

SOCIAL PROTECTION AND SOCIAL INCLUSION IN ARMENIA, AZERBAIJAN AND GEORGIA

SYNTHESIS REPORT

European Commission

Directorate-General for Employment, Social Affairs and Inclusion

Manuscript completed in 2011



European Commission

Neither the European Commission nor any person acting on behalf of the Commission may be held responsible for the use that may be made of the information contained in this publication.

Gesellschaft für Versicherungswissenschaft und –gestaltung e.V.

Hansaring 43, D -50670 Köln

www.gvg.org

Gesellschaft für
Versicherungswissenschaft
und -gestaltung e.V.



Authors:

Birgit Garbe-Emden

Sabine Horstmann

Yvette Shajanian Zarneh

© European Union, 2011

Reproduction is authorised provided the source is acknowledged.

Table of Contents

Introduction	5
1 Main factors influencing social protection and welfare	9
1.1 <i>Economic trends</i>	9
Macroeconomic development.....	9
Fiscal policies and state revenues	10
Inequalities and remittances.....	10
Territorial disparities	11
1.2 <i>Population and demographic trends</i>	12
Ethnic Minorities	12
Internally displaced persons (IDPs).....	13
1.3 <i>Labour market trends</i>	14
Labour force participation and employment	14
Unemployment.....	17
Inactivity.....	19
Labour Market Policies	19
1.4 <i>Educational Systems</i>	20
Pre-school education.....	21
Primary and secondary education	21
Tertiary education	22
Vocational education	22
Access to education	23
1.5 <i>Main challenges and Conclusions</i>	24
References	26
2 Social Protection System	35
2.1 <i>Institutional legacies</i>	35
2.2 <i>Overview on social protection expenditures</i>	36
2.3 <i>Contributory benefits</i>	36
2.4 <i>Non-contributory benefits</i>	37
2.5 <i>Institutional changes and decentralisation</i>	38
2.6 <i>Main challenges and conclusions</i>	39
References	40
3 Poverty and Social Exclusion	42
3.1 <i>Historical Background</i>	42
3.2 <i>Profiles of Poverty and Social Exclusion</i>	43
Poverty and Social Exclusion in Armenia.....	43
Poverty and Social Exclusion in Azerbaijan	44
Poverty and Social Exclusion in Georgia	45
3.3 <i>Determinants for Vulnerability</i>	47
Household Composition	47
Employment status	47
Educational level	48
Access to Health Services.....	49
Internally Displaced Persons.....	49
3.4 <i>Main Challenges and Conclusions</i>	50
References	52

4	Pensions	57
4.1	<i>Historical Background</i>	57
4.2	<i>Pension system developments since 1995</i>	58
	Pension system developments in Armenia	58
	Pension system developments in Azerbaijan.....	59
	Pension system developments in Georgia	59
	Stakeholders and main drivers of reform	60
4.3	<i>Main challenges and conclusions</i>	61
	Adequacy.....	61
	Financial Sustainability	62
	Employment of the elderly, early retirement and increase of retirement.....	62
	<i>References</i>	64
5	Health	67
5.1	<i>Historical Background</i>	67
	Overview on common Soviet legacies	67
5.2	<i>Health system developments since 1995</i>	68
	Health system developments in Armenia	68
	Health system developments in Azerbaijan	69
	Health system developments in Georgia.....	70
5.3	<i>Health status in comparison</i>	71
5.4	<i>Financing</i>	72
5.5	<i>Personnel in the health sector</i>	73
5.6	<i>Main challenges and conclusion</i>	74
	Access to health services and equity	74
	Quality in health care	75
	<i>References</i>	77

Introduction

This synthesis report draws on the country reports on social protection and social inclusion in Armenia, Azerbaijan and Georgia. The present study follows the synthesis report and the country reports on social protection and social inclusion in Belarus, Moldova and Ukraine and previous studies in candidate and pre-candidate countries.¹

The country reports and the synthesis report are to be seen in the context of the European policies to modernise social protection schemes and promote social inclusion, referring in particular to the overarching objectives in the field of social protection and social inclusion which have been adopted in 2006 by the European Council in the frame of the *Open Method of Coordination* (OMC), an intensified co-ordination process of social policies in EU Member States:

- social cohesion, equality between men and women and equal opportunities for all through adequate, accessible, financially sustainable, adaptable and efficient social protection systems and social inclusion policies;
- effective and mutual interaction between growth and social cohesion now with the *Europe 2020 strategy on smart, sustainable and inclusive growth*;
- good governance, transparency and the involvement of stakeholders in the design, implementation and monitoring of policies.

The OMC is being applied on the strands social inclusion, pensions, health and long-term care and represents a framework for mutual exchange and learning, for stimulating policy development and highlighting common challenges: Member States agree on common objectives underpinned by indicators and prepare national plans setting out their strategy and measures for achieving these common objectives.

With the Europe 2020 Strategy and in particular the European Platform against Poverty and Social Exclusion the EU Member States gave new impetus and relevance to the fight against poverty by agreeing on a common headline target to lift 20 million people out of poverty by 2020. The headline target has been defined on the basis of three indicators: the at-risk-of poverty rate, the index of material deprivation and the percentage of people living in households with very low work intensity. With this approach the EU has gone beyond a purely income related poverty measure and acknowledges the multiple factors underlying poverty and social exclusion (EC, 2010).

The Southern Caucasus has been considered by the EU as a region of specific interest already some years ago. This is primarily due to its geopolitical position since it stands at a crossroads between Europe and Asia, between the Black and Caspian Seas and framed by the three regional powers Russia, Turkey and Iran. The interest is also to be seen in the context of the enlargement of the European Union in 2004 when the EU was facing new strategic challenges in their relationship with their new neighbouring countries. The European Security Strategy endorsed at the European Council of December 2003 already states that the EU's task is to make a particular contribution to stability and good governance in our immediate neighbourhood and "*to promote a ring of well governed countries to the East of the European Union and on the borders of the Mediterranean with whom we can enjoy close and cooperative relations*" (European Council, 2003; 8). This has been the origin of the European Neighbourhood Policy (ENP).

The ENP initiative, which has started in 2004, offers a privileged partnership to the EU neighbours of the enlarged EU, among them Armenia, Azerbaijan and Georgia in order to promote stability, better governance and economic development at its borders to the East

¹These studies are available at
<http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=892&furtherNews=yes>
<http://ec.europa.eu/social/keyDocuments.jsp?langId=en> .

and to the South.² The interest is shared by the South Caucasian countries which, departing from the collapse of the Soviet Union, have been striving for transformation, Western orientation and a balanced position vis-à-vis Russia.

Impact of regional conflicts on reporting

The Southern Caucasus has been affected by armed conflicts in the last two decades. The main conflict has been the conflict over Nagorno-Karabakh between Armenia and Azerbaijan, which erupted in 1988 and was suspended by a cease-fire in 1994. However, armed conflicts between Armenian and Azeri soldiers continued and the so-called OSCE Minsk Group, headed by a Co-Chairmanship of the United States, France and Russia has been mediating efforts to negotiate a full settlement of the conflict. Georgia experienced two armed conflicts with South Ossetia and Abkhazia at the end of eighties and mid of nineties which entered in a new phase with the armed conflict between Russia and Georgia in 2008. These unsolved “frozen” conflicts still involve more than 1 million displaced persons and have considerably contributed to the deficit in governance and in solid economic development, to high emigration, widespread poverty and to the rising transnational security problems. Furthermore, they hamper regional co-operation. This is in particular the case for Armenia where closed borders to Turkey and Azerbaijan considerably hinder Armenia’s development.

The conflicts have a severe impact on comprehensiveness and reliability of statistics and data available in the three countries due to the high number of displaced persons and an incomplete statistical picture of occupied territories. In general, analysis is hindered by the lack of reliable statistics in some cases and, throughout, the lack of strictly comparable statistics. In this synthesis report, wherever possible, national official statistical office data are used, although many key indicators are not yet aligned with European standards. Data sets of key international organisations including ILO data base, UNICEF’s TransMONEE data base, UNDP’s Human Development Index and related indicators, as well as those of the World Bank, are also utilised together with data from independent research institutes, where necessary and available.

In December 2008, the European Council has brought forward the Eastern Partnership which is particularly targeted at Eastern Neighbours. The Eastern Partnership is understood to go even further than the ENP and intends to provide support from the EU to accompany more intensively partners’ individual reform efforts (EC, 2008). In this context, social policies are of particular importance. Communication 823 (of 3/12/2008) on the Eastern Partnership³ refers to *'support for economic and social policies designed to reduce disparities within each partner country and across borders'* (page 3) and *'EaP partner countries should be able to draw on the experience and mechanisms of EU economic and social policies'* (page9). The Joint Declaration of the Prague Eastern Partnership Summit⁴ (7 May 2009) reiterates (page 6) *'The Eastern Partnership will provide additional impetus to the economic and social and*

² See also http://ec.europa.eu/world/enp/policy_en.htm .

³ http://ec.europa.eu/justice/doc_centre/external/external_neighbourhood_eastern_en.htm .

⁴ http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/er/107589.pdf .

regional development of the partner countries. It will facilitate good governance, including in the financial sector, promote regional development and social cohesion and help to reduce partner countries' socioeconomic disparities. In this way, the Eastern Partnership will be complementary to macro-economic assistance provided through relevant international instruments.'

On the basis of the Partnership and Cooperation Agreements adopted between the EU and each of the three countries, specific objectives have been agreed and laid down in the ENP action plans adopted in 2006. The enhancement of poverty reduction efforts and social cohesion, and in particular the continuation of reforms in the health and social protection sectors are one of the priority areas of the ENP action plans in all three countries.⁵

The main objective of this synthesis report is to present in a comparative perspective the key characteristics of social protection and social inclusion in Armenia, Azerbaijan and Georgia. Further it seeks to identify common challenges for the modernisation of the social protection systems and for combating poverty and social exclusion in terms of the EU Common Objectives. **Chapter 1** addresses the economic, demographic and labour market trends with a special focus on the financial crisis which hit all of the three countries. **Chapter 2** provides an overview of the social protection systems and its general features such as financing of, eligibility for and access to social assistance and social insurance. It also addresses unemployment and family benefits as well as issues of governance of social policies in the respective countries including an overview of the main stakeholders. **Chapter 3** analyses the risk of poverty and social exclusion in the three countries going beyond purely income related indicators. It takes into account the main determinants of vulnerability and identifies main challenges laying ahead to combat poverty and social exclusion. **Chapter 4** concentrates on the analysis of the pension systems. Emphasis is given to the potential of the respective pension systems to ensure adequacy of the pensions and to ensure financial sustainability. A further comparative aspect to be analysed is the long term strategy of pension reform and current reform debates. **Chapter 5** provides a comparative analysis of the health and long-term care systems and their challenges. This includes a comparative review of the adequacy and quality of health and long-term care services and access to services.

⁵ The ENP Action Plans are available online under http://ec.europa.eu/world/enp/documents_en.htm#2 .

References

European Commission (2008): Eastern Partnership, Brussels, COM(2008) 823 final

European Commission (2010): The European Platform against Poverty and Social Exclusion: A European Framework for Social and Territorial Cohesion, Brussels, COM(2010) 758 final

European Council (2003): A Secure Europe in a Better World. European Security Strategy. Brussels, 12.12.2003

Kempe, Iris (2008): The EU and its Neighbors: In Search of New Forms of Partnership, in: International Issues & Slovak Foreign Policy Affairs Vol. XVII, No. 4/2008, pp. 3-19.

Opitz, Maximilian (2009): Der Kaukasus zwischen Minderheiten- und Machtpolitik, in: Aus Politik und Zeitgeschichte, 13/2009, Frankfurt a. Main

Simão, Licínia; Freire, Maria Raquel (2008): The EU's Neighbourhood Policy and the South Caucasus: Unfolding New Patterns of Co-operation, in: Caucasian Review of International Affairs, Vol. 2(4)

1 Main factors influencing social protection and welfare

The Southern Caucasus countries have experienced fast economic growth in the past decade, overcoming a sharp recession after the break-up of the Soviet Union at a faster pace than many other CIS countries. Nevertheless, economic growth was and still is based on vulnerable grounds and the recent financial and economic crisis has illustrated that growth depends to a large extent on the economic performance of the Russian Federation. The three countries are characterised by a high informality of the labour market which threatens public revenues due to unpaid taxes and social security contributions. Employment in all three countries is vulnerable due to substantial employment shares in agriculture and small-scale informal activities. Furthermore, two of the three countries – Armenia and Georgia - will be severely challenged by an aging population. The challenges outlined in this chapter both illustrate the framework for social protection and social inclusion policies in the respective countries, but at the same time highlight weaknesses in labour market policies and education systems which need to be overcome to ensure inclusive growth.

