 2019



Source: Based on ILOSTAT and authors' own analysis of the 2019 LFS.

In addition to paid leave, ILO Convention No. 134 also calls for appropriate provisions to help economically active persons who have to care for sick dependents. The Armenian system is particularly generous in this respect. Salaried employees are provided with paid leave from the second day of absence in the following cases:

- To care for a sick adult family member at home for up to seven days.
- To care for a sick child at home for up to 24 calendar days or up to 28 days in the case of an infectious disease.
- To care for a sick child in hospital for the entire period of the hospital stay.
- To care for a child under 18 years of age in need of individual care or a disabled person during inpatient treatment for the entire period of treatment specified in the referral, once per year.
- To care for a child under 18 years of age with a disability. If the mother (or guardian/trustee) is unable to care for the child due to illness or due to responsibilities caring for another sick family member, an allowance is paid to hire another worker to care for the child for the entire period of hospital stay.

This is a generous system not just because of the inclusion of paid leave for care duties but because of the recognition of all the different types of care responsibilities that workers can face. This is, of course, particularly important in the case of women, who we have seen shoulder the bulk of the burden of care in Armenia at the expense of their labour-market participation (see Figure 6.2). These kinds of provisions are essential to mitigate such outcomes. Still, that goal could be more easily attained if the burden of care was more equally divided in the first place. Indeed, the legislation's specific reference to a 'mother's' ability to care for a sick child works to perpetuate the notion among employers that women will be less reliable and more expensive workers and, among the general population, that it is mothers' (and not fathers') responsibility to care for ill family members.

Administrative data on the uptake of sickness benefits were not available but would be interesting to analyse from a gender perspective. In a culture of gendered social norms, understanding the circumstances under which men and women take sickness benefits and leave can shed light on how the social protection system is working to respond to these imbalances—and to what extent it actually addresses them.

#### 6.4.2 Effective coverage

#### Horizontal coverage

Gaps between legal and effective coverage are most likely related to actual compliance with tax payments, particularly among the self-employed. Many other barriers can prevent effective coverage of sickness benefits, including administrative or geographical barriers, non-compliance with registration procedures or lack of awareness.<sup>25</sup> International standards relevant to sickness benefits<sup>26</sup> call for sickness benefits to be organized in the most effective and efficient way to guarantee access to benefits for all. ILO Convention No. 102 provides that the cost of such benefits and their administration needs to be borne collectively. In the case of Armenia, all temporary disability benefits are financed mainly from the state budget, with an important caveat. In the case of sickness, specifically, there is a waiting period of one day to access the benefits. This is in line with international standards, which establish a period no longer than three days. The next five working days are paid directly by the employer and are not reimbursed, and the rest of the benefit is financed by the state budget. In contrast to an insurance mechanism, this financing arrangement, which partly relies on employer liability, can have adverse labour-market impacts.

For example, during recruitment processes, employers may discriminate against categories of workers who are perceived to take more sick leave, such as women with small children. It could also pressure these workers not to take sick leave when they need it. Employer liability is also inappropriate in the case of public health crises or pandemics, as the COVID-19 crisis illustrated when a large financial pressure was suddenly put on the shoulders of enterprises that were struggling to keep afloat all around the world.

At the same time, a positive feature of the Armenian system is that the blended system of financing allows the Government to extend protection to the self-employed—at least to those who have been paying income tax. In that sense, the horizontal coverage of sickness benefits is limited by the scope of the tributary system (see Section 3.2.2). Accordingly, the system excludes specific categories of workers who do not meet the eligibility requirements to pay PIT, be it by their employment status or their income levels.

#### **Vertical coverage**

The adequacy of sickness benefits depends on their level, duration and the existence of a waiting period, if any. Starting with benefit levels, these need to be sufficient to effectively provide a replacement for the income lost. The benefit should be a periodical payment that is provided to secure at least 45 per cent of previous earnings according to Convention No. 102 or at least 60 per cent of earnings according to Convention No. 103. In Armenia, the temporary disability benefit of salaried employees and self-employed workers is calculated from 80 per cent of the average monthly salary and thus meets ILO standards.<sup>27</sup> This relatively high replacement rate ensures that even workers earning the minimum wage can receive an adequate benefit compared to the average net earnings in the labour market (see Table 6.4).

#### Table 6.4:

#### Adequacy of sickness benefits in Armenia compared to ILO C102 and C103

National benefit	Minimum monthly wage (2019)	Value of monthly national benefit at 80% of minimum wage	Average monthly net income (2019)	Value of monthly national benefit at 80% of previous earnings	C102 adequate sickness benefit at 45% (per month)	C103 adequate sickness benefit at 60% (per month)
All workers	AMD 55,000	AMD 44,000	AMD 108,976	AMD 87,181	AMD 49,039	AMD 65,385
	(US\$112)	(US\$90)	(US\$222)	(US\$178)	(US\$96)	(US\$128)

If the base amount for salaried employees exceeds one minimum monthly wage, a benefit ceiling of 10 minimum wages is applied. For the self-employed, the ceiling is five times the minimum wage. For both, a floor of 50 per cent of the minimum wage is applied. As with other benefits, these ceilings are set at a relatively high level unlikely to affect the average worker, based on average earnings data. However, this can only be established with certainty through an actuarial valuation. The existence of a floor in the system, at 50 per cent of the minimum wage, is of greatest benefit for lowincome workers.

# 6.5 DISABILITY

Persons with disabilities face a number of challenges throughout their lifecycle that make it extremely difficult for them to fully participate in society, often resulting in reduced access to education, employment and health care, as well as more limited incorporation within social, economic and political networks.<sup>28</sup> In addition, discriminatory norms and attitudes towards persons with disabilities are among the greatest hurdles to disability inclusion and are often embedded in policymaking and reform, in

service provision and in everyday life. Persons with disabilities—and their households—are more likely to experience poverty (see Box 6.4). In addition, real levels of poverty for persons with disabilities are often underestimated due to the direct and indirect additional costs of disability.<sup>29</sup> It is widely understood that, as a result of the additional costs, when two households with the same level of expenditure are compared, the household with a member with a disability has a lower standard of living.<sup>30</sup>

#### Box 6.4:

#### The relationship between disability and poverty

Disability and poverty are two related conditions: those who live in poverty are more likely to become disabled, while those with a disability are much more likely to be living in poverty. Individuals living in poverty face different risks that increase their probability of becoming ill or having an accident/ injury, causing an impairment. These risks may include the following: reduced access to basic health care; increased vulnerability to malnutrition and preventable diseases; increased likelihood of living in dangerous or polluted environments with low-quality housing and reduced access to safe drinking water and sanitation; and increased likelihood of inhabiting areas that are prone to the effects of natural disasters, dangerous traffic and higher rates of violence. Thus, poverty and disability mutually reinforce each other, contributing to the increased vulnerability and exclusion faced by persons with disabilities globally.

Source: ILO and UN Women 2020, based on Banks and Polack 2014.

Challenges faced by persons with disabilities in Armenia are due, in part, to an absence of appropriate services that address their needs and enable them to fully participate in economic and social activities.<sup>31</sup> They are also faced with high costs for specialized services and assistive devices. As they are considered a 'vulnerable group' in the Government's list of poor, vulnerable and special categories, persons with disabilities are eligible for some healthcare co-payment exemptions and inpatient care under the BBP. Subsidies in the form of vouchers are also provided by the Government for rehabilitation services and assistive devices, although the responsibility of providing said services largely falls on NGOS.<sup>32</sup> Conversations with NGO representatives highlighted barriers to effective service provision since state funding is generally limited and the bidding process for public funds is extremely competitive. NGOs generally serve as an intermediary between persons with disabilities and the Government, highlighting the State's lack of understanding of such persons' complex and specific needs. As a result, there is usually a mismatch between the needs of persons with disabilities and the funds for services and assistive devices provided by the Government, for which OOP co-payments can reach up to 90 per cent of the cost.<sup>33</sup>

#### 6.5.1 Legal coverage

In addition to vouchers for rehabilitation services and assistive devices, the Government of Armenia provides cash benefits on a universal basis to all those in Armenia officially recognized as having a Group I, II or III disability (excluding those residing in a state-run institution). This is achieved through a multi-tiered combination of the disability (state) 'labour' pension for those in formal employment and a disability (social) benefit for everyone else. As with sickness benefits, the legally covered population for the disability (state) pension amounts to around 28 per cent of the working-age population and around 45 per cent of the labour force (Figure 6.8). In addition, formally employed workers must meet a minimum qualifying period as shown in Table 6.5.

#### Table 6.5:

#### Age and work experience criteria for a disability labour pension

Age group (years)	Work experience (years paying PIT)
Up to 23	2
23-25	3
26–28	4
29–31	5
32-34	6
35–37	7
38-40	8
41-43	9
44+	10

An official assessment is required to receive either type of benefit. Analysis of the 2019 ILCS suggests that around 82,400 working-age people, or around 4.1 per cent of the workingage population, reported being assessed as disabled. While the legally covered population is almost certainly intended to include all persons with disabilities in Armenia, it is almost certain that there will be some—most likely those with mild disabilities—who do not seek out a disability assessment, for a variety of reasons (such as a lack of awareness of their right to a benefit, lack of access to healthcare/assessment facilities or fear of discrimination).

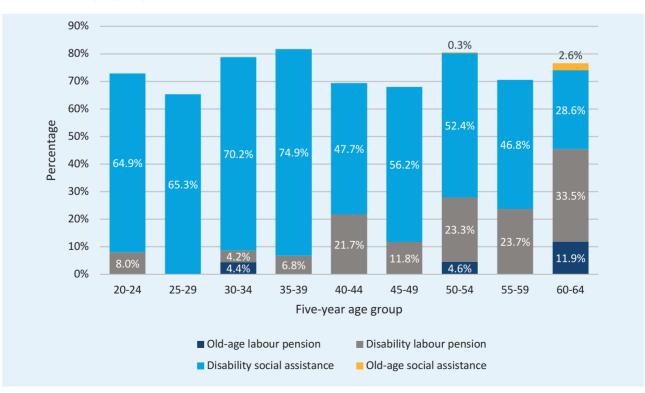
#### 6.5.2 Effective coverage

#### Horizontal coverage

Whereas coverage of children assessed with disabilities is relatively low in Armenia (60.4 per cent of children aged 0–15 reported receiving a disability benefit in 2019), working-age adults who are assessed as disabled are significantly more likely to receive a disability benefit than their younger counterparts. This is partly due to the combination of benefits provided under the multi-

tiered disability benefit system, where people of working age can qualify for either a contributory state disability pension or a non-contributory disability benefit. In addition, as they approach pensionable age, some people with disabilities can also begin to access an old-age pension. Figure 6.9 shows the effective coverage of persons with disabilities in Armenia under a variety of social protection benefits.

#### Figure 6.9:



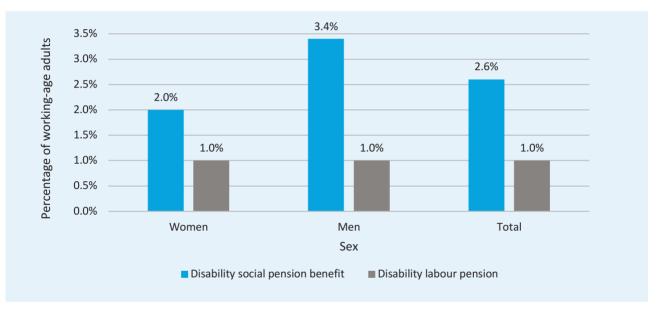
### Percentage of working-age persons recognized as disabled receiving various social protection benefits, by age group, 2019

Source: 2019 ILCS.

According to an analysis of the 2019 ILCS, anywhere between 65 per cent (aged 20–24) and 82 per cent (aged 35–39) of those registered as disabled are able to access one of the four benefits, but the disability social assistance benefit is clearly the driving force behind effective horizontal coverage of persons with disabilities in working age. This speaks to the vital importance played by benefits that are not linked to employment in providing a basic floor of protection for persons with disabilities who face additional obstacles to accessing contributory benefits through covered employment. The graph also shows that the likelihood of qualifying for a labour disability pension increases with age, going from well below 10 per cent for those aged 20–39 and rising to 34 per cent among those aged 60–64. This reflects the fact that, as they age, more people will have met the minimum contribution requirements to receive a contributory disability benefit.

#### **Figure 6.10:**

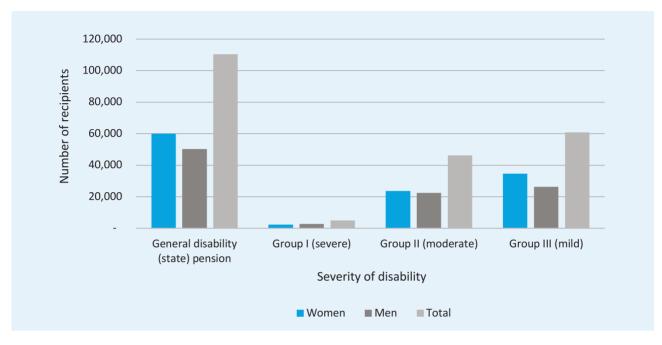




Source: 2019 ILCS.

According to administrative data, 110,424 people received a general disability (state) pension in 2019 (excluding those who received a sickness or 'temporary disability' benefit and those who received an employment injury or 'occupational disability' benefit). The disability (state) pension is differentiated by degree of disability. As shown in Figure 6.11, Group II (total incapacity for work but not requiring constant attendance) and Group III (partial incapacity for work) together account for the vast majority of disability (state) pension claims, while claims for Group I disability pensions (total incapacity for work and requiring constant attendance) are relatively rare.

#### Figure 6.11:



#### Number of disability (state) pensioners, by severity of disability

Source: Administrative data.

Moreover, Figure 6.11 also shows a gender difference in disability benefit claims, where women make up 56 per cent of partial/mild disability claims and 54 per cent overall, which is in line with global trends.<sup>34</sup>

#### **Vertical coverage**

Until 2019, the disability (social) benefit size was differentiated by groups according to the severity of the disability. Since 2019, there has been no differentiation, and all persons—including children—recognized as disabled receive a flat-rate benefit of AMD 26,500 (US\$50) per person per month. No indexation rule is applied. As of June 2020, the average disability (state) pension amounted to AMD 41,228 (US\$77) per person per month.

When assessing the adequacy of disability benefits, it is necessary to determine whether the benefits are adequate to cover income replacement (if required) and the additional costs of disability. Although disability in Armenia is not associated with an incapacity to work, many persons with a disability are economically inactive. According to 2019 LFS data, 34 per cent of non-youth who are not in the labour force cited themselves as being 'disabled, retired, injured or sick'. Therefore, it is important to assess whether the disability benefit and pension are adequate forms of income replacement. Table 6.6 shows the value of both the disability (social) benefit and the disability (state) pension as a ratio of some key reference values, including the minimum wage, average wage and national poverty lines. The flat-rate disability social benefit amounts to just 39 per cent of the minimum wage, which is insufficient income replacement for a person with an incapacity for gainful employment.

#### Table 6.6:

## Disability (social) benefit and average disability state (labour) pension as a ratio of key reference values

	Monthly level	Disability (social) benefit as a share of the monthly level	Average disability (state) pension as a share of the monthly level
Minimum monthly wage (2020)	AMD 68,000 (US\$141)	39.0%	60.6%
Economy-wide average nominal wage (2019)	AMD 182,673 (US\$372)	14.5%	22.6%
Men	AMD 222,510 (US\$453)	11.9%	18.5%
Women	AMD 145,198 (US\$296)	18.3%	28.4%
Average net wage (2019)	AMD 108,976 (US\$222)	24.3%	37.8%
Men	AMD 127,327 (US\$259)	20.8%	32.4%
Women	AMD 88,374 (US\$180)	30.0%	46.7%
Minimum pension (2020)	AMD 18,000 (US\$37)	147.2%	229.0%
Average labour pension (2020)	AMD 43,590 (US\$90)	60.8%	94.6%
Men	AMD 44,866 (US\$91)	59.1%	91.9%
Women	AMD 42,722 (US\$87)	62.0%	96.6%
National poverty line (2019)			
Upper	AMD 53,043 (US\$108)	50.0%	77.7%
Lower	AMD 35,054 (US\$71)	75.6%	117.6%
Food	AMD 23,763 (US\$48)	111.5%	173.5%

Although the additional costs of disability have not been specifically measured in Armenia, global estimates have suggested that they reach an additional 30 to 40 per cent of average income.<sup>35</sup> Because disability is not associated with an incapacity to work in Armenia—thereby suggesting that the benefit is intended to cover the additional costs of disability, not income replacement—people with disabilities in Armenia can both work and receive a disability benefit at the same time. Therefore, it is useful to assess the value of the disability benefit and average pension size as a share of the additional cost of disability. Table 6.7 shows these values as a share of the additional costs, estimated at 35 per cent of average income. Here, the social benefit fares slightly better, reaching 69.5 per cent of the reference value for the average net wage and surpassing the reference value for the minimum wage. The average disability labour pension value also surpasses the reference values for both the average net wage and the minimum wage.

#### Table 6.7:

## Transfer values of the disability (social) benefit and average disability state (labour) pension as a share of the estimated additional costs of disability

	Monthly level	Estimated additional costs of disability (35% of monthly level)	Disability (social) benefit as a share of the estimated additional cost	Average disability state (labour) pension as a share of the estimated additional cost
Minimum monthly wage (2020)	AMD 68,000 (US\$141)	AMD 23,800 (US\$49)	111.3%	173.2%
Economy- wide average nominal wage (2019)	AMD 182,673 (US\$372)	AMD 63,936 (US\$130)	41.4%	64.5%
Men	AMD 222,510 (US\$453)	AMD 77,879 (US\$159)	34.0%	52.9%
Women	AMD 145,198 (US\$296)	AMD 50,819 (US\$104)	52.1%	81.1%
Average net wage (2019)	AMD 108,976 (US\$222)	AMD 38,141 (US\$78)	69.5%	108.1%
Men	AMD 127,327 (US\$259)	AMD 44,564 (US\$91)	59.5%	92.5%
Women	AMD 88,374 (US\$180)	AMD 30,931 (US\$63)	85.7%	133.3%

#### 6.6

# UNEMPLOYMENT PROTECTION

#### 6.6.1 Structural unemployment

Access to jobs is unequally distributed among the population and varies significantly by age, gender, educational attainment and region. Women as well as individuals with lower educational attainment, those living in urban areas and especially the youth are much less likely to be employed. Access to employment is especially low for youth and women, only 65.9 per cent of youth (aged 15–24) and 82.5 per cent of women were employed in 2019. Of those not in the labour force, 30 per cent were youth, and 68 per cent were female.<sup>36</sup>

Getting more people into employment is imperative for Armenia, especially considering its

ageing population. In this sense, it is important to understand who is affected by inactivity and unemployment. While Armenia's total labour-force participation rates are average in the region (at 59.8 per cent), women's participation (49.6 per cent) is one of the lowest among ECA countries and is thus where there is a more urgent need to bridge the gap. On the other hand, the unemployment rate in Armenia is also high, at 19 per cent. This has been a persistent problem preceding the COVID-19 and financial crises. Moreover, more than half of the unemployed are long-term unemployed—that is, they have been seeking employment for more than one year. Unemployment rates are similar to the national average of 18 per cent for both men and women. However, rates vary significantly by age, with the rate for youth aged 15–19 being particularly high at 39.9 per cent and those aged 20–24 at 29.6 per cent. Women are particularly affected by youth unemployment.