1.1 Economic trends

Macroeconomic development

Armenia and Azerbaijan have – following an initial transition shock - experienced growth rates exceeding the average of the transition countries (see figure 1).⁶ Georgia's economy also grew substantially in the last years. However, the growth trends are characterised by little diversification in the economy. The main reason of high growth rates in Azerbaijan were high market prices of oil, while economic growth in Armenia has been narrowly based on the service and construction sector and is considerably driven by remittances. This one-sided and thus vulnerable basis of the economic development has been reason for concern since a couple of years.⁷

GDP per capita (in PPP) in 2007 was in all three countries higher than at the beginning of transition. In Azerbaijan, GDP per capita nearly doubled the level of the one in Georgia. High growth in GDP per capita could be observed in particular since 2005 (see figure 2).

However, the financial and economic crisis has affected all three countries and in particular Armenia and Georgia. It is reflected in a substantial contraction of the output and declining GDP per capita in Armenia and Georgia in 2008/2009 (see figure 1 and 2). Armenia's economic decline in 2009 with a negative growth of -14.2% was one of the highest in the region; only in Ukraine the recession was even more severe. The decline of the economy has been largely attributed to dependence on the Russian Economy, a drop in remittances and a considerable contraction of the construction sector (European Commission 2010, Khachatryan 2010, Sakevarishvili 2010). Georgia was additionally affected by the economic downturn caused by the military conflict with Russia in August 2008 (European Commission 2010). Azerbaijan, however, was not as hit by the crisis as Armenia and Georgia: although growth slowed down, it still remained positive.

In autumn 2010 recovery of the economies in all three countries translated into growth rates of around 4-5% and is mainly attributed to fiscal stimulus and a favourable external environment, in particular the recovery of the Russian economy. Nevertheless, per capita income in Armenia and Georgia has not yet recovered to pre-crisis levels (IMF 2010) and further economic recovery will depend on developments in the Russian economy (European Commission 2010).

⁶ See Caucasus Analytical Digest 06 from May 21st, 2009, page 16.

⁷ See European Commission (2010), IMF (2010), World Bank (2009), SPSI Armenia (2011), SPSI Azerbaijan (2011).

Fiscal policies and state revenues

As in many other countries, balance of the government budget in the three countries has evolved negatively in the course of the crisis. There are large non-oil imbalances in the state budget of Azerbaijan, where the deficit is financed by the off-budget local oil fund. Georgia and Armenia faced higher public debt compared to other countries in the region and were confronted with shrinking tax revenues. External borrowing from the IMF, Russia and the EU helped to mitigate the fall in revenues during the crisis. In the future, it seems in particular Armenia and Georgia will be challenged by fiscal consolidation, the tight budgetary situation of the governments might impact on the further development of state social protection policies and limit the scope to spend on social protection.

Labour markets in Armenia, Azerbaijan and Georgia are characterised by a high degree of informality which impacts negatively on state revenues, tax and contribution evasion has considerably increased during transition (Falkingham/Vlachantoni 2010, 5). Little quantitative information is available on informal employment.⁸ The informal sector includes both, those employed with no formal contract and unregistered self-employed. It seems that a large proportion of those informally employed are those in subsistence agriculture. For Armenia, the share of informal employment in total employment has been estimated at more than 50%. In the non-agricultural sector has been estimated at around 20-23-25% of total employment with a slightly decreasing trend. The country study for Azerbaijan reports a share of around 25% of unregistered employment in the private sector. The degree of informality also differs according to the sector and is highest construction, lower in the industry and services. For Georgia, a slightly decreasing trend of informality of the labour market has been observed recently (ETF 2010c). Estimates for Belarus indicate a share of informal employment of 12-28% of all employed, for Ukraine 22% of the total employed. Informal employment in the whole region is much higher than in the new EU Member States or the Western Balkan countries (WIIW 2010).

Inequalities and remittances

It appears that the economic growth in recent years did only partly translate into a more equal income distribution in the countries. In Azerbaijan, the Gini coefficient declined to approximately the average of the region; in Armenia it is lower than the regional average, but in Georgia higher. (World Bank 2010a). Other sources confirm the trend of a visible decline in inequality in Azerbaijan, a slightly decrease in Armenia and increasing inequality in Georgia.⁹ As the country studies reveal, income inequalities might partly be explained by substantial wage disparities, in particular between public and private sector, rural and urban areas and women and men. There are also indications that inequalities in rural areas are lower as compared to those in urban areas (World Bank 2010a). Comparing the level of inequality with other countries of the former Soviet Union one could observe lower or similar levels as those in Armenia or Azerbaijan in Belarus and Ukraine or the Baltic States. Higher inequality than in Georgia is has been only identified in The Russian Federation (World Bank 2010a).

Wages have increased, but there are substantial disparities between the private and the public sector, between different economic sectors and between rural and urban areas. A significant gender pay gap is also reported for all three countries. Wage discrepancies between women and men are pronounced in all countries and women tend to dominate the sectors with wages below the national average. An annually adjusted minimum wage does exist in Azerbaijan, which currently represents around 30% of the average wage. Minimum wage in Armenia which has been set at a rather low level to encourage more formal employment have recently been reviewed and will linked to poverty thresholds in the future.

⁸ See the note on informality on page 16.

⁹ ILO KILM database, Key indicators of the labour market. <http://kilm.ilo.org/>, table 20a. Accessed on January 24th, 2011.

In Georgia the minimum wage was abolished in 2006. The low level of wages and the minimum wage suggests that large part of those employed are forced to rely on additional income to ensure decent living.

Remittances play an important role for income generation in all three countries. A recent country survey carried out by the ADB has revealed that remittances have a substantial effect on decreasing poverty in Armenia and in Azerbaijan. However, the impact of remittances on inequality seems to be ambivalent, because migrants often tend to come from wealthier families and remittances increase or at least reinforce existing inequalities (ADB 2008a, ADB 2008b). In Armenia, the share of remittances in GDP in 2009 has been estimated to be at around 15% (SPSI AR 2011). The share of remittances in GDP in 2006 was estimated for Georgia at around 10% of GDP, constituting on average about 10% of the household income (ETF 2010c, 91). In Azerbaijan, the share of remittances in GDP is estimated to be at around 4% (ETF 2010b, 58). The highest share of remittances in GDP in the Eastern Partnership countries could be found nevertheless in Moldova – here it is estimated that around remittances represent around 34% of GDP in 2007 (WIIW 2010, 17), a much higher share than that estimated for Ukraine (7-11%) or Belarus (1-6%).

It is important to mention that due to the fact that remittances mainly stem from Russia is making the countries vulnerable to risks in the Russian economy. There are indications that the financial crisis and subsequent rising unemployment in Russia has led to substantial reductions of remittances and thus affect the countries not only by internal economic downturn, but on top by fundamentally lower external financial transfers (European Commission 2010, Sakevarishlivi 2010, World Bank 2010b), however, there are indications that they increase again in the second half of 2010, even if the recovery of the construction sector in the Russian Federation, which has been a main sector of employment for migrants from the Southern Caucasus is still weak (IMF 2010).

Territorial disparities

Substantial territorial disparities exist in Armenia, Azerbaijan and Georgia and are considered as a serious obstacle to economic and social development. Such disparities reflect a common challenge in the Eastern Partnership region and have also been observed for Belarus, Moldova and Ukraine (WIIW 2010; 18).

The country studies reveal that economic development and growth is significantly higher in urban areas. Although activity and employment rates are higher in rural than in urban areas – mainly to be explained by the large share of agricultural employment in rural areas –, they go along with low income opportunities, low productivity and seasonality. In Armenia, monetary income in urban areas was by more than 40% higher than in rural areas. Income in kind plays a much more important role in rural areas. Living standards between rural and urban population differ, and these disparities have even increased in recent years in Armenia, while it seems that income disparities between rural and urban households in Azerbaijan have decreased.

These challenges have only been addressed to a limited extent in the countries. The capacities on regional level to invest in regional development seem to be limited, as financial resources have decreased due to a more centralized tax collection and have increased the dependency on the central budget (SPSI Georgia). Only Armenia has formulated a regional development programme which is targeted at fostering economic growth in particular outside of Yerevan. In the SPSI study for Georgia it is stated that “no overall vision for sustainable development of self-governing entities has hitherto been formed in municipalities and, accordingly, the majority of municipalities have no short-, medium or long-term socio-economic development plans.”

1.2 Population and demographic trends

The population of the Southern Caucasus region enjoys a high life expectancy compared to other former countries of the Soviet Union. In particular life expectancy of men is considerably higher in Southern Caucasus as compared to Belarus, Moldova or Ukraine (see table 5). Nevertheless, Armenia, Azerbaijan and Georgia are confronted with declining fertility and emigration. In particular Armenia and Georgia will be confronted with the challenge of an ageing population; while Azerbaijan will experience a rather favourable development as compared to Armenia and Georgia.

Since the 1990ies, population increased in Azerbaijan but decreased in Armenia and Georgia in absolute terms (see table 1). Total fertility rate has dropped 2.63 (1990) to 1.42 (2007) in Armenia, and from 2.15 to 1.45 in Georgia; lower than the EU average (1.6 in 2008). It has also decreased in Azerbaijan from 2.8 to 2.3, but is still at a considerable higher level than the CIS average with 1.62 in 2007.¹⁰ In the long run, the UN population forecasts estimate a similar fertility rate in all three countries in 2050 slightly above the European estimate (1.80) (see table 2). There is a remarkable gender imbalance in the Southern Caucasus countries; the number of male babies is considerably higher than the natural average. The phenomenon is explained by a preference in the society for boys and abortion rates in the Southern Caucasus which are among the highest in the world.¹¹

All three countries are faced with emigration. As many other post-Soviet countries after independence, in particular Armenia and Georgia were seriously affected by out-migration. The net migration rate was negative since the 1990 in all countries, but emigration was much more substantial in Armenia and Georgia compared to Azerbaijan. While the peak of emigration in Armenia was observed in the beginning of the 90ies, Georgia is faced with persisting high negative net migration up to 2010 (see table 3). Main destination country of migrants from Armenia and Georgia is the Russian Federation. High emigration rates and the resulting decrease of the population are considered in particular in Armenia as a considerable threat for labour supply and economic developments in the country.

Consequently, due to lower fertility, continuing emigration trends and increasing life expectancy the age structure in the three countries is expected to change significantly. The share of persons above 65 will increase considerably and the old age dependency ratio is expected to increase in Armenia from 14.7 (2009) to 27 (2030) and in Georgia from 21 to 33.7, similar to the level of Belarus, Moldova, Ukraine and EU member states. In Azerbaijan, it is projected to increase from 9.6 to 19.2 and thus expected to remain at a substantially lower level (see table 4).

Ethnic Minorities

While statistical account of ethnic minorities is limited, the general picture depicts that the ethnic composition in all three countries is rather homogenous and the share of ethnic minorities has decreased since independence. In Azerbaijan, Talysh people represent one of the largest ethnic minorities along with Armenians. However, the number of Armenians considerably decreased due to the Karabakh conflict. Further ethnic minorities such as Lezgins, Avars, Tats and Georgians mainly are regionally concentrated, but little is known about their social situation.

The overall share of ethnic minorities in Georgia has decreased considerably in the past due to substantial emigration of ethnic minorities. In 2002, ethnic minorities account for around 16% of the total population compared to a share of more than 30% in the 1980ies. Today,

¹⁰ WHO, health for all database. Accessed on January 11th, 2010. More recent figures published in the European Demographic Data sheet indicate a higher total fertility rate 2008 in Georgia at 1.67, see: http://www.oew.ac.at/vid/datasheet/download/European_Demographic_Data_Sheet_2010.pdf .

¹¹ See http://crrc-caucasus.blogspot.com/2010_03_01_archive.

the largest minority in Georgia are Azeris followed by Armenians. In Armenia, only 2.1% of the population are considered as ethnic minorities.

Limited information is available on the Roma population in the Southern Caucasus. Their number is expected to be several thousands in Georgia, and there are also Roma living in Armenia, most of them belonging to the Boshva communities. Information available about Roma in Azerbaijan suggests that in particular Roma children are not socially included and there are no policy initiatives to address their situation.

A specific feature with regard to ethnic minorities is language, and this was particularly relevant for former Soviet countries which declared their country language as the official language instead of the former Russian language after gaining independence. The attitude towards minority languages, access to schools in their own language as well as the ability of ethnic minorities to participate in the higher education system might ease or limit social inclusion of ethnic minorities. While the Russian language formerly was a common language of ethnic minorities and other groups, the common knowledge of Russian among younger generations is not self-evident anymore. Thus, social inclusion of ethnic minorities who do not speak the country language is getting more difficult. Even if there are e.g. specific language classes in Georgian for Georgian minorities in Azerbaijan, the general trend is that the official state language become more and more important and is an important pre-condition to participate in the education system. Nevertheless, large part of the ethnic minorities in Georgia does not speak Georgian and does thus not have access to higher education or e.g. employment in the public sector.

Internally displaced persons (IDPs)

Following the conflicts in Nagorno-Karabakh, Abkhazia and South Ossetia, IDPs represent a considerable share in the population in Georgia and in Azerbaijan. IDPs are at risk of being socially excluded and are characterised by higher poverty rates. They are affected by higher unemployment, in particular displaced women experience higher unemployment rates. Children of IDPs are considered to be disadvantaged in the education system.

In Azerbaijan, IDPs amount to more than 6% of the total population. A study for Azerbaijan revealed that the majority of IDPs have income below the poverty level and work in the agricultural sector. Housing conditions of a large part of IDPs seems to be particularly poor in rural areas. IDPs live in unfortified shelter without adequate heating and flowing water. It appears that in certain cases IDPs are refused to obtain an officially registered status in order to limit mobility and steer internal migration. Sometimes, this results in limited access to health care services. IDPs are frequently settled in remote rural areas which also limit their labour market opportunities and are often dependent on governmental assistance (SPSI AZ 2011, Wechlin 2010, Danish Refugee Council 2007).

In Georgia, the share of IDPs in the total population is estimated to be at around 5% of the total population. Large part of the IDPs are living in collective settlements characterised by insufficient housing conditions and limited access to electricity. Poverty of Georgian IDPs seems to be widespread, and the main reason is considered to be unemployment. IDP children seems to be disadvantaged in the education system, however this seems to be due to their economic status rather than the fact that they are IDPs (SPSI GE 2011, Tarkhan-Mouravi 2009, Loughna 2010).

IDPs are obviously considered as a vulnerable group in the societies of Azerbaijan and Georgia. There are visible policy efforts to improve their social situation. However, initiatives are often limited to cash and in-kind benefits such as social assistance, free usage of health care or free provision of electricity, gas and water. One of the main reasons of social exclusion of IDPs, however, seems to be their limited access to the labour market and the fact that they live in collective settlements. An important step towards improved social inclusion of IDPs thus seems to be targeted labour market programs for IDPs and a replacement of densely populated collective settlements by smaller units which allow for a better active social inclusion into the society, while taking into account that certain groups of

the IDPs such as the elderly and disabled might need specific support (see also Danish Refugee Council 2007, Tarkhan-Mouravi 2009).

1.3 Labour market trends

The Southern Caucasus region is characterised by large informal economies and significant migration patterns which makes it difficult to present a comprehensive picture of labour market trends. However, looking at the official labour market statistics of the three countries some similar developments can be observed. This is first of all a much lower employment than economic growth in the past years coupled with modest and even decreasing employment rates. Further, low wage employment rates and high self-employment rates are common for all countries, most pronounced in Georgia. High (self-)employment in (subsistence) agriculture entail higher rural than urban employment rates. However, due to its low productivity people employed in the agricultural sector have little prospects to improve their economic and social status. Unemployment and underemployment are common features with particular high rates among youth in all three countries. The latter indicates the difficulties young people experience when entering the labour market. Although a positive correlation between the level of education and labour market outcomes can be observed, it is also obvious that education is no guarantee for labour market integration since in all three countries the share of unemployed among those with specialised secondary and tertiary educational level remains high in the region.

Labour force participation and employment

Note on availability and comparability of labour market data

The comparability of labour market data between the three countries is limited which is first of all due to different definitions and limited reliability and availability of data. Labour force surveys have not been conducted on a yearly basis in all countries; for Azerbaijan LFS only exist for 2003, 2006, and 2007. Although there have been LFS in Armenia on a yearly basis since 2001, different methodologies used and high seasonality in some years make that activity and employment rates vary to a great extent from different LFS. Moreover, the results of LFS data in Armenia show significantly different figures compared to the administrative data and the establishment survey results which raise doubts on the data reliability. As regards Georgia, LFS have been carried out since 1996 within the framework of the integrated household surveys. Estimates of economic activity and unemployment are based on ILO concepts.

As already mentioned in the previous chapters, Armenia, Azerbaijan and Georgia experienced a considerable economic growth during the past years. This growth, however, has not been translated in increasing activity and employment rates which seems to be common tendency throughout the CIS countries. Zaman (2007) explains this situation by the fact that the main driver of economic growth in these countries is the increasing consumption which is generated by significant inflows of remittances from abroad. Further, job creation has been modest and new jobs created mostly replace public jobs which had been destroyed or transformed through privatisation, in particular in the agriculture and industry sectors (ETF 2010d).

According to ILO estimations labour force participation is higher in the Southern Caucasus countries than in Belarus, Moldova and Ukraine. Rates are around 65% and show declining trends in Azerbaijan and Georgia. Only Armenia's actual rates are above those of 2001. However, this slight increase is mainly explained by higher unemployment rates than by

increasing employment rates as can be seen below. In addition, reference age group for this labour market indicator is 15+ so that comparisons with EU-27 data are not possible. Furthermore the statutory and actual retirement ages vary considerably between the countries and the activity rate of people above retirement age is quite high due to the low level of pensions and social assistance. Further, rates are distorted by the large contribution of self-employment rates in agriculture, in particular in Georgia. Labour force participation among women is much lower than among men in all three countries, with pronounced gender differences of 15-20 percentage points in Armenia and Georgia (see tables 1.7 and 1.8).

Data from statistical offices show lowest employment rates in Armenia (49.1% in 2009) and highest in Azerbaijan (59.1% in 2009).¹² In Georgia, employment rates steadily fell from 58.8% in 2001 to 52.3% in 2008 and only experienced a slight increase in 2009 up to 52.9%. Also, in Azerbaijan, employment rates were on a constant decrease in the last years. Employment rates in Armenia and Georgia are far below the average rate for 2009 for the EU-27 (64.6%). Comparing to former Soviet Union countries, the employment rate of Armenia and Georgia are slightly higher than in Moldova (47.3%), but both are lower than in Ukraine (59.3%) and in Latvia (68.6%).¹³

The low employment rates recorded for Armenia suggest that in the first years after independency, economic growth in Armenia has taken place mainly through labour productivity increases, paired with job redundancies. Based on the fact that the amount of remittances in Armenia is much higher than in the neighbouring countries it is likely that members of Armenian migrants left behind are less willing to accept precarious and low-paid jobs and withdraw from the labour market. This suggestion is backed by high inactivity rates (50.0%) and a low female employment rate (41.7%).

In Azerbaijan, too, economic growth brought about few changes in employment. In the period 2000–2007, the industrial sector, which includes the oil sector, was the main driver of growth and accounted for over half of GDP, but for only 12 per cent of total employment. Moreover, the oil sector employs only 1 per cent of the employed, and its share in total employment remained unchanged (UNICEF, 2009; 50).

Looking at the employment rates according to economic sectors, highest shares of employment were recorded in agriculture throughout the past years, however with a decreasing tendency in Georgia and Azerbaijan. In 2007, according to the World Bank development indicators (see table 1.6) agricultural employment accounted for 53 % of total employment in Georgia. Slightly lower figures were reported from Armenia (46%) and Azerbaijan (39%). The high agricultural employment also explains the higher employment rates in rural than in urban areas. Following the land privatisation in the early nineties a highly equitable land ownership structure emerged with a very small average land plot of 0,5 hectare to 1,5 hectare in most cases. As a consequence, the agricultural sector is dominated by subsistence farming representing the main source of income for most of the rural population. Productivity is very low and steadily decreased due to old technologies and lack of investments. Despite high employment rates in agriculture, the GDP share of this sector is rather low in Azerbaijan and Georgia. This might be an indication of possibly higher poverty among subsistence farmers in these two countries.

Directly connected with the high share of agricultural employment is the high incidence of self-employment. This is mainly caused by limited job opportunities in wage employment which forces the people to enter in small-scale informal activities and subsistence agriculture. Therefore, the definition of self-employment is questionable since it should be rather considered as a survival strategy for many households than a form of employment. At least in Georgia, the definition of self-employment also encompasses family members owning at

¹² For the sake of comparison employment rates are related to population 15 and older.

¹³ Figures are taken from the Country Studies on Social Protection and Inclusion of Moldova and Ukraine and Eurostat.

minimum one hectare of agricultural land (Baumann, 2010). Due to different definitions direct comparisons between the countries therefore do not seem appropriate. However, it should be mentioned that the self-employment rate is highest in Georgia and lowest in Azerbaijan. 83% of the persons employed in the agricultural sector are considered as self-employed in Georgia. A similar figure has been recorded in Armenia according to the LFS 2008: 72% of the persons employed in agriculture (and 83% of the self-employed) were engaged in the production of agricultural goods within the own household, produced goods partly for personal use and partly for sale and (or) barter (NSS, 2009; 19 / SPSI AR, 2011).

Note on informality

The analysis of the labour markets in Southern Caucasus is limited by a distorted statistical picture due to high shares of subsistence agriculture on small plots of land and high numbers of (involuntary) self-employed. These activities - often defined as *undeclared* or *informal work* depending on the specific definition in a country - commonly go along with insecure employment and income conditions. Despite the varying definitions, we will use the term *informal employment* in this report.

As already described in chapter 1, the agricultural sector includes a large share of informally employed, i.e. those without any formal contract of unregistered self-employed. Little quantitative information is available on informal employment. The Armenian report estimates the share of informal employment in total employment at more than 50% with larger shares in agriculture.

In Armenia and Azerbaijan there is only modest development in employment in other – non-agricultural - sectors of economy and only slight increase are reported for the sectors construction, industry, and services. In Georgia, the construction sector more than doubled in the period from 2002-2007, while other sectors such as financial mediation, restaurant and hotel services as well as manufacturing showed also only modest increases. As the Armenian country team reports, the global financial crisis severely affected the construction and mining industries with the consequence that working hours have been shortened and wages reduced.

Employment rates by gender show lower employment rates for women, the lowest female employment rate and the highest gap to male employment has been recorded for Armenia with 42% female employment followed by Georgia with 46%. Gender related employment rates for Azerbaijan are not available. The country teams report on various reasons for low employment and activity rates among women, but mainly refer to the traditional role of the women staying at home and looking after the children. Further, discouragement among women might be widely spread since it seems that their opportunities to receive qualified and adequately paid jobs are much lower than for men. In all countries, professional female employment is concentrated in the sectors such as education, health care and social services which are characterised by low wages in general, but also by high gender related wage differences. This is also confirmed by a the World Bank who reports on the withdrawal of women from the labour market due to limited job opportunities, discouragement and migration (World Bank, 2009).

All three country teams report higher employment rates of older age groups in the labour market. In Georgia the persons aged 60 and above account for more than 22 percent of total employment. However, it is strongly assumed that this situation is connected to the low level of pensions and to the high level of subsistence farming. This also applies for Armenia where 78% of the working old age pensioners are working in the subsistence agriculture which makes 13.7% of all people employed in the subsistence agriculture. The lower employment rates for young persons are an indication for labour market rigidity in favour of insiders and

clearly reflect the difficulties young people experience when entering the labour market (ETF, 2010c).