#### 6.6.2 Unemployment insurance

The context laid out above is a challenging one demanding well-designed and targeted employment policies, especially because it is characterized by structural unemployment resulting from a mismatch between skills and demand. Overall, the data point to a need to create more employment opportunities. Without more jobs available, all efforts to match supply and demand will inevitably come short. Thus, in the short term, unemployment will continue to affect a large number of workers. This will be particularly true for women and youth, who will require targeted interventions to address the challenges holding them back.

While an assessment of ALMPs is beyond the scope of this report, unemployment protection is a core part of any comprehensive social protection system. In the context of structural unemployment, in particular, unemployment benefits are critical to ensure that, in the short term, workers have access to minimum income security while, in the long term, ALMPs balance the supply and demand of work.

#### Box 6.5:

#### Armenia's ALMPs

The Employment Strategy of the Republic of Armenia and the Law on Employment are considered the basis for the development and implementation of the Annual State Programme on employment. Within the 2018 Annual State Programme, the following 10 programmes were implemented:

- Provision of lump-sum compensation to employers for hiring a person uncompetitive in the labour market
- Organization of internships for those without job experience
- Organization of vocational training for the unemployed and for jobseekers soon to face economic dismissal
- Organization of job fairs

- Provision of partial wage compensation to employers for hiring a person uncompetitive in the labour market
- Financial assistance to jobseekers to visit employers
- Provision of financial support for geographical mobility in the labour market

In addition, two new programmes were introduced in 2018 aimed at reducing unemployment among women:

- Assistance to jobseekers who are on maternity leave to hire a nanny if they want to go back to work before the child turns 2 years old
- Organization of vocational training with specific employers for low-skilled young mothers

In Armenia, the main obstacle to finding a job cited by jobseekers is the lack of jobs. This means that unemployment benefits should not be linked to conditions for taking up work but rather to labourmarket policies focused on skills training, as well as policies that confront social norms preventing women from taking up work. This, however, should not be understood as mutually exclusive to unemployment cash benefits. Unfortunately, this is now the situation in Armenia, where in 2015 the authorities moved to abolish the existing unemployment benefits in favour of boosting spending on employment-promotion measures.

This move was in the context of the implementation of the 2010 Law on Income Tax, which replaced social contributions as the source of financing for state benefits. Prior to this reform, social contributions for both employed and selfemployed workers financed sickness, maternity, work injury and unemployment benefits. Unemployment benefits equalled 60 per cent of the legal monthly minimum wage and were paid for six months plus an additional month for each three-year period of covered employment, up to 12 months.<sup>37</sup> However, Law No. HO-152-N of 2013 repealed Law No. HO-206-N of 24 October 2005 that established this benefit. As a consequence, unemployment benefits were discontinued in 2015 and replaced by employment promotion measures.<sup>38</sup> This is in direct contrast to a global trend that has recently seen various middleincome countries strengthen their unemployment protection policies by introducing unemployment insurance schemes and expanding their scope, combining them with employment promotion measures as part of an integrated package.

Regulated directly by the Labour Code (2004), severance pay is currently the only form of income compensation available to workers whose employment has been terminated at the initiative of the employer. Severance pay is often limited only to those with long tenures with the same employer as a form of deferred payment. But even for the minority of workers who qualify in Armenia, the protection is very limited. If dismissal is due to the firm's closure or downsizing, the benefit amount corresponds to one average monthly salary. If dismissal is due to other reasons, the amount depends on the employee's length of service with up to 44 days of pay for workers with tenures of more than 15 years.<sup>39</sup> Moreover, unlike unemployment insurance, severance pay is not linked to the objective of employment promotion and does increase financial burdens on enterprises, especially in times of economic distress such as the recent aftermath of the COVID-19 pandemic, often resulting in nonpayment.

As per international standards, employment protection has two key objectives. The first is to guarantee income security in case of partial or full job loss. The second is to promote decent employment through strategic links with employment promotion measures and ALMPs. These two objectives reinforce each other, but in the case of Armenia, there seems to be a clear political preference for the latter. This has resulted in the loss of the first function of unemployment benefits. By mitigating lost income, unemployment benefits play a fundamental role in preventing individuals and households from falling into poverty and vulnerability when workers become unemployed. By providing unemployed workers with temporary financial support, they can help prevent a slide into informality and inactivity, particularly when combined with employment services tailored to the needs of specific groups, such as youth, older workers and the long-term unemployed.

The effectiveness of unemployment protection extends beyond protecting incomes and promoting employment. Well-designed unemployment protection schemes and policies can also promote gender equality and women's empowerment by combating a range of impediments that women face: the highly informal nature of their work and consequent exclusion from temporary incapacity benefits; lower state pensions related to interrupted contribution histories; and public policies that reflect traditional social norms and stereotypes. Unemployment protection policies have been proved to increase women's labourmarket participation.<sup>40</sup> On the other hand, the ALMPs introduced in 2018 to specifically reduce unemployment among women are unlikely to have a significant impact as, by design, they target small pockets of the population. They also do not

address the social norms preventing women from taking up work.

The nanny programme is available only to salaried employees on parental leave for a child under the age of 2, as discussed earlier in this report (see Section 6.2.1). A programme for vocational training for young mothers is available to mothers under the age of 30 who have no formal training and are entering the labour market for the first time. Priority is given to single mothers, recipients of the FB and mothers with three or more children. The programme provides a scholarship equal to the minimum wage for the duration of the training period but does not include additional support for participants to arrange childcare. In that sense, it is difficult to foresee how mothers of young children (under the age of 3) could participate in the programme, showing a fundamental lack of understanding of the core challenge that the policy aims to address. This gap is reflected in the low take-up of the programme, which in 2018 totalled just 112 beneficiaries nationwide.41

Protection against unemployment is an integral part of the right to social security, enshrined in various international human rights instruments. The abolishment of unemployment benefits in Armenia does not seem consistent with the nature of employment challenges in the country, and it will affect women and youth the most, further exacerbating their existing vulnerabilities. Both from a social protection perspective and from an employment promotion perspective, it is advisable for policymakers to reconsider that unemployment protection and employment promotion measures do not have to be mutually exclusive. They should, in fact, reinforce each other to meet both short- and long-term goals.

# 6.7 <u>SUMMARY</u>

Among working-age people in Armenia, there are high levels of economic inactivity and wide gender gaps. In 2019, less than half of the workingage population were in employment, and of the economically inactive, more than two thirds were female. Women's high inactivity rates are primarily explained by family caregiving and domestic responsibilities. This is most pronounced among the 25–39 age group, when women are likely to have young children. Exiting the labour force due to care reasons appears to be an issue exclusively affecting women, pointing to social and cultural norms that shape gender roles.

Entitlement to contributory working-age benefits in Armenia often depends on employment status, working trajectories, contributions and earnings. This means not only that social protection floors can still play a role during this period of the lifecycle but also that they are most relevant for workers disadvantaged in the contributory system. These workers include not only women but also any workers, male or female, engaged primarily in the informal economy. It is clear that in the most successful branches in terms of coverage (e.g. maternity cash benefits, disability social benefits and labour pensions, and survivors' social benefits and labour pensions), a multi-tiered system is present.

Maternity protection in Armenia reflects a complex configuration. Although it can be said that there is universal legal coverage of maternity benefits, it is easy to see that provisions are heavily skewed towards working women (see

Figure 6.6). While, in theory, Armenia provides income support during the full period of maternity leave, the legal division between maternity and parental leave hides the fact that income support covers just a small portion of the time during which childcare responsibilities are incompatible with full-time labour-market participation. Like the duration of leave, the monetary value of the wage replacement also varies between 'working' (employees working formally), registered selfemployed and 'non-working' (inactive and informally employed) women in Armenia-again favouring women in formal employment. While it is difficult to assess the adequacy of benefits for non-working women since, by definition, they had no previous registered earnings, the extension of the lump-sum payment equal to 50 per cent of the minimum wage is a positive step—demonstrating that there is, in fact, a social protection floor for maternity in Armenia. Nevertheless, the monetary value is too low to support Armenia's strategic goals: to enable women's economic opportunities and to create a balance between care and labour that may be conducive to increased fertility levels.

With no dedicated legislation for the field of OSH, there is no systemic approach to the issues of occupational safety in Armenia. However, the Law on State Pensions (2010) does provide for an occupational disability pension that is tied to formal employment and years of service, therefore excluding around half of Armenia's labour force. The weak legal framework makes it difficult to determine the size of the legally covered population and the adequacy of compensation. Further, the lack of any registry for work-related injuries or occupational diseases makes it difficult to assess their incidence and for the regulatory framework to keep pace with the country's economic development.

Sickness—or 'temporary disability'—benefits cover only formally employed workers (excluding those employed in family businesses) and self-employed workers who have paid income tax. There is no non-contributory benefit to cover people excluded from this legal scope, meaning that just over half of the employed population are eligible. This gap in coverage takes on a new meaning during a pandemic. However, it should be noted that the current system could be considered generous in that it covers not only paid sick leave but also paid leave for a number of care duties. The replacement rate of 80 per cent of the average monthly salary can also be considered relatively high and meets ILO minimum standards.

For disability, the overall story is one of relative success. A multi-tiered system ensures that the vast majority of people who live with a disability are able to access income security to improve their quality of life. Coverage increases with age, likely reflecting the fact that adults can qualify for either a contributory state disability pension or a non-contributory disability benefit. The likelihood of qualifying for a labour disability pension also increases with age, reflecting the fact that as years pass, more people will have met the minimum years-of-service requirements. In terms of adequacy, the flat-rate disability social benefit amounts to just 39 per cent of the minimum wage, which is insufficient income replacement for a person with an incapacity for gainful employment.

However, because disability is not associated with an incapacity to work in Armenia, it is useful to assess the value of the transfer as a share of the additional cost of disability (calculated at 35 per cent of average income). Here, the social benefit fares slightly better, reaching 69.5 per cent of the reference value for the average net wage and surpassing the reference value for the minimum wage. The average disability labour pension value also surpasses the reference values for both the average net wage and the minimum wage.

More than half of unemployed persons in Armenia are long-term unemployed—that is, they have been seeking employment for more than one year. In fact, structural unemployment has been a persistent problem preceding the COVID-19 and financial crises. In Armenia, the main obstacle to finding a job cited by jobseekers is the lack of jobs. Structural unemployment also comes from a mismatch between the supply and demand of skills. Thus, in the short term, unemployment will continue to affect large numbers of workers, particularly youth. Much of this needs to be addressed through employment policies such as skills training and other ALMPs. However, this does not mean that social protection should not play a role. ALMPs and unemployment benefits are, in fact, not mutually exclusive and actually work best together. In the context of Armenia, unemployment cash benefits would ensure that, in the short term, workers have access to income security while, in the long term, ALMPs balance the jobs market.

Table 6.8 summarizes the legal and effective coverage of the working-age population in Armenia. The following chapter turns to social protection provisions for older people in Armenia.

#### **Table 6.8:**

#### Summary of legal and effective coverage of the working-age population in Armenia

		Legal coverage		Effectiv	ve coverage
Scheme	Legally covered population	Number of legally covered individuals42	Share of the legally covered population	Number of beneficiaries43	Share of the effectively covered population
Maternity benefit for working women	Formally employed and registered self-employed women aged 15–64 (mothers of newborns)	282,231 theoretically eligible in the event of maternity (Note: An estimated 2.9% of working-age women would have given birth in 2019, according to extrapolations based on the 2019 ILCS.)	<ul> <li>62.8% of all employed women</li> <li>50.4% of the female labour force</li> <li>26.5% of the female working-age population</li> </ul>	No data	0.8% of the female working-age population reported claiming the maternity benefit for working women (2019 ILCS)
Maternity benefit for non-working women	Women who are not formally employed or self-employed (mothers of newborns)	781,819 theoretically eligible in the event of maternity (Note: Approximately 2.9% of working- age women gave birth in 2019, according to extrapolations based on the 2019 ILCS.)	73.5% of the female working- age population	No data	No data (Note: The 2019 ILCS suggests 0% of the female working- age population reported receiving the benefit.)
Total Maternity	All women	1,064,050	100% of women	No data	Insufficient data

(continued)

		Legal coverage		Effective coverage		
Scheme	Legally covered population	Number of legally covered individuals42	Share of the legally covered population	Number of beneficiaries <sup>43</sup>	Share of the effectively covered population	
Childcare allowance for working women	Formally employed women (or other parent/ guardian taking care of a child)	282,231 theoretically eligible if caring for a child	<ul> <li>62.8% of all employed women</li> <li>50.4% of the female labour force</li> <li>26.5% of the female working-age population</li> </ul>	No data	0.3% of the female working-age population reported claiming the childcare allowance for working women (2019 ILCS)	
Disability (social) benefit	Lawful residents of Armenia, stateless persons and asylum seekers (assessed with a disability)	1,435,037 theoretically eligible if they become disabled (Note: An estimated 4.1% of working-age people reported to be assessed as having a disability in 2019, according to extrapolations based on the 2019 ILCS.)	71.6% of the working-age population would be theoretically eligible if they became disabled	No data	<ul> <li>2.6% of the working- age population reported receiving the disability (social) benefit (2019 ILCS)</li> <li>51.5% of working- age people assessed with a disability reported receiving the disability (social) benefit (2019 ILCS)</li> </ul>	
Disability (state) pension	Lawful residents of Armenia, stateless persons and asylum seekers (assessed with a disability)	568,529 theoretically eligible if they become disabled (Note: An estimated 4.1% of working-age people reported to be assessed as having a disability in 2019, according to extrapolations based on the 2019 ILCS.)	<ul> <li>55.6% of the employed population</li> <li>45.2% of the labour force</li> <li>28.3% of the working-age population</li> </ul>	Insufficient data <sup>44</sup>	1% of the working- age population reported receiving the disability (state) pension (2019 ILCS) 19.6% of persons of working age assessed with a disability reported receiving the disability (state) pension (2019 ILCS)	
Total Disability	All working- age people (assessed with a disability)	2,003,566 working-age people (of which approximately 82,480 are assessed with a disability)	100% of working- age people	No data	Insufficient data	

(continued)

		Legal coverage	Effectiv	(continued) ve coverage	
Scheme	Legally covered population	Number of legally covered individuals42	Share of the legally covered population	Number of beneficiaries <sup>43</sup>	Share of the effectively covered population
Survivors' (social) benefit	Eligible survivors of lawful residents of Armenia, stateless persons and asylum seekers not eligible for a survivors' (state) pension	Number of eligible survivors unknown	Eligible survivors of 71% of the working-age population	No data	Insufficient data (Note: The 2019 ILCS suggests 0.1% of the working-age population reported receiving the benefit.)
Survivors' (state) pension	Eligible survivors of formally employed and self-employed lawful residents of Armenia, stateless persons and asylum seekers	Number of eligible survivors unknown	<ul> <li>Eligible survivors of:</li> <li>55.6% of the employed population</li> <li>45.2% of the labour force</li> <li>28.3% of the working-age population</li> </ul>	7,685	Insufficient data
Total Survivors	All eligible survivors in the event of the loss of a breadwinner	Number of eligible survivors unknown	100% of eligible survivors	Insufficient data	Insufficient data
Sickness ('temporary disability') benefits	Formally employed and self-employed persons (excluding those employed in family businesses)	Approximately 568,529 theoretically eligible in the event of temporary incapacity	<ul> <li>55.6% of the employed population</li> <li>45.2% of the labour force</li> <li>28.3% of the working-age population</li> </ul>	No data	0.2% of the working- age population reported receiving the temporary sickness benefit (2019 ILCS)
Employment injury ('occupational disability') benefits	Formally employed persons over the age of 18	Approximately 568,529 theoretically eligible in the event of temporary incapacity	<ul> <li>55.6% of the employed population</li> <li>45.2% of the labour force</li> <li>28.3% of the working-age population</li> </ul>		

# BASIC INCOME SECURITY FOR OLDER PEOPLE IN ARMENIA



Armenia has achieved universal coverage of oldage protection through a multi-tiered system. People who do not accrue enough service years to qualify for a state pension can receive an oldage benefit, and the basic pension constitutes a de facto social protection floor for everyone. However, a sequence of structural reforms culminating in a full shift from a solidarity-based system to one of individual accounts and risks means that future generations of retirees will be more exposed to income insecurity in old age. This is especially the case for women, as well as any other worker with an interrupted contributory history. For these people, the old-age benefit will become their only source of income in old age, which raises the question of whether this scheme is sufficient to maintain a decent standard of living over increasingly long retirement periods. The ageing trend, combined with decreasing fertility rates and large portions of inactive people of working age, means that there will be increased pressure on the state budget to finance this benefit.

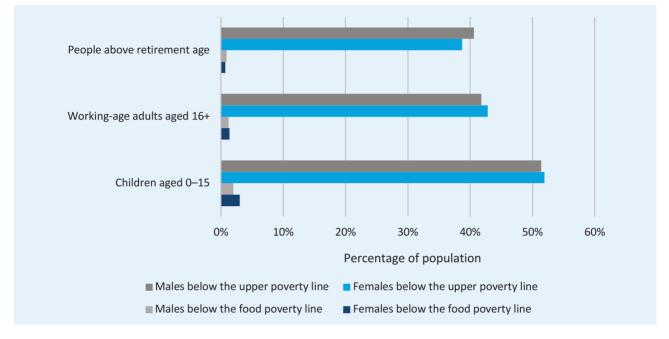
#### 7.1

# <u>CONTEXT AND OVERVIEW</u> OF BENEFITS FOR OLDER PEOPLE

#### 7.1.1 Profile of vulnerability

As the capacity to work gradually reduces due to age-related health issues and increasing disability, old age is a particularly vulnerable stage of the lifecycle.<sup>1</sup> The loss of independent income increases the likelihood of poverty among older people and can also lead to social isolation, neglect, abuse and discrimination. Furthermore, many older persons—especially women—face the additional financial challenge of taking on care responsibilities for children or other adults with disabilities, leaving them with little disposable income to meet their own needs. It is thus vital that older people have access to health care and social protection. In Armenia, although there is limited healthcare coverage, the universal social pension provides a basic income security 'floor' helping prevent older persons from falling into poverty. Indeed, thanks to the impacts of the social benefit, poverty in Armenia is lowest among older persons (see Figure 7.1). Although just 0.8 per cent of older persons (0.9 per cent of men and 0.7 per cent of women) are considered 'extremely poor' (i.e. living below the food poverty line), some 39.5 per cent (40.6 per cent of men and 38.7 per cent of women) are still considered 'poor' (i.e. living below the upper poverty line).