Unemployment

Unemployment and underemployment are persistent problems in all three countries with particularly strong negative effects on vulnerable groups, in particular youth, women, internally displaced persons, and others. However, it has to be stated that unemployment figures are likely to be distorted due to the high share of self-employment. Poor people who cannot afford being unemployed engage themselves in subsistence agriculture or involuntary self-employment outside agriculture in order to earn their living. In Azerbaijan and Georgia, those owning land are considered as self-employed and thus are not included in unemployment statistics (Baumann, 2010; SPSI AZ, 2011).

It remains difficult to make cross-country comparisons since the quality of unemployment statistics differs from one country to another. Officially registered unemployment figures are considerably lower than unemployment figures according to the ILO methodology. Meanwhile, all countries publish also unemployment figures according to ILO methodology. The unemployment rates are highest in Armenia and lowest in Azerbaijan. From 2001 to 2007, the unemployment rates in Armenia decreased from 38.4% to 28.7% and due to a change in the methodology in 2008 reached at 18.7% in 2009.¹⁴ In Azerbaijan the unemployment rate decreased from 10.3% in 2003 to 6.0% in 2009. The trend is opposite in Georgia, where since 2001, the unemployment rate increased from 11.1% to 13.3% in 2007 and further to 16.9% in 2009. The sharp increase from 2007 to 2008 of more than 20 percentage points is likely to be connected with the economic slowdown and the Russian-Georgian war in 2008.

In the past years Armenia showed considerable gaps between the male and female unemployment rates with a female unemployment rate of 11 - 13 percentage points higher than the average male unemployment rate. Since the methodology change in 2008, the gap between female and male unemployment rates narrowed which is also due to a raise in male unemployment rates. Azerbaijan also shows a higher female unemployment rate in 2009 (6.8% in comparison to male unemployment rate of 5.1%). However, during the three years before the female unemployment rate was lower than that for men. Surprisingly in Georgia, the unemployment rate for women is not much higher than that for men, which might be attributed to the fact that no unemployment benefits are granted and there is a weak incentive to register as unemployed.

Unemployment seems to be inversely correlated to age with young cohorts far more affected than the older age groups. Youth unemployment is considerably pronounced in all of the three countries including Azerbaijan that showed better labour market indicators than the other two countries. Unemployment in all three countries is highest for the age group 15(16)-24. According to a survey carried out by NSS in Armenia in 2008, the youth unemployment rate was at 45.5%. In Georgia the rate was at 38.7% in 2009. Also in Azerbaijan, youth unemployment is higher than the overall unemployment and the rate was at 14% in 2007 (18% for male youth and 11% for female youth) (NSS, 2008; SPSI GE, 2011; SPSI AZ, 2011).

Unemployment is specifically high among those leaving secondary general education and higher education. As already mentioned above, this is first of all a clear indication for the difficulties young people experience when entering the labour market, but it seems that there is also a mismatch between the skills required by the new activities and technologies in the economy and the qualifications of the employees. All former Soviet countries have benefited

¹⁴ Since the methodology change in Armenia in 2008 discouraged non active population is classified as economically non-active and are not included anymore in the category of self-reported unemployed.

from a comprehensive education system during the communist period, but in terms of human capital, i.e. knowledge acquired which is useful for the labour market, it seems that skills have decreased due to lacking re-training measures and lifelong learning systems. Further, due to lacking skill needs analysis and counselling services, the choice of specialisation in education is often rather based on personal interests than on considerations of labour market developments. In the case of Azerbaijan those unemployed with secondary education represented 58.2% of all unemployed in 2008 (SPSI AZ, 2011; 32). The situation is similar but with a lower share of this educational level group among the unemployed in Armenia with 40.7% in 2009 (NSS, 2010; 135) and Georgia with 31.8% in 2007 (ETF, 2010c; 48). The incidence of unemployment appears to increase with level of schooling until general secondary education and then to fall for those with higher education. However, unemployment rates among those with specialised secondary and tertiary education remain high in Armenia and Azerbaijan. In Georgia, the share of unemployed with tertiary education is even higher than for those with secondary education and reaches 42.3% (ETF 2010c; 46). This disadvantage of holders of higher educational degrees has been steady throughout the last years.

In all three countries, unemployment in urban regions is much higher than in rural areas what is also linked to high “employment” in subsistence agriculture. However, as previously mentioned the picture is distorted for Azerbaijan and Georgia, since those owning land are not considered to be unemployed. As for Azerbaijan, higher unemployment rates in rural areas are only reported from Guba-Khachmaz region, a mountainous region north of Baku, where many IDPs are living. In Armenia, the share of urban unemployment amounted to 76% of total unemployment in 2008. The provinces with highest unemployment rates are Kotayk, Shirak and Lori. The capital Yerevan ranks on the 4th place. Urban unemployment is particularly pronounced in Georgia where over the last years, the highest unemployment rate – more than twice as high as the average rate - was recorded in the Tbilisi region. But also Adjara, the region at the Black Sea with significant natural and economic potential, has a high unemployment rate (23.4% in 2008). This can be explained by the fact, that employment outside the agricultural sector is highest in these regions.

Data on duration of unemployment are only available for Armenia, where long-term unemployment (1 or more years) is a major issue with a prevalence of 58.2% of total unemployment. The highest share was recorded among females (63.8%) and people living in urban areas (58.4%) (NSS, 2009; 96). It seems that long-term unemployment is also an issue of concern in Azerbaijan: A World Bank Report states that two-thirds of all job-seekers in Azerbaijan stay unemployed for over 12 months (World Bank 2009; 131).

Underemployment is a common feature in the three countries and is mainly predominant in rural areas. This situation indicates that predominantly in rural areas, jobs are often temporary, seasonal or one-off activities and don't allow for a decent living. Figures are only available for Armenia and Georgia and don't allow for a cross-country comparison due to different methodologies. According to a one-off sample survey of the NSS in Armenia carried out in 2008, “visible” underemployment comprised 6.4% of all employed and 13.3% of all persons employed in agriculture.¹⁵ The rate is considerably higher for persons in the age group 15-24 - 13.9% (NSS, 2009; 49). As regards Georgia, the labour market review carried out by ETF reports on underemployment rates of 5.1% in rural areas (ETF, 2010c; 30).¹⁶ Data for Azerbaijan are not available.

¹⁵ “Visible” underemployed persons are defined as those who want to change their jobs either because they couldn't find a full-time job or they were put on a part-time job by the employer.

¹⁶ Underemployed are defined as those who work 21 to 35 hours a week in a main job and report that they hold a secondary job.

Inactivity

Inactivity is pronounced in all three countries with rates of 41.7% in Armenia, around 30% in Azerbaijan and 36.3% in Georgia. In comparison, Moldova and Ukraine show higher inactivity rates of 50% and above, whereas the inactivity rates for Bulgaria and Romania range also between 33 and 36%. Non-participation usually is explained by prolonging studies for young people, housekeeping or child care or discouragement.¹⁷ There is a clear predominance of women among the inactive population in all three countries with particularly pronounced rates in Georgia (67.9%), Armenia (65.5%), and Azerbaijan (56.5%).¹⁸ Partly, the large share of inactive women in these countries may be attributed to their traditional role as already mentioned above. This is backed by the fact, that inactivity rates are higher among women in the early twenties, which is the average age of marriage in Azerbaijan. The Armenian country study suggests that a large part of the inactive population represents discouraged workers who due to limited job opportunities and/or low pay are not actively looking for a new job. The Azeri report also states that discrimination against women in hiring and promotion is widely reported.

Labour Market Policies

Labour market measures in all three countries suffer lack of funding which makes their impact on employment promotion nearly insignificant. The main share of the limited funds goes to passive employment measures. However, unemployment benefits which exist only in Armenia and Azerbaijan are low and don't allow for income security during employment breaks. Further, due to strict eligibility criteria, only a very limited number unemployed has access to them. Active employment measures are still underdeveloped in terms of design and targeting and very limited in terms of coverage.

After the break up of the Soviet Union, the employment policy framework was set up in all countries but experienced different developments. In Armenia and Azerbaijan, the legislative framework was reformed in the early/mid 2000-s putting a greater focus on the role of public employment policy and on the promotion of employment. New employment laws have been adopted in Azerbaijan in 2001 and in Armenia in 2004, the latter along with a new labour code. In both countries public employment services are implementing employment services under the auspices of the Ministries of Labour.

In Georgia, the law on employment adopted already in 1991 stipulating the organisational and institutional framework for unemployment benefits, the registration of unemployed and the assistance to jobseekers experienced several changes in the early 2000-s. Finally, in 2005, the employment law as normative basis for employment promotion was repealed accompanied by the abolishment of the Employment Services. The performance of the PES was considered very low by various stakeholders and experts due to lack of resources, outdated methods for managing job seekers and vacancies and the limitation and irrelevance of services. Since 2005, support for job seekers is provided only by private recruitment services (e.g. www.jobs.ge) or the Job Counselling and Referral Centre (JCRC) which is fully funded by donors and has low coverage, in particular when it comes to vulnerable groups. Unemployment benefits were cancelled in 2006 and replaced by a unified social support programme for poor families (ETF, 2010c).

As mentioned already above, public spending on labour market policy is extremely low. The country report for Armenia indicates the LMP expenditure as percentage of GDP as 0.103% (2008); Azerbaijan reports on even lower rates ranging from 0.01-0.02% of GDP during the last years. Figures for Georgia are not available. Rates are far below the average rate for the

¹⁷ According to figures from the LFS 2007 in Armenia, 22% of those outside the labour force are involved in education, 21.2% are looking after the household whereas 9.6% are discouraged workers out of which two-thirds are women (ETF, 2010a; 23).

¹⁸ Figures are calculated by the author on the basis of the data retrieved from the countries' statistical offices' websites (www.armstat.am; www.azstat.az, www.geostat.ge) accessed on 2nd March 2011.

EU-27 in 2008 (1.604%), but also below that of Latvia (0.479%), but at a similar level as in Belarus (0.15%) and in Moldova (0.05%).¹⁹ The lion's share in LMP expenditure constitutes passive labour market measures.

Active labour market measures in Armenia only account for 13.8% of the LMP expenditure in 2009, and experienced a decrease compared to 2008 (23.9%) and a considerable rise compared to 1998 (6.2%). They mainly consist of wage subsidies and public works and to a much smaller extent of vocational training and the payment of registration fees in case of business set-ups (see also ETF, 2010a). The ALMP measures implemented in Azerbaijan mainly comprise vocational training measures. Coverage in both countries is very low ranging from 1-4% of all unemployed (ETF, 2010d). There is no systematic and regular allocation to active labour market programmes in Georgia. According to the country report for Georgia the government set up two subsequent on-the-job training programs in 2006 and late 2007, the first amounted to 24 million GEL (approx. EUR 10.8 Mio), the second to 44.6 million GEL (approx. EUR 19.8 Mio). Beneficiary job seekers received a scholarship for on-the-job training in receiving company. Unfortunately the outcomes of these programs were not assessed so that the persons who were offered a job after the end of these programs and who are still working in those companies could not be identified.

In general monitoring and evaluation of the impact of employment programmes and measures are still underdeveloped.

1.4 Educational Systems

The education system in the Soviet Union was characterised by free and compulsory provision. Further, the system was quite developed in providing children with technical education in vocational secondary schools. In the course of the transition period, all three countries experienced a number of disruptions of their education systems affecting both the quality of and the access to education services.

Since gaining independence all three countries have been reforming and modernising their educational systems. The scope of the Georgian education reforms has been unique in the region: In 2004, Georgia has adopted the Law on Higher Education, in 2005 the Law on General Education and in 2007 the law on Vocational Education. Among others, the reforms encompass the financing and governance of educational institutions²⁰, the introduction of unified entrance examinations, the accreditation system for higher education institutions, a European credit transfer system (ECTS) as well as standards and qualification requirements for teachers (ETF, 2009cb). But also Armenia experienced several stages of reforms related to education financing and management as well as quality assurance comprising general, vocational and high school education. Azerbaijan adopted its new law on education in 2009. Primary and lower secondary education remained compulsory in all countries and are provided free of charge.

Spending on education as percentage of GDP decreased considerably in the first years of transition and despite some moderate increases in Armenia and Georgia the rates in all three countries remain at a particular low level which gives reasons for concern. According to TransMONEE data, the biggest, but still moderate increases since 2000 are reported for Georgia (0.6 percentage points up to 2.9% in 2008). Also Armenia shows increasing rates but at a lower level ranging from 2.6% in 2000 to 3.0% in 2007 followed by a slight decline to 2.8 in 2008. The trend is opposite in Azerbaijan and there the decrease is quite worrying, from 3.9% in 2000 to 2.6 in 2008. These rates are far below those of the EU-27 (4.96% in

¹⁹ Figures are taken from the SPSI country reports for Belarus and Moldova as well as from Eurostat, <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=de&pcode=tps00076&plugin=1>, accessed on 13 August 2010.

²⁰ A per capita funding formula has been introduced for general and higher education and is also planned for VET.

2007), and even farer from other former Soviet Union countries in 2008 such as Belarus (5.2%) and Moldova (8.2%) (see also table 1.12).

Pre-school education

Although pre-school education was widely available in former Soviet republics, it did not cover every part of the region and kindergartens were more common in the European part of the USSR. In Azerbaijan, children until compulsory school age were kept at home already in former times which explains persisting low enrolment rates (UNICEF, 2009; 25). Comparing the net enrolment rates of children aged 3-5 or 3-6 across the three countries, according to TransMONEE data, Georgia records the highest enrolment rate with 38.7% in 2006/2007, followed by Armenia with 32.3% and Azerbaijan with 19.5%.²¹ In relation to 2000/2001 enrolment rates steadily increased in Armenia and Georgia, however to a considerably higher extent in Armenia.²² Azerbaijan records increasing trends only until 2006/2007; since then the rates are on decline (see also table 1.13).

It is worth mentioning that there are signs for disparities in access due to lacking infrastructure and to the fact, that these services are no longer free of charge. The country reports indicate that there are considerable differences in enrolment rates between urban and rural areas with considerable higher enrolment rates in urban areas. The economic situation of the families is another determinant of whether or not children are sent to pre-school education: Based on ICLS 2009 data, the country report for Armenia reports that 13% of the poorest respondents reported that they cannot afford pre-school education for their children since it is too expensive (SPSI AR, 2011). The country team for Azerbaijan reports on an even worse situation: according to data from the Azerbaijan Demographic and Health Survey 2006, enrolment rates in early childhood education are extremely low in general (9.9%), but even lower for the two bottom wealth quintiles (3.8% and 3.6%), and for rural areas (2.0%). Obviously, also the mother's education plays a significant role whether the child is sent to pre-school education or not and enrolment rates are much lower when the mother has only basic education or less (SSC, 2008). According to the Innocenti Social Monitor 2009, the data for 2005 for Georgia suggest that children belonging to the poorest wealth quintile have an enrolment rate of 17% compared to 70% of children in the richest quintile (UNICEF, 2009; 25).

Primary and secondary education

All three countries maintained high enrolment rates in basic education (primary and lower secondary education) with an increasing trend in Azerbaijan and Armenia and a slightly decreasing trend in Georgia. According to TransMONEE data, in the school year 2008/2009, enrolment rates in terms of gross ratios reached 102.6% in Azerbaijan, 95.4% in Armenia and 90.8% in Georgia. The country report of Georgia suggests that children of poor families are sent later to compulsory school than those of rich families since enrolment rates at the age of 7 show modest differences (53% vs. 68%).

According to TransMONEE data all countries except Azerbaijan experience a drop in enrolment rates when it comes to upper secondary education with 89.3% in Armenia (school year 2008/2009) and 75.6% in Georgia in 2006/2007. However, the LSMS study carried out by World Bank in 2008 confirms this drop also for Azerbaijan, especially among the poor and in rural areas (World Bank, 2010; 61). Lower secondary enrolment rates may be an indication for the poor labour market returns of secondary schooling, but are certainly also conditioned by the rising economic burden for families having children at higher educational levels (see below). Basic compulsory education in all three countries is free of charge, but costs for school supplies, text books or tuition fees may already constitute an important economic burden for poor families. The country team for Azerbaijan reports that due to the

²¹ Data for Armenia and Azerbaijan refer to 2007/2008.

²² Net enrolment rates for Georgia are only available as of 2002/2003 (33.7%).

low teacher salaries and the bad quality of education at secondary schools, parents hire teachers to provide additional lessons to their children at home. Costs of attending schools after compulsory levels are reported to be high and constitute important constraints to enrolment, especially for poorer households.

It is worth mentioning that Azerbaijan is the only of the three countries which participated in the PISA survey. Findings from PISA 2009 ranked Azerbaijan the second last of 65 participating countries (SPSI AZ, 2011).

It should also be noted that it is not possible to establish a correlation between the quality of education and its outcomes on the one side and the skill mismatch on the labour market on the other side since data available are insufficient.

Tertiary education

In the past years, the number of students attending tertiary education has continued to increase in Armenia and Azerbaijan. According to TransMONEE data the increase was most pronounced in Armenia with 47% in the period from 2000/2001 to 2008/2009 compared to Azerbaijan with 13%. In Georgia, the total number of students increased considerably from 2000/2001 to 2004/2005 by 20%, but afterwards experienced a sharp fall and thus achieved an much lower number as at the beginning of the 2000s. This development can be explained by the introduction of the unified national examinations in 2005 which was aimed at fighting corruption and considerably reduced the admission of students to higher education institutions.

As mentioned in the country report from Georgia highly selective university entrance exams can hardly be passed successfully without private tutoring due to the low quality of mainstream schooling. This seems to be the case also in Armenia and Azerbaijan. According to results from the ILCS 2008 carried out in Armenia, access to higher education institutions is constrained by high tuition fees and the concentration of institutions providing higher education in the capital (83%) and thus it is considered as a privilege for the rich in Armenia.²³ The LSMS 2008 results in Azerbaijan also suggest that private tutoring exacerbate disparities. It is estimated that the average college tuition costs amount to 80% of the per capita income of the bottom quintile (World Bank 2010a; 62).

Vocational education

It seems that the vocational education system suffered most during the transition and has been a low priority sector in all three countries. This is also reflected in the very low expenditure on VET as share of overall expenditure on education: According to an ETF report, the expenditure on VET in Georgia in 2009 constituted only 1.8% of total MES financing compared to 73.9% spent on general education and 12.3% on higher education (ETF 2010c; 40). Similar low rates have been reported for Armenia (ETF 2010a; 35) and for Azerbaijan (ETF 210b; 37). Outdated VET programmes and curricula which are irrelevant to the needs of the labour market, a lack of qualified teachers, low quality educational materials and poor infrastructure are impediments to attract students into the system. Further, the links between the education sector and the enterprises have been abolished during transition which further decreased the relevance of the vocational education. Enrolment rates in VET are low although it is difficult to have a complete picture of VET in each country since each country has its own definition and classification of VET and the corresponding ISCED level (2, 3, 4, 5B). Latest data on enrolment rates in VET as share of total enrolment rates in ISCED level 3 and 4 (upper secondary and post secondary non-tertiary VET) are available from an ETF report and indicate very low VET enrolment rates (5.5%) for Georgia, 18% for

²³ According to ILCS 2008, 37.8% of school-age children attended private tutoring classes in order to prepare for the university entrance exam. Expenses for private tutoring constituted 73% of the total education costs for households with a child studying at an upper secondary level (NSS, 2009a; 108-110).

Azerbaijan and slightly higher figures for Armenia (24.59%), the latter has been the only country with decreasing rates compared to 2000. Figures for Belarus, Moldova and Ukraine are higher with around 35% (ETF, 2010d; 18).

Access to education

As already mentioned before, equity gaps related to access to education exist in relation to the urban-rural divide and between children with different socio-economic backgrounds. Data on private expenditure on education are not available for all countries and reliability of existing data is questionable. However, all reports confirm that costs of education have risen considerably since the beginning of transition, such as fees for the provision of pre-school education, the provision of higher-quality non-state and/or private educational services or the payment of tuition fees in order to prepare for entrance exams. An ETF report suggests that the household cash consumption expenditure on education, culture and recreation in Georgia increased by 35% during one year, from 2006 to 2007 (ETF 2010c; 40). All three reports underline the poor infrastructure of educational institutions in rural areas and the low remuneration of teachers. The latter may de-motivate teachers and reduce incentives for them to improve their teaching skills which could in turn negatively affect the quality of education. Further to this, low salaries promote corruption and lead to an increase of tuition fees and private tutoring on the part of the teachers.

The a.m. trends reduce opportunities for some part of young people to continue education at upper secondary and higher levels and increase inequalities in the quality of education offered.

Data monitoring the educational attainments of minorities or other vulnerable groups are hardly to accede. Only the Georgian report includes such data and reports that the minority population, in particular the Azeri population, has considerably lower attainment rates and record higher drop-out rates after basic education than native Georgians. It is estimated that less than 2% of the Azeri and less than 8% of the Armenians aged 16-29 attained some form of tertiary education compared to 20-27% of native Georgians (SPSI GE, 2011; 31). As regards the educational attainment of IDPs, it is interesting to look at the results of a survey conducted by the Norwegian Refugee Council in Georgia focussing on the situation of the remaining 14 Abkhaz public schools for IDPs which were established in the early 1990s for the schooling of children displaced from Abkhazia by armed conflict in 1991-1992. This study reveals that a much smaller proportion of pupils from Abkhaz public schools enter higher educational institutions due to unfavourable socio-economic conditions and learning environments. Children from IDP families tend to have fewer textbooks, receive less private tuition and live in homes less than ideal for study (NRC 2010; 6).

If one looks at the access to education by IDPs in Azerbaijan, a UNHCR survey conducted in 2007 among IDP households reveals that attendance rate are being generally very high among IDPs. This, however, seems to be not true for IDPs living in remote rural IDP settlements which are located far away from the city. Further, inadequate school infrastructure, lack of equipment and the lack of playgrounds, but also the lack of qualified teachers indicate that the conditions in local schools are better than in IDP schools (UNHCR, 2009).

1.5 Main challenges and Conclusions

Economic growth in the three countries was and still is based on fragile grounds. The 2008 financial and economic crisis has affected all three countries and in particular Armenia and Georgia and was reflected in a substantial contraction of the output. Substantial territorial disparities exist and are considered as a serious obstacle to economic and social development. Economic development, growth and wages are significantly higher in urban areas. It would be important to diversify the economy and to address territorial disparities by further efforts to stimulate regional development.

The three countries are characterised by a large share of agricultural employment, insecure and seasonal jobs and a high informality of the labour market, threatening public revenues due to low tax and contribution collection. It also appears that economic growth in recent years did only partly translate into a more equal income distribution and that a significant gender pay gap exists. Remittances play a significant role for income generation. A more formalised and inclusive labour market and wage policies are needed to strengthen public revenues and to reduce income inequalities.

With regard to their demographic developments, the population of the Southern Caucasus region enjoys a high life expectancy compared to other former countries of the Soviet Union. In particular life expectancy of men is considerably higher in Southern Caucasus as compared to Belarus, Moldova or Ukraine. At the same time, fertility has been going down considerably in Armenia and Georgia. As many other post-Soviet countries after independence, in particular Armenia and Georgia were seriously affected by out-migration. Due to lower fertility, continuing emigration trends and increasing life expectancy the age structure in Armenia and Georgia is expected to change significantly and the old age dependency ratio is expected to increase to levels similar to those of Belarus, Moldova, Ukraine and EU member states. Demographic challenges have been considered in future plans to reform the pension system, but they will also have a considerable impact on health and long-term care needs and need to be addressed in a more comprehensive way.

Following the conflicts in Nagorno-Karabakh, Abkhazia and South Ossetia, internally displaced persons (IDPs) represent a considerable share in the population in Georgia and in Azerbaijan. IDPs are at risk of being socially excluded and are characterised by higher poverty rates. An important step towards improved social inclusion of IDPs thus would be to be targeted labour market programs for IDPs and a replacement of densely populated collective settlements by smaller units which allow for a better active social inclusion, while taking into account that certain groups of the IDPs such as the elderly and disabled might need specific support.