#### Figure 7.1:



## Percentage of the population living in poverty (below the food and upper poverty lines), by age group and sex, 2019

As discussed in Section 2.1, Armenia is an ageing society; therefore, over time, there will be fewer and fewer people of working age to support their elders at a time when the economic weight of caring for them will increasingly fall on the working-age demographic. This shows the need for significant, long-term investment in building a comprehensive pension system that can provide adequate income security in old age.

#### 7.1.2 Key social protection schemes aimed at older people

In old age, people can expect to receive the following lifecycle benefits in Armenia:

- Old-age (social) benefit
- Old-age (state) pension
- Disability and survivors' benefit

- Disability and survivors' pension
- Emergency Assistance
- Social Benefit (SB): assigned to families with a vulnerability score above the eligibility threshold and without members under the age of 18

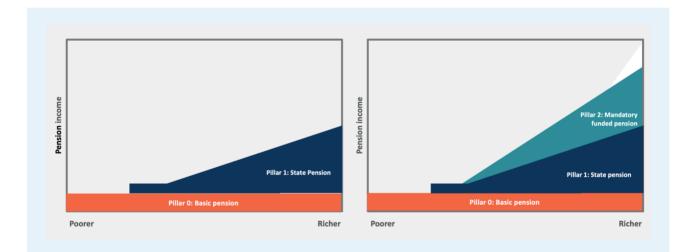
Source: Analysis of the 2019 ILCS.

# 7.2 OLD-AGE PENSIONS AND BENEFITS

In Armenia, all women and men can expect to receive a regular, predictable monthly pension when they reach either 25 years of service to qualify for a state pension or the age of 65 to qualify for an old-age (social) benefit. All benefits are currently financed from the state budget, and state pensions alone accounted for 48.5 per cent of all social protection expenditure in 2019. Oldage protection, made up of pensions and benefits, is the most significant feature of Armenia's social protection system.

#### Figure 7.2:

#### Depiction of Armenia's old-age pension system



Source: Authors' depiction.

Perhaps due to this significance, the Armenian oldage protection system has undergone profound reforms (see Annex 2). At the moment, the multitiered system could be described as follows:

• **Pillar 0:** Although not officially recognized as Pillar 0, the **old-age benefit** is a de facto social protection floor for all retirees in Armenia, be it through the contributory or non-contributory system. For people aged 65 and above who

did not achieve at least 10 years of service, the pension-tested old-age benefit is available. The value of this benefit is a flat rate, currently equal to AMD 26,500 per month. This value is not indexed.

• **Pillar 1: Old-age pensions** are available to people aged 63 and above with at least 25 years of service. A reduced-rate pension is also paid to people with 10 to 25 years of service. Years of service in the military, in university or caring for a child (up to the age of 6) are also

considered years of service. A basic pension is guaranteed to all Pillar 1 beneficiaries. In addition, a personal entitlement is calculated on the basis of the length of service and funded through the state budget, through a defined benefit (DB) system. The average size of old-age pensions as of 1 July 2020 was equal to AMD 45,116 per month.

 Pillar 2: On 1 January 2014, a defined contribution (DC) system was introduced. Mandatory individual accounts were introduced for all state employees born on or after 1 January 1974 and for new entrants into the labour market. On 1 July 2018, mandatory coverage was extended to all public and private sector workers born after 1974. Pillar 2 participants also have the guarantee of a basic pension financed through the state budget, but their personal entitlement is calculated on the basis of additional contributions into individual accounts, both from workers and the State (see Annex 1 for more details). Box 7.1 describes the contribution structure for the funded pension scheme in Armenia.

#### Box 7.1:

#### Pillar 2 contribution structure

The 2014 amendment to the Law on Funded Pensions enacted certain changes to the taxpayers'/ State's share of contributions to Pillar 2. In total, this contribution equals 10% of the salary or equivalent income.

Income	Rate of funded contributions by the State	Rate of funded contributions by the taxpayer	
Up to AMD 500,000 per monthRemaining (to make up 10% of basic income)		3.5% of basic income	
More than AMD 500,000 per month	AMD 32,500 (monthly)	Remaining (to make up 10% of basic income)	

There are further changes to the taxpayers'/State's share of the contribution, starting in January 2022:

Income	Rate of funded contributions by the State	Rate of funded contributions by the taxpayer	
Up to AMD 500,000 per month 5.5% of basic income		4.5% of basic income	
More than AMD 500,000 per monthAMD 27,500 (monthly)		Remaining (to make up 10% of basic income)	

#### 7.2.1 Legal coverage

The current old-age protection system in Armenia is regulated by a package of five core laws that was introduced in 2010. These include the following:

- Law on Funded Pensions
- Law on State Pensions

- Tax Code
- Law on Personalized Record Keeping of Income Tax and Mandatory Funded Contributions
- Law on Investment Funds

The Law on Funded Pensions and the Law on State Pensions regulate the contributory tiers of the system. In addition, the 2013 Law on State Benefits regulates the pension-tested non-contributory tier. Legally speaking, everyone over the age of 65 is covered by either an old-age pension or benefit. A similar multi-tiered system exists for survivors' benefits. Legal coverage of contributory pensions (Pillars 1 and 2) can also be captured by the number of active contributors, which is a reflection of the same labour-market dynamics that explained the coverage for other contributory benefits during working age. The share of formally employed workers contributing to the tax system (state pension) and the contributions to the mandatory individual accounts in Pillar 2 comprise around 45 per cent of the labour force and 28 per cent of the working-age population (versus 50 per cent of the female labour force and 26 per cent of the female working-age population).

The Tax Code (Chapter 7) and the Law on Personalized Record Keeping are relevant because contributory state pensions in Armenia are not based on proportional contributions into a social insurance fund but rather on the number of years participating in the tax system. These years of service constitute the single basis for qualification and calculation of state pensions for people born before 1974. For those born after this year, a new system of contributions into individual, fully funded accounts was recently introduced.

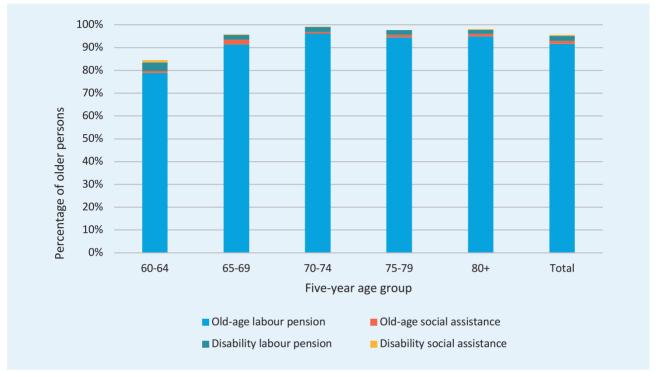
#### 7.2.2 Effective coverage

#### Horizontal coverage

Overall, effective old-age protection coverage rates are very high in Armenia, reflecting the universal nature of entitlements. The data show that a large proportion of older people—around 93 per cent as of 2019—are being reached, although, notably, not all. The remaining gap is significant for a system that has universal legal coverage and should be explored further through reviews of administrative data and procedures.

At least some of the gap is explained by lower levels of coverage among younger cohorts. As shown in Figure 7.3, between the ages of 60 and 64, some 15 per cent of people have still not applied for a pension, which we can assume is because they are still actively working and contributing. Coverage rates jump after this age, which is to be expected given that the statutory retirement age is 63. It is also to be expected among the generations participating in the fully funded Tier 2 for which the Government stops matching contributions after the age of 63, decreasing incentives to continue working. The highest coverage levels are found after the age of 70, when most workers seem to definitively begin their retirement.



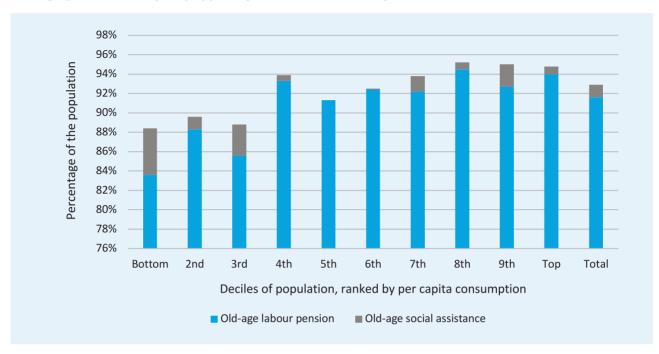


## Older people in Armenia receiving a labour or social assistance old-age or disability pension, by age group, 2019

Source: 2019 ILCS.

Lower levels of system-wide coverage of older people can also be observed among lowerincome groups, which could partly explain the overall gaps in old-age coverage. As shown in Figure 7.4, in the bottom three wealth deciles, less than 90 per cent of older people are receiving either type of old-age pension. Poorer older people are likely to face high levels of social exclusion and marginalization and face numerous administrative barriers to access.





#### Old-age pension receipt, by type of pension and consumption decile

It is worth noting how high the coverage of contributory state pensions is in a labour market still characterized by high levels of selfemployment and other non-standard forms of work. This is, of course, due to the fact that pension rights are accrued on the basis of participation in the tax system and not directly linked to a formal employment relationship. What hides behind these high coverage numbers is the fact that the qualifying conditions for a state pension are just 10 years, and workers with a contributory history of 10 to 24 years receive a reduced pension. It is thus important to assess the adequacy of the system in order to understand how meaningful and effective the high levels of coverage are in actually providing old-age protection. Analysing this along gender lines is particularly important as women will tend to be overrepresented among those accessing social benefits and reduced state pensions.

This is validated by Figure 7.4, which shows the relatively higher importance of non-contributory old-age benefits among those at lower ends of the consumption distribution. However, analysis of the ILCS also reveals that a not insignificant share of older people in the richer consumption deciles are also receiving the old-age social pension, suggesting that the right to a labour pension (and the corollary entitlement to a social pension) is not always correlated with traditional measures of welfare (e.g. income). In the context of Armenia, this might point to gender norms that prevent women from participating in the labour market, cutting through socioeconomic groups.

#### **Vertical coverage**

As previously discussed, adequacy can be conceptualized in a number of ways. This section will explore the adequacy of the old-age pension

Source: 2019 ILCS.

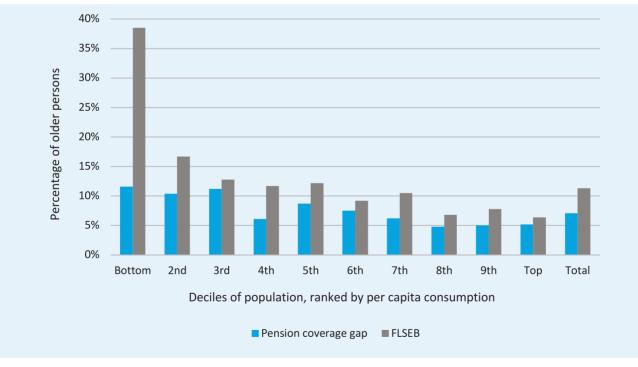
system in Armenia from the perspective of the three pillars in the context of the relevant functions they are intended to provide. For example, Pillar 0 is understood to provide a minimum 'floor' below which no one should fall in old age, regardless of his/her previous attachment to the labour market. The primary function of Pillars 1 and 2, on the other hand, is to provide relatively higher levels of adequacy as a reflection of the financial contributions to the pension system—through social contributions or, in Armenia's case, personal income tax—that the worker has made over his/ her working life. It will also examine the benefits in relation to international standards.

Notably, many pensioners in Armenia, despite qualifying for an old-age pension, are having to

apply for additional assistance through the lastresort FLSEB. As Figure 7.5 shows, whereas the gap in pension coverage—that is, the proportion of the population receiving neither an old-age (state) pension nor an old-age (social) benefit—is 11.6 per cent among those in the lowest consumption decile, in the same decile, nearly two out of every five pensioners (38.5 per cent) are also receiving the FLSEB. This is a clear indictment of the adequacy of both the Pillar 0 and Pillar 1 pensions, given that a full 84 per cent of those in the poorest decile claim to be receiving a contributory pension. The imbalance between the pension coverage gap and receipt of the FLSEB among older people is repeated consistently across deciles, suggesting that many pensioners across all wealth deciles are struggling to make ends meet.

#### Figure 7.5:

### Pension coverage gap versus FLSEB receipt among older people, by per capita consumption decile, 2019



Source: Analysis of the 2019 ILCS.

#### Pillar 0: Old-age benefits

Unlike other countries with similar labour-market and economic challenges, Armenia has a first-tier pension-tested social pension. In Armenia, this is known as the old-age benefit, and according to the Law on State Benefits, it is granted to people who reach the age of 65 and do not qualify for labour pensions. The benefit is financed directly from general revenues and may often be the only source of income that many elderly people have. It may also be particularly relevant for women, who are more likely to be ineligible for benefits in the contributory system due to limited years of service. Moreover, the benefit is an individual entitlement independent of the recipient's position in the family or the income or assets of the spouse.

In terms of Pillar 0, the basic pension is defined by government decree and is currently equal to AMD

26,500 per month, as of January 2020. While it was originally established at the level of the minimum consumer basket, an indexation mechanism was never formalized. Because the minimum pension is paid to both Pillar 1 and Pillar 2 pensioners, as well as functioning as the basis for the pensiontested old-age benefit, it effectively functions as a social protection floor for old age. However, the lack of indexation risks eroding the benefit's real value.

Table 7.1 shows how the current old-age benefit value compares with the minimum standards suggested by ILO Conventions No. 102 and No. 128. The benefit falls significantly short of the minimally adequate monthly benefit amounts derived from the Conventions' replacement rates at just 41 per cent (Convention No. 102) and 39 per cent (Convention No. 128) of recommended values.

#### **Table 7.1:**

National benefit	Average value of national benefit (per month) (2020)²	Average monthly net earnings (2019)	C102 adequate social pension at 40% (per month)	C128 adequate social pension at 45% (per month)
Old-age benefit	AMD 26,500	AMD 108,976	AMD 43,590	AMD 49,039
Old-age pension (Pillar 1)	AMD 45,116	AMD 108,976	AMD 43,590	AMD 49,039

#### Adequacy of old-age benefits (Pillar 0) according to C102 and C128

When compared with other countries that also invest in tax-financed old-age benefits, Armenia's pension performs on par with those of other Western and Central Asian countries. At a value of around 14.7 per cent of GDP per capita, Armenia's universal old-age pension is positioned in the middle of the middle-income countries that provide a tax-financed old-age pension. The value of Armenia's pension is higher than that of the benefit in the Russian Federation (9 per cent) and lower than Georgia's universal social pension (20 per cent).

#### **Pillar 1: Social insurance pensions**

The contributory system is more complex. Pillar 1 is available to those with contributory histories of at least 10 years (as of 2016) and consists of a basic pension plus remuneration determined by the years of service. Interestingly, this remuneration is completely delinked from previous earnings.<sup>3</sup>

A more in-depth assessment would be necessary in order to determine how this reform affected the consumption smoothing function of state pensions, as well as its gender impact. However, in theory, this system has probably benefited women more and, on average, seems to be meeting ILO minimum standards (see Table 7.1). Social insurance pensions offer earnings-related benefits to workers who have contributed over a specified period of time. In these and other types of pension systems that link benefits to past employment and earnings, benefits can reflect the accumulation of disadvantages that women face in the labour market and at home.

Having more limited contribution records, many women fail to meet the eligibility requirements to qualify for a benefit. In Armenia, the Law on State Pensions recognizes up to six years of parental leave as years of service (two years for each child, but not more than 6 years). This is a positive regulation to minimize women's exposure to social and economic risks arising from maternity, but more can be done, as discussed at length in Section 6.2.

Moreover, in the context of gender inequality in the labour market and in social and family relations, gender-neutral rules may not be sufficient to guarantee adequate protection for women. Policies promoting gender equality need to adapt the rules of eligibility and the benefit calculation to the life-course patterns of women. In the case of Armenia, it includes, at a minimum, consideration of the full paid work interruption but could also include additional compensation for time dedicated to unpaid work and care. Care credits are one such policy that explicitly aims to compensate women for the differences their particular work-life trajectories have on pension outcomes, specifically by granting extra service years for each child. Around the world, this measure has proved to be an extremely effective way to support more women to reach minimum qualifying conditions for old-age pensions. In Armenia, it could have the additional effect of making maternity more attractive.

In most social insurance pension systems, when women do qualify for pensions, linking benefits to previous earnings means that women's lower earnings result in lower benefits. However, in Armenia, Pillar 1 has removed this link, meaning that both men and women receive the same remuneration for the same number of years of contributions. This is important in the context of a large gender pay gap as in Armenia, as it means that this market inequality is not translated into retirement. Together, delinking benefits from earnings and care credits could make for a powerful package of income redistribution that could potentially benefit women in old age.

#### Pillar 2: Fully funded individual accounts

The situation above is in stark contrast to the conditions that apply to women born after 1 January 1974. The Law on Funded Pensions (2010) regulates the individual, fully funded Pillar 2 (mandatory) and Pillar 3 (voluntary). Under the new DC scheme, each worker accumulates pension contributions to finance his/her retirement benefits. Pension benefits are no longer calculated based on the contributory years but on the balance in each worker's individual account and his/her life expectancy upon retirement. Thus, periods of childcare no longer count towards pension entitlements. The 2014 amendments to the above-mentioned law only provide the following: employers or workers who are on childcare leave transfer a social contribution of AMD 3,000 per month for up to two years. There are several issues to point out in this respect: (i) the continued gap between this policy and the total period of leave of three years; (ii) the fact that this policy no longer benefits all Armenian women but only salaried

women, thus risking increasing inequality in old age among women of different socioeconomic statuses; and (iii) the fact that, contrary to the Government's stated intentions to increase the fertility rate, this policy has increased the risk that maternity represents for the majority of women's long-term income security (i.e. all those not in salaried employment). In any system, access to maternity benefits should be independent from and not impact the ability of women to access other benefits.

In defined contribution systems, such as Pillar 2, each worker accumulates pension contributions to finance her or his retirement benefits. Pension benefits are no longer calculated as a replacement rate of past contributions, as in public social insurance systems, but based on the balance in each worker's individual account and life expectancy on retirement. The establishment of individual pension accounts brought about new gender issues. First, benefit levels in individual accounts are directly based on past contributions; therefore, the benefit that each worker can obtain more closely reflects working, earning and contributory histories. This can mean substantially lower pensions for individuals with limited or interrupted contributory histories, including many women, who need to rely on other redistributive tiers such as the old-age benefit.

Second, these systems are designed to match lifetime benefits with lifetime contributions, and the benefit formula thus needs to consider the number of years during which the person is expected to collect benefits. In Armenia, while the statutory retirement age is 63, women leave the labour market earlier, meaning that they have both fewer years of work to accumulate contributions and more years of retirement to receive accumulated funds. Studies undertaken by the Government ahead of the reform were not readily available, but gender inequalities have been an issue in all countries that went through structural reforms and adopted mandatory individual accounts. In the case of Poland, it was estimated that benefits would decline substantially for both women and men after the reform and that the gender gap would widen, with women's benefits worth about 74 per cent of men's at age 65 in the new system (compared to 81 per cent in the old DB system). Two favourable aspects were also noted: the possibility of splitting the pension accumulation between spouses after a divorce (if it constitutes common property) and the elimination of the minimum period of covered work required to obtain a benefit. The latter applies to Armenia.

Moreover, DC schemes cannot guarantee that benefits resulting from contribution records will be adequate for all; therefore, they need to be combined and complemented with effective distributive pillars. The basic pension performs this function in Armenia and is thus an important policy to maintain. However, the continued allocation of state funds to higher earners was the issue that the structural reform was meant to address. Finally, the basic pension will be limited in compensating for the loss of a comparative pension received by women retiring under the new DC scheme, compared to their counterparts retiring in the legacy DB.

The fact that such individualized systems tighten the links between contributions and benefits means overall lower pensions for individuals with limited contributory histories, including all women. Moreover, without Pillar 1's redistributive mechanisms, Pillar 2 is set to greatly exacerbate gender inequalities. Additionally, after 25 years of contributions, people in Pillar 2 can continue contributing until the age of 63, when they must cash in their annuities. They can postpone their retirement, but the Government will no longer match their contributions. This could potentially affect women more than men since their intermittent labour-market participation, peaking only around the age of 40, will mean that they have a harder time reaching those 25 years by age 63.

Totally replacing a DB scheme requires a valuation of the accumulated liabilities under the scheme, taking into consideration pensions already in payment and the value of the accumulated rights of the currently insured population. In other words, the Government needed to establish how the pensions of workers born prior to 1974 would be financed now that new workers would not be contributing to a common fund anymore but to their own individual accounts. The magnitude of this financial obligation under the former DB scheme is often a strong deterrent against structural reforms and, in some cases, has been the reason that these reforms have been reversed. The valuation of accrued liabilities shows the real cost of the promised benefits that will have to be borne by all taxpayers in the case of Armenia.

## 7.3 <u>SURVIVORS' BENEFITS</u>

#### 7.3.1 Legal coverage

Like the disability protection scheme, the survivors' protection scheme functions in a multi-tiered model. Despite the structural reform of the old-age pension system, there seems to be no plan to change the source of funding for survivors' pensions from general state revenues. The system thus includes:

- Survivors' (state) pensions
- Survivors' benefits

The legal framework of the system includes the Labour Code, the Law on State Pensions, the Law on State Benefits and the Law on Social Assistance, as well as the Government Decrees No. 1734-N, No. 670-N, No. 1489-N and No. 635-N. The survivorship system is thus a good example of how a relatively simple system of benefits, which has the advantage of coordinating contributory and non-contributory benefits for universal coverage,

can nonetheless suffer from a high degree of legal fragmentation.

According to the Law on State Pensions, in the case of the loss of a breadwinner, an employment pension is granted to the following survivors:

- Non-working parents who have reached the age of eligibility for retirement at the date of the breadwinner's death
- Non-working spouses who have reached the age of eligibility for retirement at the date of the breadwinner's death
- A spouse or person recognized as a guardian, regardless of age, if he or she is engaged in the care of the deceased breadwinner's child, brother, sister or grandchild under the age of 14
- The deceased breadwinner's brother, sister or grandchild under the age of 18 (if their parents have a Group III disability on their ability to work)

• A child up to 18 years old with a certified disability

The Law on State Benefits provides a pensiontested social protection floor for survivors by guaranteeing a benefit to all survivors who are not entitled to a state pension. This includes:

- All children under the age of 18
- Full-time students up to the age of 26<sup>4</sup>
- The surviving spouse or guardian of the deceased, who is caring for a child under 14 years of age

In addition, the International Social Security Association's (ISSA) 2019 profile of Armenia's social security system notes that, for both the survivors' (state) pension and the survivors' (social) benefit, eligible persons must not be "receiving any other pension."<sup>5</sup> ISSA information is based on direct reporting by the SSA and can reflect regulations as well as laws, which could explain the discrepancy with the qualifying conditions stated above. If correct, given that the vast majority of widow(er) s are older people, most of whom receive an oldage pension, the number of people receiving survivors' pensions in Armenia is likely to be relatively small.

Either way, the legal coverage of survivors' benefits is 100 per cent of the population, including children and adults. In fact, the inclusion of non-working parents and guardians of any dependents, not just direct children, make the Armenian survivors' pension system more generous than what the minimum standards require. ILO Convention No. 102 calls for support to widows or children only. Likewise, the fact that non-contributory benefits have recently been expanded to include students up to the age of 26 is very generous.

There is one possible caveat, however, in the exclusion of caregivers of children aged 15–18 from both pensions and benefits. It is unclear why the regulations exclude this particular group, but the effect is unlikely to be too detrimental due to the possibility of receiving benefits if the children are enrolled in school. Of course, this could precisely be the feature that enhances vulnerability among the poorest who, upon the loss of a breadwinner, might not have the income to maintain children in school, particularly at these advanced ages when they might be seen as able to earn an income in the labour market. Further fieldwork is recommended to explore the extent to which these risks are, in fact, observed in practice.

Secondly, from a gender perspective, it is noteworthy that access to survivors' pensions and benefits for surviving spouses is conditional upon their role as caregivers. Issues surrounding derived benefits for widows are explored in Box 7.2. The existence of a universal multi-tiered pension system means that survivors' income risks after retirement age are mostly met by the old-age system rather than by the survivors' benefits. In this context, the relevance of survivors' protection is higher for people of working age, particularly those who are constrained from earning an income in the labour market. In the case of Armenia's low labour-market participation, this would continue to be a relevant benefit for all spouses affected by long-term unemployment, particularly all women who have left the labour market due to care reasons. This calls into question the suitability of the policy to restrict survivors' pensions to the carers of children aged 15-18. Overall, however, legal coverage is comprehensive and could potentially be playing a role in filling in the gaps left by the limited coverage of employment injury benefits in the cases of fatalities.

#### Box 7.2:

#### **Derived benefits for widows**

Survivors' pensions are a good example of the male breadwinner model. Based on traditional family patterns and gender roles, these benefits have intended to provide economic support for family members (in most cases, wives) after the death of the partner. In most cases, survivors' benefits—also known as widows' benefits—aim at smoothing income, and benefits are calculated as a percentage of the deceased partner's benefit or earnings. In general, survivors' benefits are lower than retirement pensions. In contrast, some countries (e.g. Ireland, Lithuania and the United Kingdom) offer only a flat-rate benefit to survivors, while others (e.g. Denmark and Sweden) have a non-familial approach to old-age protection, paying no benefits to survivors but providing everyone with access to a universal basic pension (Saraceno and Keck 2011, p. 392 [in Arza 2015]). Over past decades, derived benefits have been put under greater scrutiny. Since the underlying basis of entitlement for survivors' pensions has traditionally been economic dependence, these benefits have been criticized for reinforcing traditional gender norms and normalizing the role of women as care providers economically dependent on their husbands. Survivors' pensions have also been losing effectiveness for the protection of elderly women as families change. Higher divorce rates and the greater labour-market participation of women have challenged traditional families and the assumption of the dependent wife.

Some countries have recently promoted substantial changes in survivors' pensions. Benefits have been cut or significantly reduced, or they are being phased out, their duration restricted or eligibility subjected to a means test (Saraceno and Keck 2011 [in Arza 2015]). Countries that have adopted NDC pension systems have continued to cover widows with a separate PAYG-defined benefit scheme or have eliminated survivors' benefits altogether. The shift from defined benefits to fully funded defined contribution individual accounts in some countries like Armenia also brought about changes in derived benefits. Fully funded defined contribution schemes provide individualized pensions that do not aim to achieve redistribution. In these systems, derived benefits can be replaced by joint annuities, which incorporate a survivors' benefit in the case of death. In a number of Latin American countries with defined contribution pensions, joint annuities are required. For an equal fund value, married men who buy a joint annuity get a lower individual benefit than single men because the right to an additional benefit (the widows' pension) is contracted with the same fund (James 2012 [in Arza 2015]). However, in other countries, joint annuities are not mandatory, and evidence from the United Kingdom shows that when joint annuities are voluntary, the majority of men choose individual annuities (James 2012 [in Arza 2015]).

Should widows' pensions be abandoned for the benefit of full individualization? This is a relevant question for a structural transition country like Armenia. The transition from a male breadwinner model to defamiliarized pension systems raises complex policy dilemmas from a gender equality perspective. While there is a trend towards greater autonomy and choice in family patterns and gender roles, women and men are not fully individualized. Gender inequalities in the distribution of paid and unpaid work remain substantial in countries like Armenia. So although in the pursuit of gender equality in work and family roles it is important to reorient pension systems away from the traditional family model, it may not yet be possible to simply assume equal life-course patterns or full individualization if the protection of women is to be guaranteed. Ultimately, policies oriented to enhance women's autonomy in pension benefits need to address these issues (see Section 7.2.2).

Source: Based on Arza 2015.

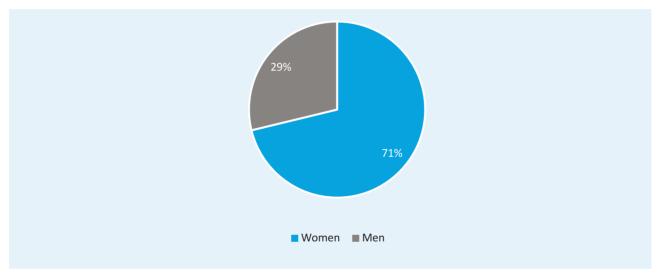
#### 7.3.2 Effective coverage

#### Horizontal and vertical coverage

On average, women represent more than 85 per cent of survivors' pension recipients for widowed persons across 25 OECD countries. This is because they tend to live longer, be the younger partner within a couple and accumulate lower individual pension entitlements. Armenia largely bears out this trend. As shown in Figure 7.6, women comprised 71 per cent of the recorded beneficiaries of the survivors' (state) pension. No data were available on the non-contributory survivors' pension, but the distribution is likely to be similar.

#### Figure 7.6:



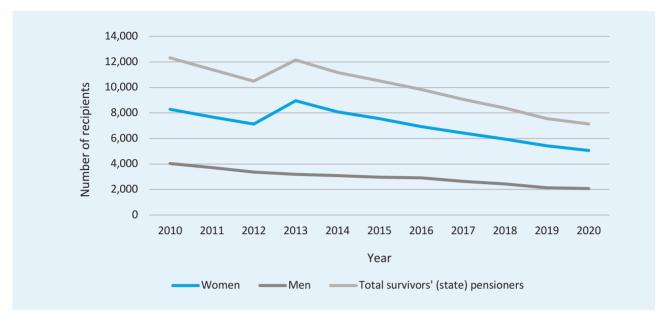


Source: Administrative data.

Data constraints prevent an exploration of the true reach of survivors' pensions—that is, the number of survivors who may not be receiving a pension or benefit despite being eligible. However, the total number of survivors' (state) pensioners appears to be relatively small according to administrative data. In 2020, just 7,135 people claimed the benefit, which could be explained by the effective administrative testing of survivors'

benefits (meaning that those who are receiving another pension in their own right are potentially not entitled to a survivors' benefit). Trend data on payments would suggest that this may be the case, as the number of survivors' (state) pensioners has been steadily declining in recent years, as shown in Figure 7.7. This trend could reflect a number of factors, including increasing individual entitlement among those receiving other labour pensions.

#### Figure 7.7:





Source: Administrative data.

In terms of adequacy, the size of a survivor's pension is calculated based on the formula defined by the Law on State Pensions. The calculation includes the basic pension (currently set at AMD 18,000) plus the value of service years<sup>6</sup> multiplied by the personal coefficient of years served.<sup>7</sup> As of 1 July 2020, the average size of a survivors' (state) pension was equal to AMD 31,998. On the

other hand, survivors' (social) benefits pay a flatrate benefit currently equal to AMD 26,500. ILO Convention No. 102 suggests that the minimum level of a survivors' benefit under a tax-financed system like Armenia's should be 40 per cent of the prevailing wage of a manual labourer. Table 7.2 shows the results of the adequacy analysis.

#### **Table 7.2:**

#### Adequacy of survivors' benefits relative to C102 and C128 minimum standards

National benefit	Value of national monthly benefit (2020)	Average monthly net earnings, total (2019)	C102 adequate social pension at 40% (per month)	C128 adequate social pension at 45% (per month)	
Survivors' (state) pensions (Pillar 1)	AMD 31,998	AMD 108,976	AMD 43,590	AMD 49,039	
Survivors' (social) benefits	AMD 26,500	AMD 108,976	AMD 43,590	AMD 49,039	

In the cases of both the survivors' state pensions and the survivors' social benefits, the level seems to fall below what would be called for by ILO minimum standards, although a definitive analysis would require detailed analysis of wage data. Furthermore, since this is an income replacement benefit, comparing it with the minimum wage (AMD 55,000 per month in 2019 and AMD 68,000 per month in 2020) provides perspective on the capacity of the benefit to facilitate a minimum standard of living, particularly for surviving spouses.

## 7.4 <u>SUMMARY</u>

For older people, the overall story is one of relative success. A multi-tiered system ensures that everyone in Armenia can count on at least basic income security in old age. Contributory pensions in Armenia are not based on proportional contributions into a social insurance fund but rather on the years of participation in the tax system. These years of service are the sole basis for calculating pensions for people born before 1974. For those born after, a new system of contributions into individual, fully funded accounts was recently introduced (see Figure 7.2).

Pillar 0 is granted to people who reach the age of 65 and do not qualify for labour pensions, essentially serving as a social protection floor for old age. In terms of adequacy, the old-age (social) benefit does not meet ILO standards. Moreover, the lack of indexation risks eroding the benefit's real value. When compared with other countries that also invest in tax-financed old-age benefits, Armenia's pension performs on par with those of other ECA countries. At a value of around 12 per cent of GDP per capita, the old-age benefit is higher than that of the benefit in the Russian Federation (9 per cent) and lower than Georgia's universal old-age pension (20 per cent).

The contributory system is more complex. Pillar 1 is granted to those born before 1974 with at least 10 years of service and consists of a basic pension plus remuneration based on the years of service. This remuneration is completely detached from previous earnings; thus, old-age pensions under Pillar 1 do not reproduce the large gender pay gap that is observed in the labour market. This is a particularly distinctive and positive feature of this pillar. Still, it is likely that women will have fewer years of service than men. In Armenia, the Law on State Benefits recognizes up to six years of parental leave as years of service. This is another positive feature of the system, helping minimize the exposure of women to economic risks in old age resulting from maternity earlier in life. Overall, together, delinking benefits from earnings and recognizing periods of care makes for a powerful package of income redistribution between men and women in old age.

Pillar 2 is mandatory and involves individual accounts for people born on or after 1 January 1974. Transfer values are based on past contributions, meaning that women's pensions will mirror not only their fewer years of service but also their lower earnings. Moreover, because women tend to retire earlier but live longer than men, this means that they will rely on smaller savings to finance longer periods of retirement, threatening the basic adequacy of annuities and monthly payments. This is, in fact, the key feature of such a system, where individuals' contributions are defined but not the final benefits. In this context, the adequacy of the pension will become much more important.

Table 7.3 summarizes the legal and effectivecoverage of older people in Armenia.

#### Table 7.3:

#### Summary of legal and effective coverage of older people in Armenia

Dimension of coverage		Old-age (social) benefit and old- age labour (state) pension	Disability (social) benefit and labour (state) pension	Survivors' (social) benefit and labour (state) pension	FLSEB (SB and EA)
Legal coverage	Target group	Social benefit: All persons over the age of 65 who are not eligible for an old-age labour pension (have less than 10 years of service) Labour pension: All persons over the age of 63 with at least 10 years of service	Social benefit: All older people (assessed with a disability) who are not eligible for a labour pension: All older people (assessed with a disability) with at least 10 years of service	Social benefit: All older people (who have lost a breadwinner) who are not eligible for a labour pension: All older people (who have lost a breadwinner) who have paid income tax	SB: All older people living in a household (without children) registered in the FSAS and assigned a vulnerability score above the threshold of 30 points EA: All older people living in a household registered in the FSAS that is not eligible for the FB or SB and were assigned a vulnerability score above the threshold of 0 points (and in a difficult life situation requiring an immediate solution)
	Beneficiary coverage ratio: Share of population over the age of 63 or 65	100% of people over the age of 65	100% of the population over the age of 65 assessed with a disability	100% of the population over the age of 65 who have lost a breadwinner	Unknown
Effective coverage	Horizontal (extent of older population)	Social benefit: 1.3% Labour pension: 91.6%	Social benefit: 0.3% Labour pension: 2.3%	Insufficient data (Note: The 2019 ILCS suggests 0% of the older population receiving either benefit.)	11.3%
	Vertical (adequacy/ level of benefit)	Social benefit: Low Labour pension: Medium	Social benefit: Low Labour pension: Medium	Social benefit: Low Labour pension: Low	Not assessed (see Section 6.2.2)

# TOWARDS AN INCLUSIVE LIFECYCLE SOCIAL PROTECTION SYSTEM IN ARMENIA

Armenia's social protection system has a significant and positive impact on the welfare of its population. Key lifecycle benefits—notably the old-age pension system—clearly prevent many people from living in or being vulnerable to poverty. While Armenia was, to a degree, in a good position to deal with the onset of the COVID-19 crisis (it should be noted that the Government was able to quickly expand the existing FB programme to provide additional support to the poor and other vulnerable groups), the crisis undoubtedly

exposed some of the deep underlying cracks in the social protection system. Further, the emergency measures pursued revealed an acknowledgement of these weaknesses—the most obvious being the lack of unemployment protection.

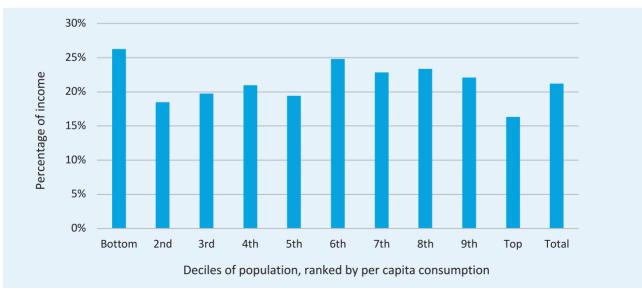
The following sections explore the impacts that the current system has had on the welfare of households in Armenia and offer proposals for closing the identified gaps in the social protection system.

#### 8.1

## OVERALL PERFORMANCE OF THE EXISTING SYSTEM

In Armenia, income from social protection transfers constitutes a significant share of total household income. Across the whole population, around 21.2 per cent of household income, on average, derives from social transfers. This is true across the income distribution, showing the importance of universal benefits. Figure 8.1 shows the average share of household income from social protection transfers across the welfare distribution. Those in the bottom decile of the population are much more likely to rely on social protection transfers to meet their needs, deriving more than one quarter (26.3 per cent) of total household income from social transfers, but even those in the highest decile are deriving a significant share of household income—16.3 per cent—from transfers.