Economic growth has not been translated into sufficient job creation. In contrast, employment in all three countries is highly vulnerable due to high shares in agriculture and small-scale informal activities. Subsistence agriculture in most cases can be considered as hidden unemployment and as coping strategy against poverty. Unemployment and underemployment are common features with particular high unemployment rates among youth indicating the difficulties young people experience when entering the labour market.

The creation of jobs outside the agricultural sector offering decent working conditions is therefore crucial in order to reduce poverty and enhance human capital. The improvement of business environments in particular for SMEs and re-training measures for the workforce are important pre-conditions for successful job creation measures.

Extreme underfunding in education accompanied by extreme low teacher salaries led to further deterioration of the infrastructure, low quality in education and considerable inequalities in access to educational services. The same applies to employment policies where extreme low funding renders their impact on employment nearly insignificant. There are wide and growing regional and rural-urban disparities on the labour market, and rural areas are also at a disadvantage to urban areas in terms of educational institutions and

quality of education; out-of pocket payments and corruption are widespread favouring children from rich families. In order to promote human capital, it is therefore crucial that funding will be increased considerably and that individuals are given the opportunity to upgrade and adapt their skills and knowledge to the changing economic needs.

In view of high youth unemployment rates in all three countries, in particular the modernisation of VET systems in view of governance, institutions and curricula needs to be continued in order to strengthen links between vocational education and labour market needs and thus to render VET schools as important player in the skill formation process more attractive. In this context, the capacities for monitoring labour market developments and skill needs analysis shall be developed.

All of the countries apart from Georgia have implemented unemployment insurance systems and some active labour market measures, but the number of beneficiaries and the benefit rates are extremely low. In order to prevent long-term unemployment, maintain employability and foster reintegration of unemployed back into the labour market, a considerable increase of funds available for active employment measures combined with an improved design and targeting and a strengthening of the capacities of employment services are crucial. This applies to job creation measures, particularly the promotion of a business-friendly environment for SMEs, but also to measures targeted at the supply side of the labour market, and here in particular to the most vulnerable groups such as women, elderly and youth. The given the limited resources, strengthening of capacities for monitoring, evaluation and impact assessment measuring the impact of active labour market measures is crucial.

References

ADB (2008a): Asian Development Bank: Remittances and Poverty in Central Asia and South Caucasus. Country Report on Remittances of International Migrants and Poverty in Armenia. <http://www.adb.org/Documents/Reports/Consultant/40038-REG/40038-05-REG-TACR.pdf> (accessed on 16 December 2010).

ADB (2008b): Asian Development Bank: Remittances and Poverty in Central Asia and South Caucasus. Country Report on Remittances of International Migrants and Poverty in Azerbaijan. <http://www.adb.org/Documents/Reports/Consultant/40038-REG/40038-REG-TACR.pdf> (accessed on 16 December 2010).

Baumann, Eveline (2010), Post-Soviet Georgia: the Rocky Path towards Modern Social Protection, Paper presented at the ESPAnet conference in Budapest, 2-4 September, http://www.espanet2010.net/en/24/14_Post_Socialist_Welfare_Systems.page (accessed on 18 February 2011).

Danish Refugee Council (2007): IDP Livelihood assessment: Azerbaijan. [http://www.internal-displacement.org/8025708F004CE90B/%28httpDocuments%29/F8192DC4D4DCC8C2C12573FB00311196/\\$file/DRC+Az+IDP+border+areas.pdf](http://www.internal-displacement.org/8025708F004CE90B/%28httpDocuments%29/F8192DC4D4DCC8C2C12573FB00311196/$file/DRC+Az+IDP+border+areas.pdf) (accessed on 11 March 2011).

European Commission (2009), The Impact of the Global Crisis on Neighbouring Countries of the EU, Directorate General for Economic and Financial Affairs, Occasional Papers 48, Brussels http://ec.europa.eu/economy_finance/publications/publication15398_en.pdf.

European Commission (2010): The EU's neighbouring economies: emerging from the global crisis. Directorate General for Economic and Financial Affairs, Occasional Papers 59, Brussels. http://ec.europa.eu/economy_finance/publications/occasional_paper/2010/pdf/ecp59_en.pdf (accessed on 16 December 2010).

ETF (2010a): ENPI 08-14 Black Sea Labour Market Reviews – Armenia Country Report, web: [http://www.etf.europa.eu/pubmgmt.nsf/%28getAttachment%29/73E1980696EE2434C12576EF005BD31F/\\$File/NOTE83TMLS.pdf](http://www.etf.europa.eu/pubmgmt.nsf/%28getAttachment%29/73E1980696EE2434C12576EF005BD31F/$File/NOTE83TMLS.pdf) (accessed on 17 August 2010).

ETF (2010b/unpublished): ENPI 08-14 Black Sea Labour Market Reviews – Azerbaijan Country Report, DRAFT.

ETF (2010c): ENPI 08-14 Black Sea Labour Market Reviews – Georgia Country Report, web: [http://www.etf.europa.eu/pubmgmt.nsf/%28getAttachment%29/B8B57962E91F8695C12576EF002E304F/\\$File/NOTE868FGP.pdf](http://www.etf.europa.eu/pubmgmt.nsf/%28getAttachment%29/B8B57962E91F8695C12576EF002E304F/$File/NOTE868FGP.pdf) (accessed on 17 August 2010).

ETF (2010d): Trends and Challenges of Labour Markets and Employability of Human Capital in the six Eastern Partners: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine, web: [http://www.etf.europa.eu/pubmgmt.nsf/%28getAttachment%29/75CE15C8AB5D1CDDC12577BC004D027C/\\$File/NOTE8A8JFQ.pdf](http://www.etf.europa.eu/pubmgmt.nsf/%28getAttachment%29/75CE15C8AB5D1CDDC12577BC004D027C/$File/NOTE8A8JFQ.pdf).

Falkinham, Jane /Vlachantoni, Athina (2010): Pensions and Social Protection in Central Asia and South Caucasus: developments in the post-Soviet era. CRA Discussion Paper No. 1002, University of Southampton. <http://www.soton.ac.uk/ageing/docs/papers/CRA%20DP%201002.pdf> (accessed on 25 January 2011).

IMF (2010). International Monetary Fund. Regional economic outlook Middle East and Central Asia. Washington October 2010. <http://www.imf.org/external/pubs/ft/reo/2010/mcd/eng/10/mreo1024.pdf>, (accessed on 16 December 2010).

Khachatryan, Haroutiun (2010): Armenia: A strange crisis with an optimistic outcome. In Caucasus analytical digest 18/2010, page 2-4.

<http://www.res.ethz.ch/analysis/cad/details.cfm?lng=en&id=118515>, (accessed on 14 December 2010).

Loughna, Sean and Tamar Begvadze, Nino Partskhaladze (2010): Not displaced, out-of-place. Education of IDP children in Georgia. Norwegian Refugee Council. http://www.nrc.no/arch/img.aspx?file_id=9482594 (accessed on 11 March 2011).

NRC – Norwegian Refugee Council (2010): Not displaced, out-of place. Education of IDP Children in Georgia, March 2010, web: http://www.nrc.no/arch/img.aspx?file_id=9482594 (accessed on 1st December 2010).

NSS (2010): Labour market in the Republic of Armenia 2005-2009, Yerevan.

NSS (2009): Labour Force and Informal Employment in Armenia, Yerevan .

NSS (2009a): Social Snapshot and Poverty in Armenia, Yerevan.

SSC (2008): Azerbaijan Demographic and Health Survey 2006.

Sakevarishli, Revaz (2010): Georgia: Continued Reverberations of the crisis. In Caucasus analytical digest 18/2010, page 15-17.

<http://www.res.ethz.ch/analysis/cad/details.cfm?lng=en&id=118515>, (accessed on 14 December 2010).

Tarkhan-Mouravi, George (2009): Assessment of IDP Livelihoods in Georgia: Facts and Policies. <http://www.unhcr.org/4ad827b12.pdf>, (accessed on 11 March 2011).

UNHCR (2009): Azerbaijan: Analysis of Gaps in the Protection of Internally Displaced Persons (IDPs),

web: [http://www.internal-displacement.org/8025708F004CE90B/%28httpDocuments%29/781DFB12EBA093CEC125771F006EB04E/\\$file/IDP-Gaps-Analysis_Azerbaijan_eng.pdf](http://www.internal-displacement.org/8025708F004CE90B/%28httpDocuments%29/781DFB12EBA093CEC125771F006EB04E/$file/IDP-Gaps-Analysis_Azerbaijan_eng.pdf) (accessed on 2 March 2011).

UNICEF (2007): TransMONEE 2007 Features, Florence, Italy, web: http://www.unicef-irc.org/publications/pdf/tm2007_features.pdf (accessed 17 August 2010).

UNICEF (2009): Innocenti Social Monitor 2009. Child Well-Being at a Crossroads: Evolving challenges in Central and Eastern Europe and the Commonwealth of Independent States, Florence, Italy.

Vienna Institute for International Economic Studies (WIIW) (2010): Social protection and social inclusion in Belarus, Moldova and Ukraine. Synthesis Report, web:

<http://ec.europa.eu/social/main.jsp?langId=de&catId=750&newsId=892&furtherNews=yes> (accessed on 25th November 2010).

Wechlin, Daniel (2010): Prekäre Lage der Vertriebenen in Aserbeidschan. NZZ

http://www.nzz.ch/hintergrund/reportagen/prekaere_lage_der_vertriebenen_in_aserbeidschan_1.7679162.html , accessed on November 25th 2010.

World Bank (2007): Armenia: Labour Dynamics, volume II: Main Report.

World Bank (2009): Azerbaijan Country Economic Memorandum. A New Silk road: Export-led Diversification. Report No. 44365-AZ. December 23, 2009. http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2010/01/07/000333037_20100107230943/Rendered/PDF/443650ESW0AZ0P1IC0Disclosed01161101.pdf (accessed on 17 December 2010).

World Bank (2010a): Azerbaijan. Living Conditions Assessment Report, Report No. 52801-AZ

http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2010/03/25/000333037_20100325235529/Rendered/PDF/528010ESW0GRAY1C0disclosed031241101.pdf (accessed on 24 January 2010).

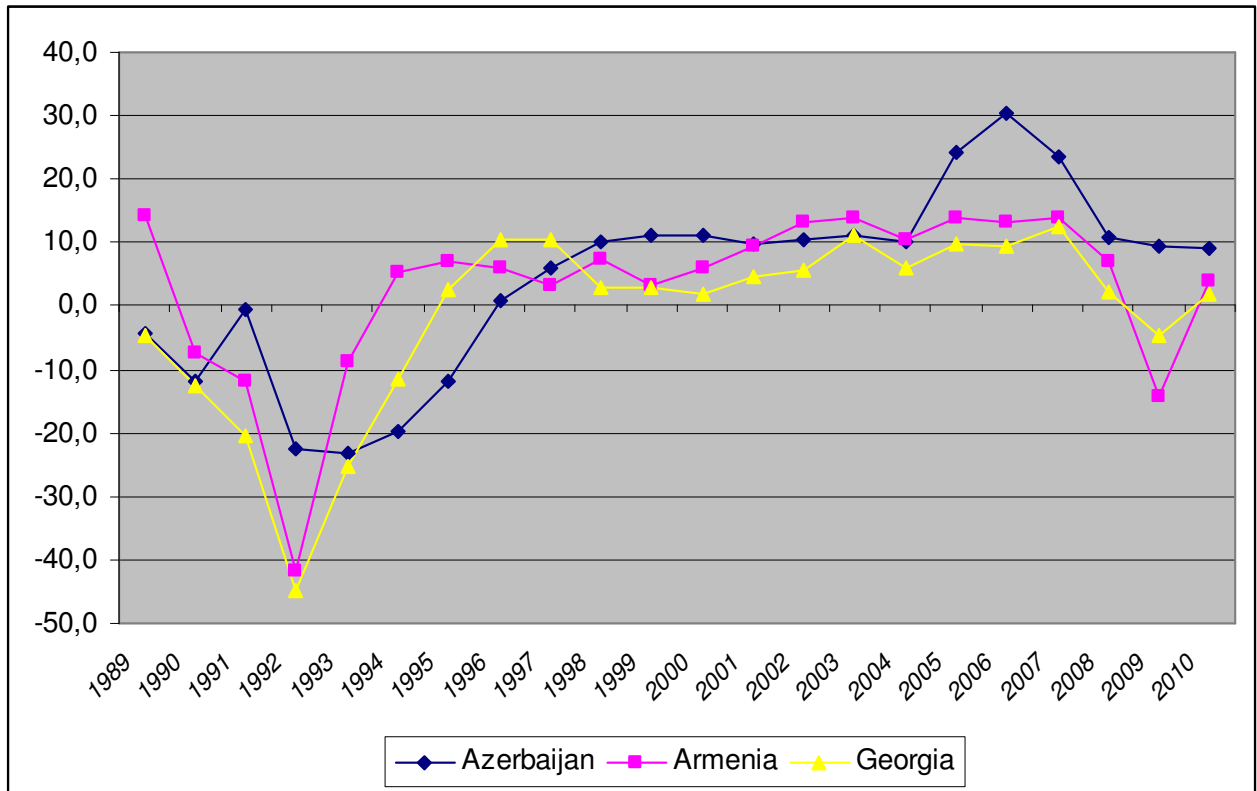
World Bank (2010b): The crisis hits home. Stress testing households in Europe and Central Asia.

http://siteresources.worldbank.org/ECAEXT/Resources/258598-1256842123621/6525333-1259681048367/WorldBank_Crisis_Report.pdf (accessed on 24 January 2011).