#### Figure 8.1:



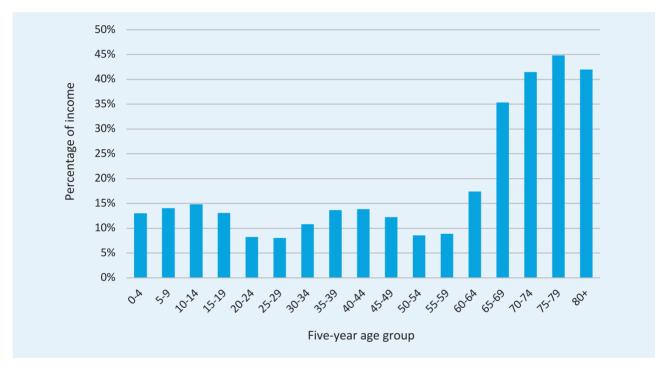
Average income from social protection transfers as a share of total household income, by decile groups of the population, 2019

Source: 2019 ILCS.

The variation in coverage and generosity of social protection policies aimed at children, people of working age and older people is reflected in the varying degree to which people in these age groups rely on the social protection income. As shown in Figure 8.2, older people are much more reliant on social transfers than people in other age groups. Transfers constitute 41 per cent of individual income on average for those aged 65 and above, compared with 14 per cent among children (aged 0–14) and 11 per cent among working-age adults, on average. This reflects both relatively high transfer values and nearuniversal coverage of old-age pensions, as well as lower overall incomes among older persons.

#### Figure 8.2:

Average income from social protection transfers as a share of total income for individuals, by age, 2019



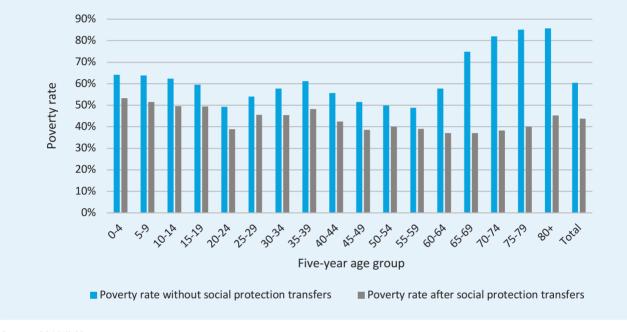
Source: 2019 ILCS.

Overall, the social protection system is playing a critical role in reducing poverty levels in Armenia. Figure 8.3 shows the poverty rate (using the national upper poverty line) across age groups if there were no income transfers from social protection schemes, compared with current poverty levels. It is estimated that in 2019, social transfers reduced the national poverty rate by nearly one third, from 60.5 to 43.8 per cent.

Older persons experienced the largest reduction. An estimated 79.8 per cent of pensioners would have lived below the national upper poverty line without old-age pensions and other transfers, compared with 39.5 per cent after transfers. This amounts to a 50 per cent reduction in old-age poverty. The child poverty rate was also reduced by an estimated 12 percentage points, and the poverty rate among working-age people by 11 points. The large discrepancy in impacts between older people and people in younger age cohorts is explained by the near-universal coverage coupled with relatively higher transfer values of old-age pensions, compared with low coverage (including high exclusion errors) and lower transfer values of family benefits and benefits for people of working age.

#### Figure 8.3:

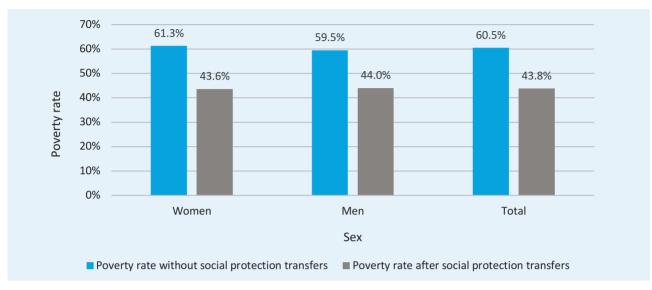




Source: 2019 ILCS.

Likewise, for the same year, social protection transfers reduced the poverty rate for women by an estimated 17.7 percentage points, and for men by 15.5 points, as shown in Figure 8.4. Overall, the coverage of social protection transfers is slightly lower for women than for men, likely reflecting imbalances in the labour market. On average, women's earnings are about 71.6 per cent that of men's; consequently, social protection transfers make up a larger average share of their income (17.3 per cent of household income for women versus 15.4 per cent for men).

#### Figure 8.4:



Simulated share of the population living below the upper poverty line before and after receiving income from social protection transfers, by sex, 2019

Source: 2019 ILCS.

#### 8.2

## <u>CLOSING THE GAPS IN</u> <u>ARMENIA'S SOCIAL</u> <u>PROTECTION FLOOR</u>

Comparatively speaking, Armenia enjoys a relatively comprehensive social protection system, providing effective income and health security for key groups of the population—the elderly in particular. However, this analysis has outlined some noticeable gaps, particularly from a gender perspective:

• An inadequate child and family benefit system for all that has, on the one hand, low coverage of all children (23.8 per cent) under the FB component of the FLSEB and less than half of all children in the lowest consumption decile. On the other hand, additional benefits confuse social protection and demographic objectives. This is reflected, for example, in the value and design of the childbirth lump sum, as well as the subsequent lack of adequate income support for raising a child.

- A complex and inadequate maternity protection system that, despite its broad coverage, does not meet the fundamental goal of allowing women to balance work and family life and does not promote a more equal division of childcare.
- The absence of an unemployment insurance scheme and associated unemployment protection policy to protect workers from catastrophic income losses during unemployment, affecting mostly women and young people.

- The lack of mandatory employment injury insurance to protect workers and their families from the short- and long-term effects of occupational accidents or work-related diseases.
- Uncertainty regarding the adequacy of fully funded old-age pensions in the future, particularly for women.

The arrival of the COVID-19 crisis brought these gaps to the fore, most obviously the complete absence of unemployment protection—a crucial component. The situation for women and youth is particularly worrisome, as their levels of economic inactivity were already relatively high. For women, COVID-19 has exacerbated already low labourmarket participation rates, widened the existing pay gap and increased the burden of care.<sup>1</sup>

Thanks to steady investment in social protection in recent years, the Government was able to put in place a series of emergency measures to counter the adverse economic and social impacts of the COVID-19 crisis in Armenia. These measures began in March 2020 with the introduction of a comprehensive action plan encompassing a combination of direct spending, state-sponsored loans and increased investment, as well as the approval of a new spending package worth AMD 145 billion (US\$300 million)-or 2 per cent of GDP.<sup>2</sup> Key policy responses have since fallen into four broad categories: (i) subsidized two-tothree-year loans to provide short-term support to affected businesses and small and medium-sized enterprises (SMEs); (ii) direct subsidies to SMEs and businesses to help maintain their employees; (iii) grants to entrepreneurs and firms; and (iv) lump-sum transfers to vulnerable groups including individuals who became unemployed after the COVID-19 outbreak, families with or expecting children, micro-businesses, those requiring assistance with utility bills and those in temporary part-time employment.

The parameters of the Government's social protection response measures (specifically conditional and unconditional social assistance cash transfers) are described in Box 8.1.

#### Box 8.1:

#### The Government's social protection response to COVID-19

As of the end of October 2020, the Government had adopted 24 support packages and, with support from financial institutions, had allocated approximately AMD 192.3 billion (\$367 million) in total. Key social protection packages (i.e. social assistance cash transfers) included the following:

**Support package No. 4:** Assistance to families with children (up to 14 years old) where formally employed parents became unemployed after COVID-19. The lump-sum payment amounted to AMD 100,000 (US\$201) per child and did not apply to public servants or those who received a monthly salary above AMD 500,000 in the two months prior to becoming unemployed. This package began and ended in the month of April 2020.

**Support package No. 6:** Assistance to formally employed persons who became unemployed between 13 and 30 March 2020 and who received a monthly salary of less that AMD 500,000 in the two months prior to becoming unemployed. This benefit, which was first paid out on 2 April 2020, was in the amount of the monthly minimum wage. Support package No. 6 is no longer in effect.

**Support package No. 7:** Assistance to pregnant women who were not employed before 30 March 2020 and whose husband became unemployed between 13 and 30 March 2020. The lump-sum payment amounted to AMD 100,000 (US\$201). Payments were processed from 2 April 2020. The support under this package is now over.

**Support package No. 8:** Assistance to hired workers and individual entrepreneurs (in formal employment) in private sectors most affected by the spread of the coronavirus, specifically in hospitality, tourism, personal care (barber shops and beauty salons) and retail. This was expanded to cover hired workers and individual entrepreneurs from the following sectors: ground transport operations (route transport); preschool institutions (private kindergartens); sporting activities (sports clubs, swimming pools); and entertainment and other leisure activities. Payments would range between AMD 68,000 and AMD 136,000 (US\$137–US\$274).

**Support package No. 9:** Assistance to families with children (aged 0–18) where neither parent had a registered job (part-time or full-time work). This was expanded to cover parents during childcare leave for children under the age of 3. The lump-sum payment amounted to AMD 26,500 (US\$55) per child.

**Support package No. 13:** Assistance to families enrolled in the Family Benefit System as of April 2020. Lump-sum payments amounted to 50 per cent of the amount of the FB or SB. Specifically, 70 per cent of the assistance was available as a cash payment, in addition to the normal allowance for April. The remaining 30 per cent was transferred to utility operators on behalf of the electricity subscriber.

**Support package No. 22:** Assistance to persons who were employed from 1 January to 31 March 2020 and later became unemployed. One-time payments amounted to the minimum monthly wage of AMD 68,000 (US\$140). Those who were employed in the financial sector (credit organizations, insurance companies, etc.) and those who had an average monthly salary (calculated based on the average of the two months prior to becoming unemployed) of more than AMD 500,000 (approximately US\$1,030) were not eligible for this support package. It was reported that in April 2020, approximately 71,000 citizens became unemployed, and in May 2020, approximately 50,000 returned to the labour market. This package was introduced on 25 June 2020.

Source: Gentillini et al. 2021.

While these short-term measures represent a welcome boost to the income of select persons of working age in Armenia (the demographic age group most affected by lockdown restrictions), it is unlikely that they will be enough to protect people from the scale of income and job loss that has been inflicted by COVID-19. In addition,

tools provided by the Government will not reach all those affected. For example, those who were not employed and paying income taxes prior to the crisis (most of whom are not entitled to the emergency unemployment benefits) are likely to have since lost income and be in need of support. This is also the case for Armenia's 'missing middle'—those who are vulnerable to poverty and have likely lost income but do not qualify for the FLSEB.

For these reasons, it would be strategic to invest in permanently addressing the gaps in the social protection floor to improve Armenia's ability to respond to current as well as future crises. We suggest that a focus on two core lifecycle benefits could go a long way towards establishing a more inclusive social protection system in Armenia:

- A universal child benefit would immediately cover all children in Armenia aged 0–18. It could rationalize the current gaps and overlaps between social protection and population policies by offering families a guarantee of periodic, long-term income security when they wish to grow their families.
- A permanent unemployment scheme would cover a minimally adequate period of unemployment in line with the minimum standards of Convention No. 102. Unemployment benefits would offer workers the security of knowing that they and their families will be supported as they search for work, preventing knock-on effects in the economy related to unemployment, including the emigration of young workers.

The benefits could be financed through state revenues, social insurance or a combination of both through, for example, a multi-tiered design like that already employed by the old-age, survivors', disability and maternity protection systems. Social insurance to complement a taxfinanced 'floor' would open up more possibilities to raise dedicated funds for social protection while also guaranteeing basic protections, ensuring adequacy and—if well designed—preserving incentives for formal work. Universal child benefits would be a simple yet powerful way to build a robust social protection floor that both protects children, including and especially the most vulnerable, while also supporting Armenia's long-term goals for economic growth and development. Evidence from around the world strongly supports that social protection for families and children reduces poverty; supports better nutrition and health; improves school attendance and performance; reduces the risk of abuse, maltreatment and child labour; and generally improves children's overall well-being.

Not only are universal child benefits the norm in Europe but also they are increasingly gaining favour in low- and middle-income countries and among international development partners.<sup>3</sup> This is in response to the growing recognition of children's inherent right to social security, but there are also pragmatic reasons. Universal child benefits provide a channel to reach large numbers of households; as such, they are especially useful in times of crisis, providing a shock-responsive policy infrastructure that can be scaled up to improve the lives of large segments of the population while also stimulating the economy by impacting aggregate demand.<sup>4</sup> In this way, while child benefits are for children, they also provide indirect income support to people (parents) of working age—an age group that has been deeply affected by the COVID-19 crisis—and to older people who live in multi-generational households with children. Furthermore, at the macro level, a well-designed family benefit system can help countries like Armenia confront declining fertility levels, which is crucial for ensuring the sustainability of future growth.

Child benefits, like other lifecycle benefits, do not have to be technically universal in order to achieve universal coverage. For example, recent research for the ILO in Viet Nam explored the potential for multi-tiered child benefits that divide financing between tax-financed and contributory tiers to achieve multiple objectives, including growing social insurance coverage (and, by extension, formal employment) where this is a priority.5 In Armenia, encouraging formal employment, especially for women, should also be a top priority. Similar to the way old-age benefits are designed in Armenia, providing a basic, adequate child benefit for those families who are not contributing to the tax system (Tier 1) would ensure that all children are protected, while a higher-rate, contributionbased benefit for those who are accruing years of service through employment (Tier 2) could offer a tangible and immediate benefit for the large numbers of working families with children while preserving incentives to contribute. As such, a contributory child benefit financed through a social insurance mechanism could offers a means of compensating people who might otherwise struggle to make contributions and thereby widen the tax base.

In parallel to introducing a universal child benefit, the Government could consider reviewing the existing benefits in place. For example, it would be advisable to rigorously evaluate whether the childbirth lump sum is fulfilling its intended purpose of compensating parents for the cost of having a child. Cost savings could be achieved by reforming this policy into a periodical benefit that acts as a child benefit within a lifecycle approach and in line with international standards.

Similarly, a permanent unemployment scheme would magnify, reinforce and sustain the ALMPs in which the Government has placed its hopes. Indeed, international evidence shows that ALMPs work best when applied in tandem with income support policies,<sup>6</sup> and this is especially true in the context of persistent structural unemployment,

as in Armenia. Unemployment in Armenia tends to be long-lasting, meaning that the majority of the unemployed have been searching for a job for more than one year. Since unemployment is a structural problem, arising from a mismatch between the supply and demand for work, unemployment benefits should not be linked to conditions for taking up work but rather to labourmarket policies focused on skills training, as well as policies that confront social norms preventing women from taking up work.

Therefore, perhaps more than any other benefit in Armenia, it would be important to restore unemployment protection by introducing an unemployment scheme based on social insurance principles. With contributions from employers and employees, society can better share the costs of ameliorating the protracted unemployment crisis in Armenia. Employers have an interest in avoiding the de-skilling that can occur when people detach from the labour market or, worse, emigrate in search of employment elsewhere. And contrary to conventional wisdom, social contributions are not associated with higher unemployment rates at the aggregate level and can actually increase revenues and profitability among firms that comply.7 However, unemployment benefits could also be multi-tiered in design to ensure that those who lack the capacity to contribute are still provided with a basic income protection 'floor' during periods of unemployment, offering them the basic security needed to look for work or start a business. However, as with all multi-tiered designs, care would need to be taken to ensure that the levels of the respective benefits in the tax-financed and contributory tiers do not create labour-market distortions.8

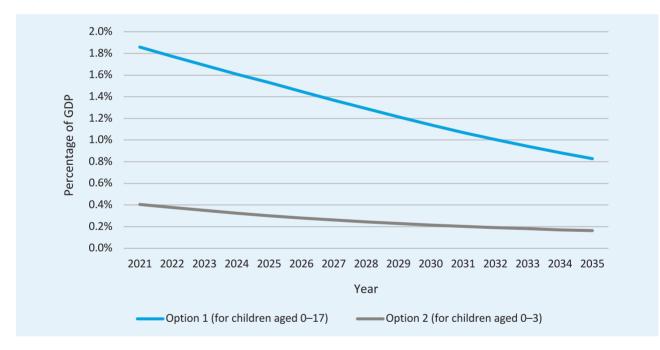
Expanded child benefits and unemployment benefits, regardless of how they are designed or financed, offer a good starting point to cover all persons for the key lifecycle risks outlined in ILO Convention No. 102 and echoed in Recommendation No. 202 on social protection floors. An initial costing exercise suggests that this package of benefits would not be prohibitively costly.

Figure 8.5 and Figure 8.6 summarize the potential costs as a percentage of GDP (indexed to inflation up to the year 2035) of introducing universal child benefits and unemployment benefits, based on the following parameters:

- A child benefit equal to AMD 8,676 per month (roughly equal to 5 per cent of GDP per capita) for children aged 0–17 (Option 1) or aged 0–3 (Option 2).
- An unemployment benefit 'floor' of:
  - AMD 30,600 (45 per cent of the 2020 minimum wage, in line with ILO minimum standards) for 13 weeks (Option 1); or
  - AMD 26,500 (the base for other income replacement benefits in Armenia) for 13 weeks (Option 2); or
  - AMD 18,000 (the value of the FSLEB base benefit) for 13 weeks (Option 3).<sup>9</sup>

#### Figure 8.5:





Source: Population projections until 2035 (by age) are derived from UN DESA's 2019 World Population Prospects. The projections of economic indicators until 2025 are estimated by the IMF's World Economic Outlook Database. Note: The estimated GDP real growth rate is 3.5 per cent in 2021, 5 per cent in 2022, 4.8 per cent in 2023, 4.7 per cent in 2024, and 4.5 per

cent in 2021, 5 per cent in 2021, 5 per cent in 2021, 5 per cent in 2022, 4.8 per cent in 2023, 4.7 per cent in 2024, and 4.5 per cent in 2025. For the period 2025–2035, inflation and GDP growth rate are assumed to stay constant at 2025 levels.

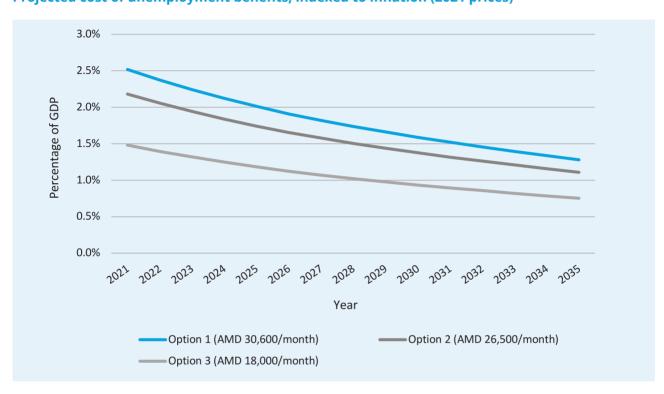
As shown in Figure 8.5, a universal child benefit covering all children aged 0–17 would cost an estimated 1.94 per cent of GDP in the first year, but given the economic and population projections, even if indexed to inflation, the cost of a universal child benefit would decline over time, costing

an estimated 0.83 per cent of GDP by 2035. In contrast, covering only those children aged 0–3 would cost significantly less, at just 0.41 per cent of GDP in the first year, declining to 0.16 per cent of GDP by 2035. Between these two options, the Government could consider a number of possible

eligibility scenarios. For example, they could begin to introduce a universal child benefit in 2021 for children aged 0–3 and then gradually increase the age of eligibility by one year every year until all children aged 0–17 are covered. In this scenario,

Figure 8.6:

the total cost of covering all children would peak by 2035, at 0.83 per cent of GDP, and then begin to decline thereafter in line with demographic projections.



#### Projected cost of unemployment benefits, indexed to inflation (2021 prices)

Source: Population projections until 2035 (by age) are derived from UN DESA's 2019 World Population Prospects. The projections of economic indicators until 2025 are estimated by the IMF's World Economic Outlook Database.

Note: The estimated GDP real growth rate is 3.5 per cent in 2021, 5 per cent in 2022, 4.8 per cent in 2023, 4.7 per cent in 2024, and 4.5 per cent in 2025. For the period 2025–2035, inflation and GDP growth rate are assumed to stay constant at 2025 levels. The figures for unemployed people are currently derived as follows: (i) the total number of working-age adults (aged 15–64) multiplied by the labour-force participation rate to calculate the total labour force (i.e. total number of employed and unemployed persons); and (ii) the total labour force multiplied by the unemployment rate to calculate the total number of unemployed persons. It is important to note that these figures do not yet take into account the impact of the global COVID-19 pandemic, so unemployment costs as a percentage of GDP are likely to be underestimated.

The cost of an unemployment benefit would similarly decline over time in line with economic and demographic projections. As shown in Figure 8.6, a minimum monthly unemployment benefit set at 50 per cent of the minimum wage, or AMD 30,600 in 2020 (Option 1), would be aligned with ILO minimum standards as set out in Convention No. 102 and would cost 2.52 per cent in 2021, declining to 1.28 per cent of GDP by 2035. The other options presented would cost less as they reflect other, lower national benchmarks including base values of benefits already provided in Armenia. For example, Option 2 (AMD 26,500 per month, or the base value for other income replacement benefits in Armenia) would cost comparatively less at an estimated 2.18 per cent of GDP in 2021, declining to 1.11 per cent of GDP by 2035, while aligning a minimum unemployment benefit with the base value of the FLSEB (AMD 18,000 per month). All values are assumed to be adjusted for inflation, but it is important to note that Armenia currently lacks an indexation mechanism, which represents a key gap to fill.

It is important to note that the costing exercise only puts forward rough estimates (using simplified assumptions in light of limited data availability) of the potential cost of such schemes in order to facilitate further discussion and prioritization by the Government in light of the assessment of the social protection system delivered in this report. A detailed costing study would need to be carried out that takes into account nuanced parameters, preferences and actuarial projections moving forward. In particular, if unemployment benefits were to include a contributions-based tier, it should be tied to the employee's previous wages if the benefits are to meet the minimum standards laid out in ILO conventions. Understanding the existing adequacy of benefits, as well as that of proposed new policies, requires an assessment based on these essential socioeconomic and demographic characteristics, for both men and women. Moreover, if the Government were to seriously explore introducing a social insurance scheme to cover this risk (and potentially others), a detailed actuarial model would need to be developed to estimate the contribution rates required to finance the benefits now and into the future. Doing so is beyond the scope of this report.

#### **Table 8.1:**

### Summary of costs of a social protection floor with child and unemployment benefits in Armenia, 2021 and 2035

Year	Lower-bound estimates			Upper-bound estimates		
	Child benefits	Unemployment benefits	Total	Child benefits	Unemployment benefits	Total
2021	0.41%	1.48%	1.89%	1.94%	2.52%	4.46%
2035	0.16%	0.75%	0.91%	0.88%	1.28%	2.16%

All in all, as shown in Table 8.1, filling these two gaps in Armenia's social protection floor would cost between 1.89 and 4.46 per cent of GDP in 2021, and between 0.91 and 2.16 per cent of GDP in 2035. Depending on the way the schemes are designed, the costs could be shared between social partners if awareness could be raised about the benefits of investing in inclusive lifecycle social security—for individuals, for society, for firms and for the economy at large. In addition to these two benefits, another top-priority recommendation would be for the Government to consider **expanding the horizontal and vertical coverage dimensions for the healthcare BBP.** This review has highlighted the absence of coverage under the BBP for health care for certain key services, including for women, as a key weakness of the system requiring individuals and their families to bear significant financial burdens for the high costs of health care. For example, the exclusion of 'high-tech and expensive services' represents a noteworthy gap for the general population but leaves vulnerable and lower-income people significantly disadvantaged in the quality and level of services available to them. Moreover, the lack of provision for contraceptives, for the full treatment of cervical and breast cancer and for fertility services put women at significant risk.

#### Expanding the BBP for all residents of Armenia

would ensure at a minimum that, over the lifecycle, all in need have access to essential health care. Expanding the BBP would be an important step

8.3

towards closing gaps in social health protection. However, more investment is needed in the long term to increase the availability, accessibility, acceptability and quality of health services for all. As it stands, priority should be placed on the inclusion of contraceptives, full treatment of cervical and breast cancer and fertility services for all. A multi-tiered system could be considered in this respect. Costing scenarios for an expanded BBP is not feasible within the scope of this review but is highly recommended to better inform policymakers of the feasibility of the available options going forward.

## ADDITIONAL MEASURES TO CONSIDER FOR A MORE EQUITABLE SYSTEM

While investing in the core benefits cited above would help fill urgent gaps in Armenia's core social protection floor, this report has also highlighted a number of gaps and areas of improvement, particularly regarding provisions that have negative implications for gender equality. Addressing these gaps should be part of a wider conversation in the Government about the overall gender-responsiveness of the social protection system. In particular, the analysis has uncovered the following gaps:

 A complex and inconsistent maternity protection system that, beginning with a substantial gap between the period of income

protection and overall parental leave, does not fulfil the objective of ensuring that women's reproductive role does not negatively impact their labour-market participation - The seemingly extemporaneous introduction of small programmes like the childcare and nanny benefits does little to address this gap and might actually be working against the original purpose of maternity leave, which is to take time off work to care for a child in the early stages of life. Moreover, the lack of shared parental benefits sends a message that women are solely responsible for the care and welfare of children, reinforcing damaging gender norms.

- The lack of an adequate employment injury scheme – Employers are responsible for securing the occupational safety and health of their works and providing fair, equitable and effective compensation to injured workers and families of deceased workers. This particular gap in Armenia is related to the wider lack of an occupational health and safety legal framework and should be analysed further in that context.
- The impending drop in the overall adequacy of the old-age protection system, which particularly promises to enhance gender inequalities – The structural reform under way will limit the redistribution mechanisms currently available in Pillar 1, such as the recognition of periods dedicated to childcare towards pension entitlements. The fully funded financing model will also reinstate the link between previous earnings and benefits, a move which will particularly affect women due to the pay gap but will also affect any other low-income worker.
- The lack of evidence-based, gendersensitive policymaking and design – Despite numerous minor and major reforms over past decades, as well as the obvious gender imbalances in Armenia's labour market, decisions have been made without

adequate (public) substantiation of status quo or projected impacts of reforms. Gender equality has not been included as a principle in any of these processes; consequently, no special provisions have been made to close inequality gaps, for example, when it comes to old-age pensions.

The lack of an indexation mechanism to preserve the real value of social protection benefits over time - Finally, a major gap in the current social protection system is the absence of an indexation mechanism for all benefits, which erodes their value and leaves them vulnerable to political and fiscal ebbs and flows. While assessing the adequacy of social protection benefits and systems is complex, and subjective to a certain extent, it is fair to say that maintaining the relative level of benefits is essential to ensure that the overarching policy objective is sustained. The reliance on ad hoc adjustments in Armenia, as opposed to an established indexation mechanism, has several downsides. The absence of an indexation mechanism to protect the value of benefits affects the guarantee of adequacy for recipients over the long run. In turn, this might constrain recipients' capacity to plan for the future and take risks that might enhance their productivity and income.

#### Box 8.2:

#### Enhancing coherence in policymaking

Regardless of Armenia's specific administrative and political traditions, there are some structures, processes and working methods that can facilitate improvement in policy coherence. As a first step, Armenia has the great advantage of having a political commitment to the integration of social services. However, more attention is needed to ensure that each policy area retains the capacity to meet its specific goals. This would avoid a situation where the entire social system is focused on a narrow vision of needs. In particular, social protection policies in Armenia seem to have been captured by demographic objectives, sometimes above the primary objectives of supporting long-term income security considerations.

It is beyond the scope of this paper to unpack how such population policies are contributing to larger social objectives such as female labour participation and children's access to care services. However, from the perspective of the social protection system, it is visible that social protection policies are not being leveraged in a strategic way in that direction. In its current design, some of these policies might actually be counterproductive to these objectives. For example, the short duration of maternity income support, compared to the period of childcare need, might actually be detrimental to parents' decisions to grow their families. The payment of a lump sum at birth cannot compensate for the continued expenses that parents expect to face over the medium and long term when having a child, particularly when access to this lump sum is further restricted for a later time. The guarantee of a predictable, regular benefit, in this respect, would be much more effective in addressing the actual needs and factors preventing families from seeking more children. Even the lack of unemployment benefits increases uncertainty regarding income and might act as a deterrent to growing a family.

The Government's commitment to policy integration could be better translated into results through a policymaking process that was more evidence-based. One of the key observations of this report has been the lack of actuarial valuations preceding the major structural reforms of the social protection system over the past few decades. It is recommended that a comprehensive actuarial diagnosis of the social protection financial system is carried out in order to better understand and project the implications of these reforms on the long-term national accounts and population well-being.

Ideally, the legislation governing contributory schemes should include a requirement for periodic actuarial reviews and that a special actuarial report accompany any proposed legislative modification. This is necessary in order to show decision makers the performance of the system, policy weaknesses and financial impact of the proposed legislative change. The actuarial report should present long-term demographic and financial development prospects so as to ensure that the system is prepared to sustain upcoming risks, as is the case with population shrinking in Armenia. Conducting actuarial valuations periodically, and sharing the results with the public, is also essential to ensure a level of accountability towards intergenerational fairness. This means promoting a nationwide debate to make informed choices about the long-term impact of policy decisions for the well-being of future generations. This is particularly relevant following the significant structural reform that the transition to a DC pensions system represents.

In the short term, the practice of integrating analyses and assessments of potential policy effects should be strengthened. Ideally, there should be an official role in the monitoring and reporting in policy formulation and decision-making. This is essential in order to better understand where there has been progress, or a lack of it and why, and where further action is needed.

Potential measures to address these gaps include the following:

- Reviewing the configuration of the whole maternity and family income support system, with the objective of ensuring, firstly, that the system is meeting its primary functions of providing income protection and, secondly, that its design is conducive to positive outcomes in related policy objectives such as female labour-market participation and the take-up of fertility rates. This work could be carried out as part of a broader review of the Government's family policies and the role of social protection programmes within their performance. Ideally, there should be a political commitment to allow the findings of such work to inform a revision in the design of these policies.
- Conducting a full actuarial review of the system, particularly of the old-age pension scheme to establish the current and future sustainability of reforms, as well as their expected impacts on the welfare of different vulnerable groups.
- Strengthening and formalizing M&E processes to ensure an evidence-based and coherent policymaking process (see Box 8.2).
- Introducing an indexation mechanism that accounts for, at the very least, changes in prices and ideally changes in wages. Moreover, at a system level, it is important that the indexation mechanism is consistent across pillars to prevent a relative divergence in the real value of benefits going forward. A simple assessment of the adequacy of benefits in Armenia is integrated into the preceding chapters; however, a more in-depth assessment, including concrete indexing options, would be advisable.

### <sup>8.₄</sup> <u>SUMMARY</u>

Armenia's social protection system plays a critical role in reducing levels of poverty (see Figure 8.3). It is estimated that in 2019, social protection transfers reduced the child poverty rate by 12 percentage points, the poverty rate among working-age persons by 11.3 points, and the rate among older persons by 17 points. Likewise, social protection transfers reduced the poverty rate for women by approximately 18 percentage points and for men by approximately 16 percentage points.

The system shows many strengths. Notably, the use of a multi-tiered model for old-age, disability,

survivors' and now maternity benefits can be used as an example for other countries with similar economies. However, this model has not yet been applied to all branches of the system, and there are, without doubt, other gaps in Armenia's social protection floor:

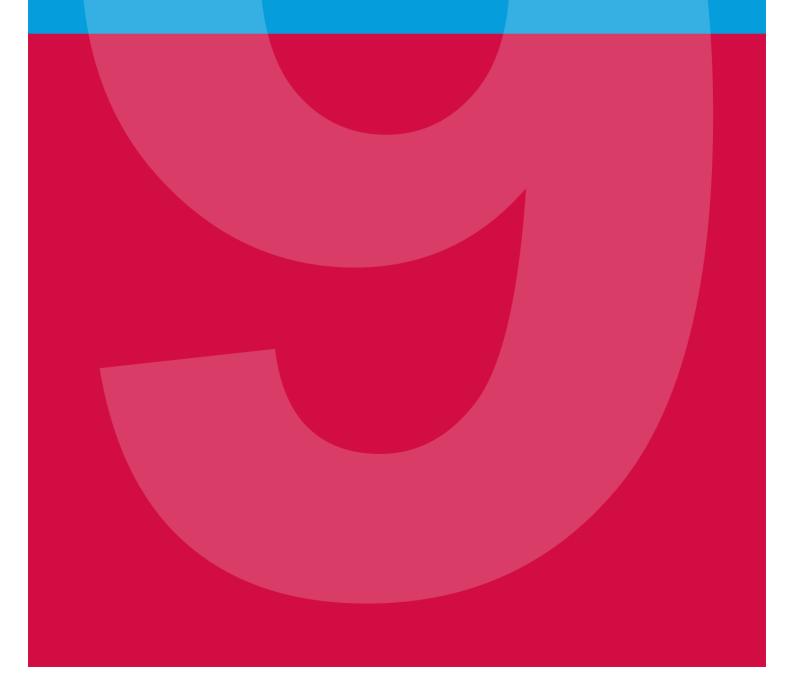
- Inadequate child and family benefit system for all
- Complex and inadequate maternity protection system
- Absence of an unemployment insurance scheme

- Lack of mandatory employment injury insurance
- Uncertainty regarding the adequacy of fully funded old-age pensions in the future, particularly for women

The simplest way to close these gaps would be to focus on three lifecycle benefits that are either missing or largely inadequate: (i) a full BBP for all residents of Armenia to ensure universal access to health care throughout the lifecycle; (ii) a universal child benefit to immediately cover all children aged 0–18; and (iii) a permanent unemployment scheme to cover a minimally adequate period of unemployment, in line with the minimum standards of Convention No. 102.

Additional measures to consider for a more equitable system may include (i) reviewing the configuration of the whole maternity and family income support system; (ii) conducting a full actuarial review of the social protection system, particularly of the old-age pension system; and (iii) strengthening and formalizing M&E processes.

# CONCLUSIONS



Armenia's social security system is already quite well developed when compared with many countries of similar income levels around the world. Many elements of the system are inclusive and organized around lifecycle contingencies. In this respect, the system stands out for its near universal coverage of older people through multitiered old-age, survivors' and disability benefits. The implementation of lifecycle benefits alongside state pensions provides effective social protection floors. These are particularly important for those groups of the population, such as women, for whom accumulating a sufficient contributory history is more difficult. Because of the large gender wage gap in Armenia, flat-rate benefits provide greater support for women in relation to their incomes.

The recent push towards universal maternity benefits is another achievement. However, the piecemeal development of maternity policies has created a complex and incoherent system. In theory, Armenia provides income support during the full period of maternity leave. Yet the legal division between maternity and parental leave hides the fact that maternity income support covers just a portion of the time when childcare responsibilities are incompatible with full-time participation in the labour market. The lack of widely available and affordable childcare facilities is key to this gap. Ultimately, the current maternity protection system fails to enable women to combine their productive and reproductive roles successfully.

New initiatives like the nanny programme exemplify how weaknesses in the design of the social protection system might suggest a need to introduce employment promotion programmes. This case also illustrates the recurring blurred lines between social protection policy and other policy areas in Armenia, in particular population and employment policy. There is a clear preference towards the latter that is neither efficient nor effective. For example, rather than introducing a subsidy to hire private nannies, a more coherent and straightforward response to the gaps in the maternity system would be to support wider childcare guarantees, either via paid parental leave or public services. The childbirth lump sum is another example of a programme that could achieve greater impact through a more coherent design.

There is an overall need to differentiate between the primary and secondary objectives of policies and to strengthen the role of evidence and evaluations in policymaking. The development of a social protection strategy could help clarify the main goals of the system and its components and, if developed with participation from social partners, could constitute a shared platform for inclusive reform. At this strategic level, there is also an urgent need to consider how the gaps in the social protection system might perpetuate continued imbalances in the labour market. In the context of high levels of inequality, gender-neutral policies will not be sufficient to ensure equal access to and levels of benefits.

Social protection policies need to consider and address the way that men and women interact with the system and compensate disadvantages accordingly—more actively and explicitly. But it is worth noting that accelerating progress towards a more inclusive social protection system may not be enough to improve female labour-force participation. Discriminatory social values and gender stereotypes can continue to deepen women's economic vulnerability. Social protection should be part of wider policies addressing the source of these vulnerabilities to meaningfully improve the extent and quality of female labourmarket participation. In these efforts, Armenia can rely on a conducive framework for governance, with a single ministry in charge of policymaking and implementation. This is a major advantage for the goal of continuing to build a more coherent and comprehensive system. However, the ad hoc nature of policy design and reform described above has evolved into a fragmented legal framework. Ironically, contributory and non-contributory benefits are actually designed around each other so as to provide full coverage of the target group, yet they are separate in the legislation. This seems unnecessary and should be reconsidered, as in other countries characterized by legal fragmentation, this tends to eventually translate into overlaps and inconsistencies in regulations. The development of ISSCs is promising in this respect and could tackle some of the administrative complexities that most affect users.<sup>1</sup>

Despite these achievements, there is still an inherent inequity in the system due to the strong link between entitlements and income tax payments. Informally employed, low-income groups will struggle to qualify for state pensions even though the new flat-rate PIT means that they are contributing a larger share of their incomes to finance the system. The decision to move away from a self-financing social insurance system to a system financed entirely from government revenues could also be problematic if the State's capacity for raising revenues is not continuously improved. Authorities should also ensure that this financing model responds to the long-term evolution in benefit costs driven by population dynamics. The continued monitoring and improvement of the pension system should remain a top priority. In this regard, the most recent structural reform to the old-age pension system raises a number of critical questions about equity and solidarity, from both a societal and gender perspective.