Zaman, Constantin, (2007): Brief Assessment of the Labour Market Situation in Selected CIS Countries, Case Warsaw.

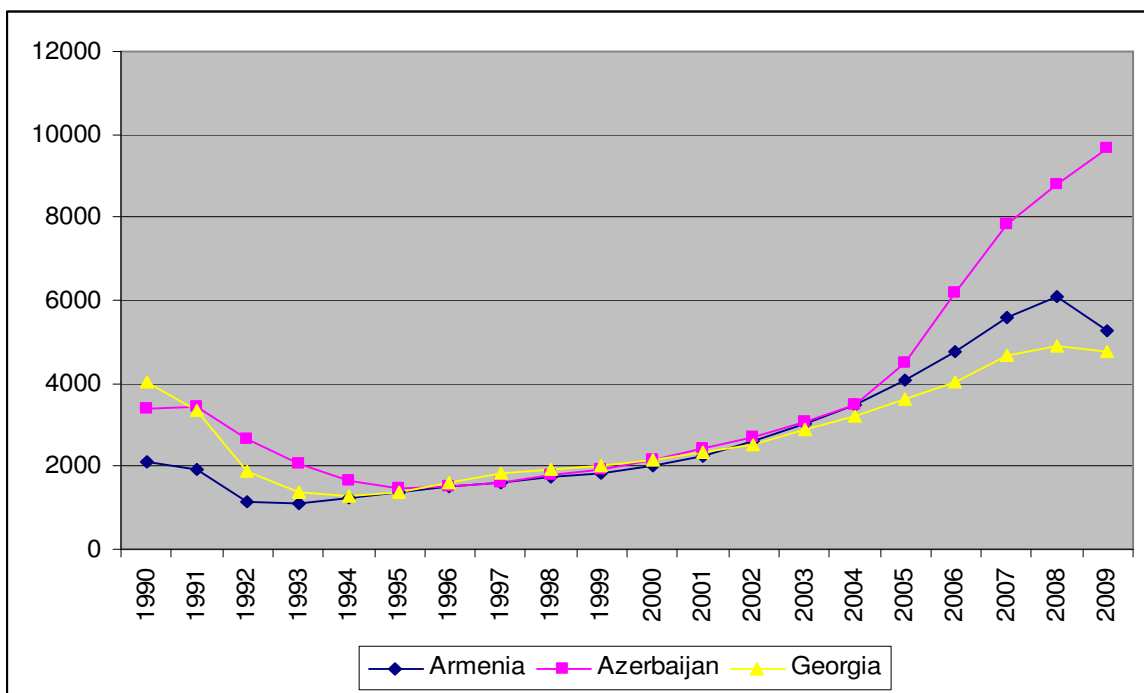
Figures and Tables

Figure 1.1 GDP, real percentage change, 1989 – 2010



Source: EBRD, Macroeconomic Indicators, <http://www.ebrd.com/pages/research/economics/data/macro.shtml>; accessed on December 14th 2010

Figure 1.2 GDP per capita in PPP 1990 – 2009; current intern. \$



Source: World Bank, World Development Indicators database, 2010, accessed on 14th December 2010

Table 1.1 Population in thousands

	1990	1995	2000	2005	2010	2030	2050
Armenia	3545	3223	2076	2065	3090	3170	3018
Azerbaijan	7212	7784	8121	8453	8934	10323	10579
Georgia	5460	5069	4742	4465	4219	3779	3267

Source: UN Population Division, 2008 revision population database (medium variant)

Table 1.2 Total fertility rate

	1990-95	1995-2000	2000-2005	2005-2010	2025-2030	2045-2050
Armenia	2.38	1.75	1.72	1.74	1.85	1.85
Azerbaijan	2.90	2.20	2.00	2.16	1.89	1.85
Georgia	2.05	1.72	1.58	1.58	1.76	1.85

Source: UN Population Division, 2008 revision population database (medium variant)

Table 1.3 Net migration rate (per thousand population)

	1990-95	1995-2000	2000-2005	2005-2010	2025-2030	2045-2050
Armenia	-29.6	-14.3	-6.5	-4.9	--2.5	-2.6
Azerbaijan	-3.1	-3.2	-2.4	-1.2	-1.0	-0.9
Georgia	-20.7	-15.9	-13.4	-11.5	-2.6	-3.0

Source: UN Population Division, 2008 revision population database (medium variant)

Table 1.4 Old age dependency ratio 2009 and projection 2030 (Population aged 65+ /15-64)

	2009	2030
Armenia	14.7	27
Azerbaijan	9.6	19.2
Georgia	21	33.7
Caucasus	13.6	23.8
Belarus	19.8	28.4
Moldova	14.1	26.7
Ukraine	22.7	30.2

Source:

http://www.oew.ac.at/vid/datasheet/download/European_Demographic_Data_Sheet_2010.pdf

Table 1.5 Life expectancy at birth and at age 65, 2008

	Armenia		Azerbaijan		Georgia		Caucasus	Belarus		Ukraine		Moldova	
	Women	Men	Women	Men	Women	Men		Women	Men	Women	Men	Women	Men
At birth	76.7	70.2	76.1	71	78.8	69	13.6	76.2	64.5	74	62.3	73.2	62.3
At age 65	16.0	13.1	16.3	14.5	19.0	13.8	23.8	16.6	11.7	15.9	11.9	14.7	11.9

Source:

http://www.oeaw.ac.at/vid/datasheet/download/European_Demographic_Data_Sheet_2010.pdf

Table 1.6 Main economic sectors by their value added to GDP and their employment share, 2007

	AGRICULTURE		INDUSTRY*		SERVICES	
	GDP share (%)	Employment share (%)	GDP share (%)	Employment share (%)	GDP share (%)	Employment share (%)
Armenia**	20.45	46.2	44.66	15.6	34.89	38.2
Azerbaijan	8.2	38.7	68.49	12.8	24.50	48.4
Georgia	10.7	53.4	24.31	10.4	65.0	36.0
Belarus	9.34	n/a	42.17	n/a	48.48	n/a
Moldova	12.01	32.8	14.78	18.7	73.21	48.4
Ukraine	7.46	16.7	36.73	23.9	55.78	59.4

Source: WB-WDI database, <http://data.worldbank.org/data-catalog/world-development-indicators/> (accessed on 23 February 2011);

* includes construction; ** 2006 figures

Table 1.7 Labour force participation (15+), in %, 2001-2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Labour force participation rate (15+), in %									
Armenia	64.3	64,7	64,9	65,0	65,2	65,3	65,4	65,6	66,3
Azerbaijan	64,0	64,0	63,9	63,8	63,6	63,5	63,4	63,4	63,0
Georgia	66,0	63,9	65,2	63,9	63,7	63,6	63,6	63,7	63,7
Belarus	58.9	59.0	59.1	59.3	59.3	59.4	59.6	59.8	60.2
Moldova	58.2	57.0	54.2	51.5	48.9	48.9	49.0	49.1	49.6
Ukraine	57.1	57.2	57.0	57.1	57.8	57.8	57.8	58.0	58.1

Source: ILO, Key indicators for the labour market, KILM database, web:
<http://kilm ilo.org/KILMnetBeta/default2.asp> (accessed on 24 August 2010)

Table 1.8 Labour force participation by gender (15+), in %, 2006-2009

	2006		2007		2008		2009	
	M	F	M	F	M	F	M	F
Armenia	73.4	58.7	73.5	58.9	73.9	59.0	74.6	59.6
Azerbaijan	67.8	59,7	67.1	60.1	66.5	60.6	66.8	59.4
Georgia	73.3	55.3	73.4	55.3	73.5	55.4	73.8	55.1

Source: ILO, Key indicators for the labour market, KILM database, web:
<http://kilm ilo.org/KILMnetBeta/default2.asp> (accessed on 24 August 2010)

Table 1.9 Employment rates, 2001-2009, (age 15+)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Armenia*	40.4	41.9	45.3	43.5	42.0	43.8	49.7	50.9	49.1
Azerbaijan	65.2	63.7	62.5	61.9	61.1	61.5	60.8	60.1	59.1
Georgia	58.8	56.8	58.6	56.7	55.2	53.8	54.9	52.3	52.9
Belarus	69.6	68.1	66.7	65.9	66.0	66.6	67.8		
Moldova	59.8	58.2	52.8	49.8	49.1	48.6	48.1		
Ukraine	62.5	62.9	63.2	64.1	66.1	67.1	67.9	68.6	

Source: SPSI reports Armenia, Azerbaijan and Georgia: authors own calculations based on SSC data (www.azstat.org, retrieved on 23rd August 2010 and 2nd March 2011); SPSI synthesis report Belarus, Moldova and Ukraine (WIIW, 2010)

* Armenia: LFS data up to 2006 are not extrapolated; LFS methodology change in 2008 (discouraged non active population are classified as economically non-active and are not included anymore in the self-reported unemployed)

Table 1.10 Unemployment rates, 2001-2009, in %, according to ILO methodology

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Armenia	38.4	35.3	31.2	31.6	31.2	27.8	28.7	16.4*	18.7*
Azerbaijan	n/a	n/a	9.7	8.4	7.6	6.8	6.5	6.1	6.0
Georgia	11.1	12.6	11.5	12.6	13.8	13.6	13.3	16.5	16.9

Source: SPSI reports Armenia and Georgia (Armenia: methodology change in 2008, discouraged non active population are classified as economically non-active and are not included anymore in the self-reported unemployed); Azerbaijan: author's own calculation based on SSC data (www.azstat.org, retrieved on 23rd August 2010 and 2nd March 2011)

Table 1.11 Unemployment rates, 2005-2009, by gender, in %, according to ILO methodology

	2005		2006		2007		2008		2009	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Armenia	26.1	37.6	22.4	34.3	22.2	35.4	14.4	18.6	17.8	19.9
Azerbaijan	7.5	7.7	7.1	6.5	7.5	5.6	6.5	5.6	5.2	6.9
Georgia	14.8	12.6	15.2	11.7	13.9	12.6	16.8	16.1	18.1	15.4

Source: SPSI reports Armenia and Georgia (Armenia: methodology change in 2008, discouraged non active population are classified as economically non-active and are not included anymore in the self-reported unemployed); Azerbaijan: author's own calculations based on SSC data (www.azstat.org, retrieved on 23rd August 2010 and 2nd March 2011)

Table 1.12 Public expenditure on education (per cent of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Armenia	2.6	2.3	1.9	2.1	2.5	2.7	2.7	3.0	2.8
Azerbaijan	3.9	3.5	3.2	3.3	3.4	3.0	2.6	2.5	2.6
Georgia	2.2	2.5	2.2	2.1	2.9	2.5	3.0	2.7	2.9
Belarus	6.2	6.5	6.6	6.5	5.2	5.4	5.5	5.2	5.2
Moldova	4.5	5.0	5.7	6.7	6.8	7.2	8.1	8.0	8.2
Ukraine	4.2	4.7	5.4	5.6	5.3	6.1	6.2	5.3	-
EU-27	4.88	4.99	5.10	5.14	5.06	5.04	5.04	4.96	-

Source: UNICEF TransMONEE database 2010, web: www.transmonee.org (accessed on 17 August 2010), Eurostat estimates

Table 1.13 Pre-school enrolment rates 1989, 2000/2001, 2008/2009 (net rates, per cent of population aged 3-6, %)

	1989	2000/2001	2008/2009
Armenia	48.5*	16.3	32.2
Azerbaijan**	24.1	17.2	19.5
Georgia**	44.6	27.9*	38.7***

Source: Figures for 1989: UNICEF (2007); Figures for 2000/2001 and 2007/2008: UNICEF TransMONEE database 2010, web: www.transmonee.org (accessed on 17 August 2010)

* Gross enrolment rate, ** Age group 3-5, *** Rate for 2006/2007

2 Social Protection System

Public spending on social protection programmes in the Southern Caucasus is exceptionally low. While the system inherited general features of the old socialist social protection system, the rather comprehensive level of social protection could not be maintained during transition. Further, the transition period was accompanied by a considerable growth of the informal sector which excludes those informally employed from access to contributory social protection benefits.²⁴

A general trend in all three countries was to replace categorical based social protection benefits by means-tested social protection benefits and in-kind benefits by cash benefits. While many efforts were made to improve targeting mechanisms of social assistance, the modernisation of social protection for the most vulnerable groups of the society progressed slowly. The last decade was also characterised by substantial changes with regard to the social protection administration.