Finally, there are also some evident gaps in protection, such as the lack of an effective employment injury system and, most of all, of unemployment protection. This is a gaping hole in a labour context like that of Armenia's, where unemployment is related to the lack of adequate jobs. It is imperative to consider the reintroduction of an unemployment insurance mechanism that, together with ALMPs and, potentially, a minimum 'floor', addresses the structural nature of unemployment. There are also issues regarding the adequacy of benefits, as evidenced by the comparisons to international standards. Indexing benefits is an important step towards preserving existing value, but some benefits will need to be enhanced—not just in monetary value but, like the case of maternity shows, also in other dimensions like the actual duration of income support provided.

Overall, the Armenian social protection system has some strong foundations for growing into a broad and responsive system. Working on establishing a stronger link between policy objectives, evidence and action will be crucial to ensure that these positive elements are expanded so that everyone in the country can enjoy access to some form of support during lifecycle shocks, regardless of income or gender.



## ANNEX 1 KEY LEGISLATION DEFINING AND REGULATING THE SOCIAL PROTECTION SYSTEM

This annex lists the key pieces of legislation that define and regulate the benefits included within the scope of this study. It includes an overview of the laws pertaining to the funded pension system as it exists today, including income tax rates.

- Law on the Minimum Monthly Salary (2003)
- Law on Temporary Incapacity and Maternity Benefits (2003)<sup>1</sup>
- Law on the Minimum Consumer Basket and Minimum Consumer Budget (2004)
- Labour Code (2004)
- Decree No. 1734-N on the Basic Pension, Minimum Pension and Funeral Allowances (2011)
- Law on State Benefits (2013)<sup>2</sup>
- Law on Employment (2013)<sup>3</sup>
- Law on Personalized Record Keeping of Income Tax and Mandatory Funded Contributions (adopted in 2010, entered into force in 2013)
- Decree No. 1489-N on Defining the Size of Social Benefits and Funeral Allowances (2013)
- Law on Social Assistance (2014)
- Decree No. 275-N on Defining the Size of the Childbirth Benefit (2014)
- Decree No. 635-N on Defining the Procedure for Administering the Social Benefits and

Funeral Allowances (2014)

- Decree No. 1179-N on the Application of Payment of Maternity Benefits to Non-Working Women and Others (2015)
- Tax Code (2016)
- Law on Investment Funds (2010, amended in 2018)
- Decree No. 50-N on Defining the Size of the Family Benefit, Social Benefit and Emergency Assistance (2019)

#### Law on State Pensions (2010)<sup>4</sup>

Replacing the Law on State Pensions from 2003, this law regulates the state pension system, including the so-called accumulative component (mandatory fully funded individual accounts) and the voluntary pension (regulating Pillars 0, 1, 2 and 3).

It regulates the management and financing of the system, including the conditions and procedures for calculating, assigning and paying benefits. It defines civil and military employment pensions. The former includes old-age, preferential, long-term service, disability, survivors' and partial pensions.

The old-age (social) pension (Pillars 0 and 1) shall be granted to someone who has up to 25 years of "required working experience" (i.e. years paying income tax). For a length of service up to 10 years, the pension is calculated based on the following formula:

### $P = BP + (LOS \times YV_{up to 10 years}) \times PC$

where:

- P = monthly pension amount
- BP = basic pension (defined by government decree; currently equal to AMD 18,000)
- LOS = length of service years (i.e. years of service)
- YV<sub>up to 10 years</sub> = service value per year for years of service up to 10 years (defined by government decree; currently equal to AMD 950)
- PC = personal coefficient: For the years of service up to 10 years, the PC = LOS × 0.1

For a length of service above 10 years, the pension is calculated based on the following formula:

$$P = BP + (10 \times YV_{up \text{ to 10 years}} + (LOS - 10) \times VV_{above 10}) \times PC$$

where:

- P = monthly pension amount
- BP = basic pension (defined by government decree; currently equal to AMD 18,000)
- YV<sub>up to 10 years</sub> = service value per year for years of service up to 10 years (defined by government decree; currently equal to AMD 950)
- LOS = length of service years (i.e. years of service)
- YV<sub>above 10</sub> = service value per year for years of service above 10 years (defined by government decree; currently equal to AMD 500)
- PC = personal coefficient:
  - For  $10 \le LOS \le 40$ , the PC is calculated as: PC = 1 + 0.01 × (LOS - 10)
  - For LOS > 40, the PC is calculated as:
     PC = 1.3 + 0.02 × (LOS 40)

## Law on Income Tax (adopted 2010, entered into force in 2013)

#### **Chapter 1: General provisions**

- Regulates the scope of the income tax base, income tax rates and the manner of calculating and paying income tax.
- Defines income tax as "a direct tax paid to the RA state budget by taxpayers (in cases as prescribed by law through the tax agent)."

### Chapter 2: Taxpayers and the tax base

- Article 3: Income taxpayers. This includes everyone (resident or non-resident), including the self-employed and notaries; a resident is someone who has lived in Armenia for at least 183 days in the tax year, including civil servants working away from Armenia.
- Article 4: The tax base. Taxable income (the difference between the taxpayer's gross income and deductible incomes).
- Article 6: Deductible incomes. All benefits and pensions received in conformity with the law are considered deductible incomes—with the exception of all benefits defined by the Law on Temporary Incapacity and Maternity Benefits and pensions paid under the voluntary, fully funded pillar. Funded pension contributions up to 5 per cent of the taxpayer's gross income are considered deductible.
- Article 8: Inclusion in the tax base of incomes received from agricultural production. Income from certain agricultural products is considered deductible (as long as the products' share in the agricultural worker's gross income does not exceed 10 per cent).

### Chapter 3: Rates of income tax

1. Income tax rates

Income	Tax rate
Up to AMD 120,000	24.4% of taxable income
More than AMD 120,000	Flat rate of AMD 29,360 plus 26% of any taxable income in excess of AMD 120,000

#### 2. Income tax rates on non-taxed income

Income	Tax rate	
Up to AMD 1,440,000	24.4% of taxable income	
More than AMD 1,440,000	Flat rate of AMD 351,360 plus 26% of any taxable income in excess of AMD 1,440,000	

- If a person received the accrued amount under a voluntary funded pension insurance scheme as a one-off withdrawal, they pay the above income tax rate (see item 1). Otherwise, income tax paid on the voluntary funded pension will be at a rate of 10 per cent.
- For income received as royalties or for the lease of property (except for self-employed residential planners), the tax rate will be 10 per cent.
- For income as interest, the rate will be 10 per cent.
- For income from the sale of property, the rate will be 10 per cent.
- Where there is no contract, the tax agent (i.e. employer) can calculate and withhold income tax on payable income at a rate of 11 per cent.
- For the self-employed who pay presumptive tax, the rate will be 3 per cent.
- For foreign citizens and stateless persons: a rate of 5 per cent for income from insurance fees and freight charges; 10 per cent for

income as royalties, interest, the lease of property, asset appreciation and other passive income; and any other income for which they pay the above income tax rate (see item 1).

The employer calculates the income tax and transfers the mandatory funded pension insurance payment to the Treasury. The employer also calculates the additional payment required to match the state participation maximum of AMD 25,000 if the person's salary is greater than AMD 500,000.

The State Revenue Committee (SRC)—"an administrator on Funded Pensions"—deals with individual reports and submits an application to the Treasury, which then transfers the accrued funds to the Central Bank, to asset managers and then to the person's pension account.

**Note:** Until 1 January 2020, three tax brackets were applied to determine income tax rates in the Republic of Armenia:

Income	Tax rate
Up to AMD 150,000	23%
Between AMD 150,001 and AMD 2 million	28%
More than AMD 2 million	36%

Note: As of 2020, the income tax rates became flat and gradually will be decreased as follows:

Time frame	Tax rate
Starting January 2020	23%
Starting January 2021	22%
Starting January 2022	21%
Starting January 2023	20%

## Law on Funded Pensions (adopted in 2010, amended and became effective in 2014)

- Regulates Pillars 2 and 3 of the funded pension systems
- Defines the structure of the mandatory and voluntary components of the pension system, management of the state bodies involved, rights and obligations of participants, administration of funded pension accounts and the investment of funded pension assets,

types of funded pensions and their payment, mechanisms for guaranteeing the return of contributions and responsibility for violations of this law

### Mandatory accumulative component (Pillar 2):

Compulsory for people born on or after 1 January 1974. Voluntary for people born before 1974. Once joined, the decision is final. The rate of funded contributions shall be set at a rate of 10 per cent of salary or equivalent income.

Taxpayer	Income	Rate of funded contributions by the State	Rate of funded contributions by the taxpayer
Employee	Up to AMD 500,000 per month	5% of basic income	5% of basic income
Employee	More than AMD 500,000 per month	AMD 25,000 (monthly)	Remaining (to make up 10% of basic income)
vear		5% of basic income	5% of basic income
Self-employed	More than AMD 6,000,000 per year	AMD 300,000 (annually)	Remaining (to make up 10% of basic income)

Note: If a person born before 1974 voluntarily joins this pillar, they pay a flat rate of 5 per cent of their basic income.

- Employers (considered tax agents) are responsible for calculating and transferring contributions, for both those who joined mandatorily or voluntarily. The selfemployed are obliged to do this themselves.
- The tax authority processes reports transferred by the tax agent and sends orders to the Treasury for transferring the correct amount from the state budget to the individual's pension account.
- A "registrar of participants" opens and maintains individual pension accounts with the Central Bank on behalf of the contributor.

**Voluntary accumulative component (Pillar 3):** Defined pensions, accumulative pension deposits and defined pension payments.

 Only voluntary pension funds (pension fund managers), banks and insurance companies have the right to offer voluntary funded pension schemes—they shall establish the rules (e.g. contributions are paid on the basis of a contract concluded between the taxpayer and such VPF/bank/insurance company).

### Amendment (2014)

The rate of funded contributions remains at 10 per cent of the salary or equivalent income, but there are changes to the taxpayers'/State's share of the contribution, starting in January 2021:

Income	Rate of funded contributions by the State	Rate of funded contributions by the taxpayer
Up to AMD 500,000 per month	Remaining (to make up 10% of basic income)	3.5% of basic income
More than AMD 500,000 per month	AMD 32,500 (monthly)	Remaining (to make up 10% of basic income)

Again, the rate remains at 10 per cent, but there are further changes to the taxpayers'/State's share of the contribution, starting in January 2022:

Income	Rate of funded contributions by the State	Rate of funded contributions by the taxpayer
Up to AMD 500,000 per month	5.5% of basic income	4.5% of basic income
More than AMD 500,000 per month	AMD 27,500 (monthly)	Remaining (to make up 10% of basic income)

Amended in 2014, individual contributions to Pillar 2 were made mandatory for public employees and new entrants into the labour market. Private sector employees were allowed to postpone participation until July 2017. The authorities rolled out an outreach campaign to increase awareness of the new pension system. Following the 2014 amendment, approximately 140,000 workers were enrolled in the new pension system within the first two years. Despite progress, the authorities decided to postpone making participation in the new system mandatory for all eligible workers until July 2018, considering the technical challenges and budgetary pressures associated with the increased matching contributions.

## ANNEX 2 HISTORICAL DEVELOPMENT OF ARMENIA'S PENSION SYSTEM

Upon independence from the Soviet Union in 1991, Armenia followed the path of most post-Soviet countries in drastically reducing government expenditure, including social spending, and retaining the basic structure of a contribution-based social protection system. Social assistance programmes were also carried over from the previous system. Approximately 26 small, uncoordinated categorical cash benefits existed until the non-contributory poverty Family Benefit (FB) programme was launched in 1999.<sup>1</sup> Approximately 27 per cent of families in the country received the benefit at that time. Later, the programme went through several reforms that further emphasized poverty targeting until 2013, when the new Law on Public Benefits entered into force, overhauling the FB and replacing it with the FLSEB in 2014.

The rest of the system—including the traditionally contributory components—was first regulated by the Law on State Pension Security of Citizens of the Republic of Armenia (1992). In 2000, the Social Insurance Fund (SIF) was established and functioned as a regular **defined benefit (DB)** social insurance fund, collecting mandatory contributions from employers and employees in order to finance what was known as state pensions. The value of state pensions was calculated based on workers' earnings and contributory history, as with most social insurance schemes around the world. However, only four years later, in 1996, this law became invalid with the enactment of the Law on State Pensions Security (1996). This law defined 'labour pensions' for old age, disability and survivors and introduced 'social pensions' for the same contingencies, financed directly from the State's budget. With these two tiers, Armenia was on its way to building a system that responded to both functions of social protection: minimum income security through social pensions and consumption smoothing through higher labour pensions. Another key feature of this reform was that, while the SIF continued to collect mandatory contributions from employers and employees, the contributions from employees were now collected via income tax. Thus, the second function of social protection became linked to participation in the tax system. This distinct feature continues to characterize the Armenian system today.

Just a year later, the Law on Mandatory Social Insurance Payments (1997) rechristened social insurance payments under the name 'social contributions'. Social contributions were paid by employees in the amount of 3 per cent of their wages and other deductible incomes. Employers made social contributions according to the defined rates presented in the table below.

#### Table A.1:

### Employers' social contributions as per the 1991 Law on Social Insurance Payments

Monthly wage subject to social contributions	Amount of social contributions
Up to AMD 25,000	AMD 7,000
Between AMD 25,001 and AMD 100,000	AMD 7,000 + 15% of the amount exceeding AMD 25,000 [7,000 + 0.15 × (monthly wage – 25,000)]
AMD 100,001 and more	AMD 18,250 + 5% of the amount exceeding AMD 100,000 [18,250 + 0.05 × (monthly wage - 100,000)] [18,250 = 7,000 + 0.15 × (100,000 - 25,000) = 7,000 + 11,250]

This introduced a regressive element to the system, as employers' contributions diminished as wages increased. The thresholds were periodically revised by the Government, but the law did not establish a specific period for review or method for assessing the financial implications of these revisions. Although actuarial evaluations of the SIF are not publicly available, stakeholder interviews suggested that the system was receiving an increasing amount of state funds, which became an issue of concern for the Government.

Without the actuarial valuation, it is not possible to establish the reason behind this situation. However, given that at this stage the fund was not yet mature, it is unlikely that it was due to demographic, economic or social variables. In fact, young pension schemes normally produce large surpluses in their early years, as that is a period when substantial contributions are collected but no, or few, pensions are paid out. These surpluses might have simply been transferred into the general government budget through straight transfers, as was the case in several countries in Central and Eastern Europe at the time. It is thus likely that it was weak fiscal governance to implement the financial independence of the SIF which fueled the increased need for subsidies.

It is common for social insurance funds to be continuously modified in order to accommodate short-term circumstances within long-term funding goals. These are typically achieved through so-called parametric reforms that include measures like adjusting the eligibility conditions or the formulas for determining the value of benefits, which can achieve significant long-term savings through relatively marginal alterations. Rather than pursue parametric reforms, in 2003, the Law on State Pensions began a structural reform—a reform that sought to change the very nature of the scheme, including its underlying financing arrangements and core objectives—by establishing the grounds for a notional defined contribution (NDC) system. NDC systems are somewhat in between public social insurance and privately administered accounts, but essentially revenues from workers' contributions continue to be directed to pay for benefits in a PAYG model. However, the management information system (MIS) necessary to administer an NDC system was not properly developed, and the model was never fully introduced.

In 2006, the Government established an interagency Pension Reform Working Group (PRWG) under the RA Central Bank tasked with developing a pension reform proposal based on a review of international practices and current trends. The PRWG was advised by the World Bank and the USAID Social Protection Services Strengthening (SPSS) programme, which in 2008 submitted a report that found the costs of the system continued to increase, running deficits that demanded funds from the state budget. In 2008, pension expenditures were to make up 4.3 per cent of GDP, becoming the largest social sector expenditure component of the consolidated state budget while benefits failed to meet the minimum consumer basket. The report concluded by recommending further shifts towards a marketbased model. For the social protection system, this meant a complete transformation from a public PAYG social insurance pension to privately managed, fully funded individual accounts, or, to a defined contribution (DC) scheme. In the same year, the Law on Mandatory Social Insurance Payments (1997) was amended to reorganize the SIF into the State Social Security Service (SSSS), and from this point, social contributions were directly channelled to the state budget.

In such structural reforms, transition considerations are crucial. In this regard, the Law on State Benefits (2013) set out a multi-tiered pension system whereby private sector workers born in or before 1971<sup>2</sup> could choose (within a limited time frame) to continue participating in a state pension (Pillar 1), which consists of a personal remuneration based on years of contribution. However, cohorts born after that date, as well as those from earlier cohorts who did not opt out, were mandatorily enrolled into the new DC scheme (Pillar 2) that bases benefits on individual accumulations. The accrued liabilities-meaning pensions currently in payment and the value of the accumulated rights of the current insured population—represent the real cost of the promised benefits. It is unclear whether the magnitude of this financial obligation under the former DB scheme was fully taken into consideration as these transitional costs are not explicitly acknowledged either in the laws or in the state budget. Stakeholder consultations also revealed a general lack of awareness of this issue. Nonetheless, transitional costs are being borne by all taxpayers, particularly the generations born between 1974 and the future year in which the final Pillar 1 pension is paid.

In 2010, a new package of laws was introduced to regulate the pension system, among which were the following:

- The 2010 Law on Income Tax replaced mandatory social contributions with a taxfinanced system. The tax rate structure established at this time was considered only nominally progressive, given the widespread underreporting by high-income payers. As of 2020, the income tax rate became flat and will be gradually decreased from 23 to 20 per cent in 2023. This reform is surprising as it is generally acknowledged that the main way tax policy can reduce income inequality is through progressive income taxation. There is also no evidence that tax cuts improve compliance. For the purpose of the social protection system, this reform implies that lower earners are contributing a higher share of their disposable income for the same benefits.
- The Law on Funded Pensions (2010), most recently amended in 2014, establishes a total contribution rate of 10 per cent to finance Pillar 2, shared by workers and employers. This contribution is levied on top of the personal income tax (PIT), which finances Pillar 1. However, despite essentially contributing to both regimes, people born after 1974 do not receive a Pillar 1 remuneration. Both Pillar 1 and Pillar 2 pensioners also receive a basic pension that acts as a floor, but a flat unindexed benefit cannot be considered as compensation for accrued liabilities.
- In that same package, the **Law on State Pensions** (2010) regulates the management and financing of state pensions. This includes both the basic pension and Pillar 1. The basic pension is defined by government decree and is currently equal to AMD 18,000. While it was originally established at the level of the minimum consumer basket, an indexation mechanism was never formalized. Because the minimum pension is paid to both Pillar 1 and Pillar 2 pensioners, as well as functioning as the basis for the pension-tested old-age benefit, it effectively functions as a social protection floor for old age. However, the lack of indexation risks eroding the benefit's real value.

# <u>ANNEX 3</u> <u>BBP COVERAGE: LIST OF</u> <u>POOR, VULNERABLE AND</u> <u>SPECIAL CATEGORIES</u>

Households whose vulnerability score exceeded the qualifying cut-off are eligible to receive free inpatient care under the BBP (as shown in the table below).

### Table A.2:

#### List of poor, vulnerable and special categories and eligibility for inpatient care services

Category	Eligible for inpatient care (Y/N)
Poor and near poor	
All those eligible to receive the FLSEB	Y
Vulnerable groups	
Disabled Groups I, II and III	Y
World War II veterans and relatives	Y
Orphans or children without parental care up to the age of 18 and their relatives	Y
Children aged 8–12 and those over the age of 65 who are in need of specific dental care	Ν
Children up to the age of 18 with disabled family members	Y
Children up to the age of 18 in families with four or more children	Y
Children in orphanages and adults in nursing homes	Y
Special groups	
Women of reproductive age	Y
All children up to the age of 7	Y
Children up to the age of 18 in special care dispensary institutions	Y
Children up to the age of 18 with only one parent	Y
Boys of military age (aged 14–15)	Y
Military personnel and their family members, family members of those who died in defence of Armenia and retired or disabled personnel receiving military pensions	Y
Rescue personnel and their family members, as well as retired or disabled rescue servants and family members of those who died	Y

(continued)

Category	Eligible for inpatient care (Y/N)
Incarcerated persons	Y
Those involved in the Chernobyl nuclear plant clean-up	Y
Trafficking victims	Y
Asylum seekers	Y
Social package beneficiaries	Y
Military-aged men requiring inpatient services and diagnosed through hospital examination	Y
Children up to the age of 18 with single mothers	Ν
Unemployed pensioners	Ν

Source: Lavado et al. 2018.

## ENDNOTES

### **Chapter 1**

- 1 Karapetyan et al. 2011.
- 2 For detailed descriptions of terms, see 'Glossary' in ILO 2017.
- 3 The authors recognize that the term 'non-contributory' is contested in some circles as it potentially obscures the contributions that everyone, regardless of their links to the formal labour market, makes to society and the economy throughout their lives (McClanahan 2019). This critique is particularly relevant when considering the 'invisible' contributions of unpaid care performed predominantly by women around the world. Nonetheless, alternative terms, including 'tax-financed' or 'social assistance' were not appropriate given that all benefits (including earnings-related benefits) are now financed from taxes in Armenia (see Section 3.2.2 for a full discussion), and social assistance is commonly associated more narrowly with means-tested benefits.

## Chapter 2

- 1 Armenia 2014.
- 2 Armenia 2019. The conversion of Armenian drams to U.S. dollars was calculated using the OANDA currency converter (see https://www1.oanda.com/currency/ converter/).
- 3 UN DESA 2018; 2019a.
- 4 UN DESA 2019c; World Bank 2020b. The country's fertility rate declined from approximately 2.6 children per woman in 1985 to 1.8 children per woman in 2019, well below the replacement rate. According to UN DESA, the fertility rate is expected to remain at between 1.76 and 1.78 up to the year 2050. Although the net migration rate per 1,000 population has evened out since the 1990s (stood at -14.2 annually between 1995 and 2000), it remains negative (-1.7 between 2015 and 2020) and is expected to worsen slightly (-1.8 between 2045 and 2050).
- 5 UN DESA 2019a.
- 6 For the purpose of calculating 'life expectancy at retirement', UN DESA uses a retirement age of 60.
- 7 UN DESA 2019a.
- 8 OECD and CRRC-Armenia 2017.
- 9 ARMSTAT 2020b.
- 10 World Bank 2020a.
- 11 IMF n.d.-b, last updated April 2021. Armenia has experienced numerous shocks, including the 2007–2008 global financial crisis, the spillover of geopolitical tensions between the Russian Federation and Ukraine in 2014, the drop in commodity prices since 2014—impacting key trading partners—and most recently the global COVID-19 pandemic.
- 12 IMF 2020a.
- 13 IMF n.d.-b, last updated April 2021.

- 14 IMF 2020b.
- 15 ILO 2020a. The level of economic activity was down 4.6 per cent in March 2020 and 17 per cent in April 2020, compared to the same periods a year earlier. This decline should be seen against the fact that the economy was growing rapidly until the onslaught of the pandemic.
- 16 According to the 2018 LFS.
- 17 ILO 2020a.
- 18 Madureira Lima et al. 2020.
- 19 World Bank 2020b.
- 20 ILO 2020a. In 2019, the Russian Federation accounted for 54 per cent of remittance flows to Armenia.
- 21 ARMSTAT 2020a.
- 22 Ibid. See Box 2.1 for an explanation of these recent changes and a methodological brief on Armenia's national poverty lines.
- 23 According to the Law on the Minimum Consumer Basket and Minimum Consumer Budget (2004), the minimum consumer basket is the basis for determining the minimum wage, pensions, scholarships and other social benefits (Article 7). However, this is not always the case in practice as noted in the description of benefit values in the sections below.
- 24 It should be noted that the monetary value of the upper poverty line changed dramatically with these methodological revisions, from AMD 42,621 (nominal) in 2018 to AMD 53,043 (nominal) in 2019. Had the 2018 poverty lines simply been adjusted by the consumer price index as per the previous methodology, the 2019 upper poverty line would have amounted to AMD 43,289 (nominal).
- 25 Analysis of the 2019 ILCS. Poverty rates are highest in Aragatsotn (51.4 per cent) and lowest in Syunik (12.1 per cent). In 2019, the poverty rate in the capital city of Yerevan stood at 14.1 per cent.
- 26 Analysis of the 2019 ILCS.
- 27 The Gini coefficient increased sharply between 2009 and 2018, from 28.0 to 34.4. In 2019, however, it fell to 29.9. See World Bank Open Data at https://data.worldbank. org/indicator/SI.POV.GINI?locations=AM.
- 28 ARMSTAT 2020c.
- 29 Ibid.
- 30 Ibid. In 2019, the rural labour-force participation rate was 60.4 per cent, compared with 59.6 per cent in urban areas.
- 31 Armenia 2004.
- 32 In 2017, the Government of Armenia also adopted its first law on domestic violence—the Law on the Prevention of Domestic Violence, Protection of Persons Subjected to Domestic Violence and Restoration of Solidarity in the Family (amended in 2021).

- 33 The Government of Armenia has approved various national strategies and action plans on gender equality, such as the National Action Plan on Improving the Status of Women and Enhancing Their Role in Society (2004– 2010), the Gender Policy Concept Paper of the Republic of Armenia (2010) and the Gender Policy Strategy Action Plan (2011–2015). The most recent to be approved (in 2019) is the National Strategy on Gender Equality and Action Plan for 2019–2023.
- 34 World Economic Forum 2021.
- 35 Ibid.
- 36 UN Women 2019.
- 37 Ibid.
- 38 Asian Development Bank 2015.

### **Chapter 3**

- 1 See, for example, Kidd and Tran 2017; and Mathers and Slater 2014.
- 2 Ananyan 2012; Asatryan 2014; Wening Handayani and Babajanian 2012, pp. 269–271.
- 3 Social protection and social security are frequently used interchangeably, but there are notable distinctions. See ILO 2017.
- 4 McClanahan et al. 2021.
- 5 According to the 2016–2018 MTEF, this target was lowered to 94.5 per cent. Thus, there is either a discrepancy between the Government's mediumand long-term targets or an inconsistency in the implementation of government strategies and/or programmes.
- 6 Barrantes 2020.
- 7 ILO and UN Women 2020.
- 8 ARMSTAT 2020c. The unemployed population is calculated as persons aged 15–74 who within the previous four weeks did not have a job or were not engaged in any income-generating activity; were actively searching for any type of employment by any methods; and would take up employment given a job opportunity immediately (i.e. within the following two weeks).
- 9 See Annex 2 for a more detailed description of the historical development of Armenia's pension system.
- 10 Source: Various administrative data.
- 11 Source: Available administrative data.
- 12 World Bank n.d. Tax revenues in Armenia increased from around 14 per cent in the early 2000s to 22 per cent in 2016, where it has remained approximately ever since.
- 13 Adopted in 2010, entered into force in 2013.
- 14 Ghukasyan et al. 2020.
- 15 National tripartite social dialogue brings together government, workers and employers, and a National Tripartite Commission (NTC) provides advice to the Government of Armenia on labour and labour-related legislation and on employment policy. However, the NTC suffers a number of capacity constraints, particularly with applying consensus-based decisions.
- 16 OECD 2018.

### **Chapter 4**

- 1 Analysis of the 2019 ILCS.
- 2 The Semashko model was the former Soviet Union's centralized healthcare system. It was built as a multitiered system of care with a strongly differentiated network of service providers well connected by a referral system. It was essentially universal and rolled out to all persons free of charge.
- 3 A list of all vulnerable groups can be found in Annex 3.
- 4 See Annex 3 for a description of the beneficiary categories.
- 5 See Annex 3 for a description of the beneficiary categories.
- 6 Source: ArmStatBank. Total expenditure on health increased from AMD 79.6 billion (1.3 per cent of GDP) in 2018 to AMD 99.3 billion (1.5 per cent of GDP) in 2019.
- 7 Lavado et al. 2018: World Bank n.d.
- 8 Lavado et al. 2018.
- 9 Heymann et al. 2011; Tanaka 2005.
- 10 Haeck 2011; Heymann et al. 2017.
- 11 Nandi et al. 2016.
- 12 Fallon et al. 2017.
- 13 Staehelin et al. 2007.
- 14 Hajizadeh et al. 2015.
- 15 Aitken et al. 2015.
- 16 Avendano et al. 2015.

### **Chapter 5**

- 1 Kidd et al. 2020.
- 2 Ayliffe et al. 2017; McClanahan et al. 2021.
- 3 Mkandawire 2005.
- 4 The median poverty line for upper-middle-income countries is US\$5.50 per person per day in purchasing power parity (PPP) terms.
- 5 Knox-Vydmanov 2014.
- 6 Kidd and Athias 2020.
- 7 ILO and UNICEF 2019.
- 8 Sinha et al. 2016; World Bank n.d., last updated 19 March 2021.
- 9 World Bank 2020c.
- 10 Abrahamian 2020; Ritchie 2019; Sinha et al. 2016. In 2019, the sex ratio at birth (five-year average of male births per female births) was 1.11, which is above the global "expected" benchmark of 1.05, according to the World Health Organization (WHO).
- 11 Sinha et al. 2016.
- 12 Ibid. Data from Armenia's Demographic and Health Survey (2015–2016) show that in 2016, 33.2 per cent of households were female-headed. The share appears stable compared with 2005 and 2010 but is much higher than the share in 2000 (28.9 per cent).

- 13 UNESCO n.d.
- 14 Sinha et al. 2016.
- 15 Kidd and Gelders 2015, p. 58.
- 16 This amount is in the event of the loss of one breadwinner. In the case of loss of both breadwinners, the benefit is AMD 90,000.
- 17 The value of the top-up changes according to the vulnerability score and in high mountainous and close-to-border communities. See Section 5.3.2 for a detailed description.
- 18 The basic pension amounts to AMD 18,000 (US\$35). The value of service years amounts to AMD 950 (US\$2) per year for the first 10 years of service and AMD 500 (US\$1) for each subsequent year. The personal coefficient is 0.1 for a length of service less than or equal to 10 years, 0.01 for a length of service between 11 and 40 years, and 0.02 for a length of service greater than 40 years.
- 19 See Section 5.3.2 for a discussion of the adequacy of the transfer values for children.
- 20 See Section 5.3.2 for a detailed description of the parameters of the additional top-up, which varies according to the vulnerability score and in high mountainous and close-to-border communities.
- 21 The Government is currently considering eliminating this component.
- 22 ILO and UNICEF 2019.
- 23 UNFPA 2019.
- 24 Notably, in some high-income countries that perform well on gender and family welfare indicators, such as the Nordic countries, the value of cash benefits is relatively low and is compensated by comprehensive packages of free public services, including childcare.

### **Chapter 6**

- 1 World Bank 2020c.
- 2 Buitrago-Hernandez et al. 2019.
- 3 Analysis of the 2019 LFS.
- 4 Honorati et al. 2019.
- 5 Sinha et al. 2016.
- 6 UN Women 2018.
- 7 Christensen 2017.
- 8 See a detailed description of the calculation of this benefit, including average transfer values, floors and ceilings, in Section 6.2.2.
- 9 See a detailed description of the qualifying conditions (age boundaries and required years of service) in Section 6.5.1.
- 10 The basic pension amounts to AMD 18,000 (US\$35). The value of service years amounts to AMD 950 (US\$2) per year for the first 10 years of service and AMD 500 (US\$1) for each subsequent year. The personal coefficient is 0.1 for a length of service less than or equal to 10 years, 0.01 for a length of service between 11 and 40 years, and 0.02 for a length of service greater than 40 years.

- 11 The basic pension amounts to AMD 18,000 (US\$35). The value of service years amounts to AMD 950 (US\$2) per year for the first 10 years of service and AMD 500 (US\$1) for each subsequent year. The personal coefficient is 0.1 for a length of service less than or equal to 10 years, 0.01 for a length of service between 11 and 40 years, and 0.02 for a length of service greater than 40 years.
- 12 Average monthly earnings of prime-age employees (aged 25–54) in 2019 was AMD 116,536 (US\$219).
- 13 Ghukasyan et al. 2020.
- 14 ILO 2016a.
- 15 Heymann et al. 2017.
- 16 ILO 2011.
- 17 Grimshaw and Rubery 2015.
- 18 Honorati et al. 2019.
- 19 ILO 2017.
- 20 The MSEA is an external unit of the MoLSA that delivers services in the medical social field, medical social examinations and investigations and analysis of the loss of ability to work in the event of accidents or disease of any origin, defining the percentage of the disability.
- 21 ILO 2008.
- 22 ILO 2021.
- 23 EU-OSHA n.d.
- 24 ILO 2020b.
- 25 Scheil-Adlung and Bonnet 2011.
- 26 They include the Income Security Recommendation, 1944 (No. 67); the Social Security (Minimum Standards) Convention, 1952 (No. 102); the Medical Care and Sickness Benefits Convention, 1969 (No. 130); and the Medical Care and Sickness Benefits Recommendation, 1969 (No. 134). These instruments reflect an international consensus forged by governments and employers' and workers' organizations.
- 27 The average monthly income is calculated by dividing the total income of the 12 preceding consecutive calendar months by 12. The amount taken as a basis for calculating the temporary disability benefit for the selfemployed is the average monthly income divided by 30.4 (average days in one month) multiplied by the number of calendar days of temporary incapacity to work.
- 28 Groce et al. 2011; Trani and Loeb 2012; WHO and World Bank 2011; Yeo and Moore 2003.
- 29 A disability can range from minor impairments that may add costs at the margin, to moderate and severe disabilities that may mean significant additional costs to living.
- 30 Mont and Cote 2020.
- 31 Conversations with disabled persons' organizations (DPOs) implied that there are also significant gaps in the regional coverage of specialized services and the provision of assistive devices.
- 32 Key informant interview, 22 March 2021.
- 33 Key informant interview, 22 March 2021.
- 34 WHO and World Bank 2011, p. 24.

- 35 UN DESA 2019b. For a discussion of the Convention standards in relation to more recent empirical measurements of additional cost, see James and McClanahan 2019.
- 36 Source: 2019 LFS.
- 37 ISSA 2014.
- 38 ISSA 2016.
- 39 Ten days of pay for one year of service, 25 days for more than one and up to five years, 30 days for more than five and up to 10 years, 35 days for more than 10 and up to 15 years, and 44 days for more than 15 years.
- 40 ILO 2016b.
- 41 Ghukasyan et al. 2020.
- 42 Estimates of the size of the legally covered population are derived from ILOSTAT data on informal employment (based on the 2019 LFS) and on the authors' own analysis of the 2019 LFS.
- 43 The number of beneficiaries is taken from administrative data provided by the SSA, where available.
- 44 According to administrative data, the total number of disability (state) pensioners in 2019 was 110,014, but this number includes older persons.

## **Chapter 7**

- 1 Sengupta and Kidd 2018.
- 2 See https://www.armstat.am/file/article/sv\_06\_20a\_550. pdf.
- Since 1992, a certificate of mandatory social contributions (currently income tax) payment is required to qualify for state pensions. Up until 1996, the value of the pension was calculated based on the wages of the last three years of contributions before retirement. However, starting in 1996, the link between pension value and previous wages was severed, and the concept of 'length of service' was introduced. Remaining DB pensions are now calculated exclusively on the basis of length of service and a personal coefficient, which is again also calculated on the length of service. The value of one service year is defined by the Government and is not automatically indexed to either wage or price inflation.
- 4 This was increased from age 23 in July 2020.
- 5 ISSA/SSA, multiple years.
- 6 The value of service years is differentiated. It is equal to AMD 950 for each year of the first 10 years of service and AMD 500 per year thereafter.
- 7 The personal coefficient is defined as 0.1 for 10 years or less, 0.01 for 11 to 40 years and 0.02 above that.

## **Chapter 8**

- 1 ILO 2020a; Madureira Lima et al. 2020.
- 2 IMF n.d.-a.
- 3 ILO and UNICEF 2019.
- 4 Kidd et al. 2021.

- 5 McClanahan and Gelders 2019.
- 6 Escudero and Liepmann 2020.
- 7 Lee and Torm 2017.
- 8 McClanahan and Gelders 2019.
- 9 ILO Convention No. 102 calls for a benefit to be paid at 45 per cent of the insured's previous wages for the duration of unemployment, up to at least 13 weeks over 12 months. The scenario proposed here is a simple universal floor at this level but also at the standard level (AMD 26,500) provided for other income replacement benefits such as old-age, disability and survivors' benefits, a level which is lower and equivalent to about 39 per cent of the minimum wage for 2020 (AMD 68,000). However, a more appropriate financing model would be based on a multi-tiered system including a universal or pension-tested floor (such as the one in place for the benefits mentioned above) and a social insurance second tier based on contributions and actual earnings. A detailed actuarial model would be needed to estimate potential contribution rates (based on the general average premium) required to finance the benefits now and into the future. This is beyond the scope of this report.

## **Chapter 9**

1 The existence of ISSCs at the regional and territorial levels is a big plus in terms of the delivery of programmes. It opens the door for coordination, if not integration of services. However, this is only under the condition that the administrative procedures for clients' needs assessments take on a holistic perspective. Referral mechanisms should be put in place, and case management roles should be clearly defined and assigned so that from the point of view of users, there is no fragmentation between policy areas divided at the regulatory level.

## Annex 1

- 1 Other regulations providing a legal basis for its implementation include Decree No. 1024-N (2011) on the enforcement of this law and Decree No. 144-N (2013) on the enforcement of separate provisions for this law.
- 2 Other regulations providing a legal basis for its implementation include Decree No. 145-N (2014) on the enforcement of this law.
- 3 Other regulations providing a legal basis for its implementation include Decree No. 534-N (2014) on the implementation of this law.
- 4 Other regulations providing a legal basis for its implementation include Decree No. 670-N on the Approval of the Pensions Procedure (2011).

### Annex 2

- 1 Government Decree No. 727 of November 1998.
- 2 This was later delayed to 1974. In 2014, Tier 2 became mandatory for all public employees and new entrants into the labour market, while private sector employees were allowed to postpone participation until 2018.

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