This section outlines the overall features and direction of social protection reforms in the three countries. A more detailed analysis of social protection policies to combat poverty and social inclusion is provided in chapter 3, of the pension and health care system in chapter 4 and 5.

2.1 *Institutional legacies*

The design of social protection systems in the Southern Caucasus is still strongly determined by its institutional legacies. While policies during the last 20 years mainly aimed to ensure basic protection against poverty, they did not succeed so far in enhancing inclusiveness – a large part of the population working in agriculture or the informal economy are not covered by social insurance programmes.

As in almost all countries of the former Soviet republics Armenia, Azerbaijan and Georgia had comprehensive social protection systems during the socialist period. These systems were providing pensions, health care and numerous free or subsidised social services (housing, childcare services, rehabilitation and holidays). Further key elements contributing to these far reaching safety nets encompassed the “right to work” without being at risk of unemployment and highly subsidised prices.

Social protection was financed and administered predominately by the state, private carriers were almost non-existent. Social service provision was an important part of social protection policies and often linked to the enterprise and a formal employment. Cash transfers were mainly limited to pensions, even if there were specific cash benefit schemes for families with children, benefits in general were rather small and categorical-based (UNICEF 2009; 77). At the same time, Soviet social protection systems have been characterised as “authoritarian and paternalistic” and members of the society which have been considered as illloyal or unproductive have been excluded from access to social protection.

After the resolution of the USSR, all three countries maintained large part of the general features of the inherited system, but social service provision by state enterprises eroded quickly and more emphasis was given to cash benefits in order to support those in need. However, changes could often only be introduced in little steps (2009; 77). Unemployment benefits have been introduced to cover a new emerging risk but coverage by unemployment benefits is rather limited both in the scope of persons eligible and the level of benefits. In Georgia, unemployment benefits have been abolished in 2006. Furthermore, Georgia and Azerbaijan introduced specific social protection benefits for IDPs following regional conflicts.

²⁴ See note on informality on page 16.

2.2 Overview on social protection expenditures

A coherent and detailed comparison of social protection expenditures across the countries is impossible due to different statistical accounting in the individual countries. Thus, the general trends outlined in the following section should be interpreted with caution.

Public resources dedicated to social protection programmes represent a share of between 5 and 8% of the GDP and are exceptionally low in the region (see Table 2.1). In 2005/2006 the share of social protection expenditures in GDP amounted to 12% in Moldova, 14% in Belarus and 20% in Ukraine (UNICEF 2009; 78). According to Eurostat figures, Estonia, Latvia and Lithuania had a share of around 12-13% of their social protection expenditures in GDP in 2006, and the average share of social protection expenditures in the EU 27 in 2006 amounted to 26.9%.²⁵

The share of social protection expenditures in the overall state budget in 2009 was at about 26% in Armenia and Georgia (see Table 2.2) but seems to be considerably lower in Azerbaijan. But even the share of social protection benefits in overall government expenditures of around 26% and low compared to other countries in the region. According to UNICEF calculation, the share in Moldova in 2006 was 38% and in Ukraine around 50% of all government expenditures.

The impact of the financial and economic crisis on social protection expenditures has been clearly visible. Revenues of the state have been decreasing, because private enterprises tend to evade contribution payment and businesses had to close, resulting in lower income from social contribution payments (SPSI AZ). While in 2008 substantial nominal increases of social protection expenditures have been made, further increases have been rather modest. The budget 2010 in Georgia in fact envisaged a reduction of social protection expenditures in real terms as compared to 2009 (World Bank 2010). In Azerbaijan, social security expenditures in 2010 have increased slightly, however at a much slower pace than in previous years. In Armenia, originally planned further increases of social protection expenditures – in particular pensions – have been frozen. These budget cuts are also reflected in spending patterns of crisis-affected households. A recent study by the World Bank indicates that health care spending of households in Armenia has been decreased by 47% (World Bank 2010, 23).

The largest item among social protection expenditures in all three countries is pensions. In 2009, in Armenia, the share of pension expenditures amounts to 86-87% of all social protection expenditures. In Azerbaijan, 93% of social protection fund expenditures are allocated to pensions. The lowest share of pension expenditures in all social protection expenditures could be found in Georgia with 62%. The Armenian study suggests a certain rivalry in the budget items and states that limited resources left do not assure provision of other adequate social protection programmes (SPSI AR, 2011). Nevertheless, according to UNICEF research a large share of children also benefited from pension benefits due to the fact that they live in household receiving a pension (UNICEF 2006).

2.3 Contributory benefits

Eligibility to contributory benefits is linked to employment and social contribution payment. Main contributory benefits are old-age and disability pensions. Furthermore, sickness cash benefits, unemployment benefits and maternity benefits are based on contribution payment. In opposite to Armenia and Azerbaijan, where contributory benefits still constitute an important part of the social protection system, in Georgia public social protection benefits have lost their importance and benefits are either universal and tax financed or private.

Overall, the employee's share in contribution share is low. Both, in Armenia and Azerbaijan, employees are paying 3% of the nominal wage. However, while in Azerbaijan the employer

²⁵ EU figures include expenditures on health, SPSI figures only sickness cash benefits.

pays 22% of the payroll without and minimum or maximum earning, in Armenia the percentage is scaled.²⁶ While in average the contribution rates comprises around 23%, the regressive scale results in very high effective contribution burden of low incomes.

Maternity and child care benefits are paid to working mothers. In Armenia, women who are on maternity of child care leave are eligible to a parental leave benefit at the level of the previous wage (maternity leave) and subsequently 18% of the average wage (child care leave). Coverage of these benefits is however low due to the large informal labour market. Only a small fraction of women giving birth to a child are eligible to the benefit. It has also identified as a cause of discrimination against young women in the workplace because employers tend to avoid employing women in fertile age (SPSI AR, 64). Benefits during maternity leave and parental leave are also provided in Azerbaijan and in Georgia.

Unemployment benefits in Armenia are granted at a level of 60% of the minimum wage for a maximum of six months. In Azerbaijan, unemployment benefits are paid at the level of 70% of the national average wage in the preceding year, again, for a maximum of six months. In both countries eligibility for an unemployment benefits requires having paid social contribution in the 12 months before unemployment. Due to the limited period of eligibility, the actual number of beneficiaries of unemployment benefits is much lower than the number of those unemployed, only 16% (Azerbaijan) or around 30% (Armenia) of those being unemployed received unemployment benefits. No unemployment benefits are paid any more in Georgia since 2006.

Sickness cash benefits / or temporary incapacity benefits are provided in all three countries and are based on a medical certification. While they are entirely state funded in Armenia, in Azerbaijan the employer is obliged to pay the first two weeks of sickness cash benefit while Georgia there is no public funding, sickness cash benefits are to be paid entirely by the employer. The level of the benefits varies, in Armenia and Georgia 100% of the previous salary, in Azerbaijan depending on the period of former employment between 100% and 60% of the previous salary.²⁷ The Armenian SPSI study illustratively analyses a number of challenges related to the current system of sickness cash benefits, i.e. a lack of differentiation between sickness and work-related incapacity and the vulnerability of the medical assessment system to corruption. The entirely employer financed sickness cash benefit in Georgia may result in further challenges, because social protection in case of illness is highly dependent on the individual labour contract. A common challenge with regard to sickness benefits is the fact that wages are often underreported and the benefit might not be sufficient to compensate the loss of income in case of illness.

2.4 Non-contributory benefits

As in many other countries in the region, a substantial re-orientation from universal to targeted non-contributory benefits took place in all three countries. However, the large share of informal employment and new emerging patterns of poverty represented challenges for means-testing and targeting. High poverty rates and scarce public resources made it necessary to identify those among the poor who were particularly vulnerable (UNICEF 2009; 77).

Benefits for families and children are a key issue in all three countries. Means-tested social assistance payments to families with children have been introduced in Armenia, Azerbaijan and Georgia. However, with regard to their financial dimension these benefits are far less important than contributory benefits.

²⁶ A lump sum of around 14 € has to be paid for earnings up to 39.4€; for higher earnings an additional contribution of 15% (up to a wage level of 197 €) has to be paid and wages higher than 197€ are taxed by a contribution rate of 5%.

²⁷ No information about sickness cash benefits in SPSI Georgia. Information taken from MISSCEO.

In Armenia; the poverty family benefit (PFB) has been introduced in 1999. Eligibility is based on proxy means-testing. The level of the benefits depends on the individual income situation and size of the household, the average benefit in 2009 was 46€. The total resources spend on the poverty family benefit in 2009 was 31 mill.€, i.e. 12.8% of the total social protection expenditures.

In Azerbaijan, a means-tested targeted social assistance has been introduced in 2006. Families below a certain income threshold are eligible to a benefit, the average benefit amounted to 87€. Total expenditures for this programme did not exceed 1% of the total expenditures for social protection. The SPSI study reports on plans to change the targeting parameters and to lower the income threshold in order to pay higher benefits to a smaller group of poorer families. It also mentions that the determination of those eligible for targeted social assistance is threatened by corruption.

In Georgia, a means-tested benefit has been introduced in 2006 which is based on proxy means-testing. In 2009, the total budget of this benefit amounted to 65 mln €, i.e. 5% of the total expenditures on social protection.

In all three countries targeting mechanisms are considered as effective, meeting a large part of the poor population. In fact, an income based targeting or proxy means testing represented a considerable shift in the previous policy to link benefits to certain categories without need assessment. Nevertheless, key disadvantages of targeting are addressed in the studies as well: Non take-up and corruption.

Social services are underdeveloped in all three countries and mainly consist in boarding houses and homes for elderly and disabled. In general, a weak tradition of social work and community based services has been stated (UNICEF 2009, 77). In Armenia, home care services have been developing in recent years, providing services for disabled and elderly living at home. In Georgia, around 83% of all social protection expenditures are funded by the central government. The remaining share is funded by autonomous republics and territorial entities and entails among others social services for families with children and services and benefits for disabled.

IDPs receive specific categorical based benefits in Georgia. The benefit varies between 9 and 12€ depending on the place of living (private or settlement). In 2009, about 28 mln. € have been spent on assistance to IDP, representing around 2% of all total social protection expenditures. Support to IDPs is one of the main priorities of the international donor community and there have also been debates to harmonise categorical IDP cash benefits with means tested social assistance payments (United Nations/World Bank 2010; 16). In Azerbaijan, IDPs are exempt from charges and fees at state universities or institutions and have access to subsidized mortgages and free housing.

A specific social protection instrument in Georgia is the free medical insurance for vulnerable families. Families receive a medical insurance voucher which they in turn can submit to an insurance company in order to obtain basic insurance protection. Furthermore, the cheap insurance programme is a subsidized private insurance which aims at increased participation in voluntary health insurance. More details of these two instruments are discussed in chapter 5.

2.5 Institutional changes and decentralisation

The overall design and supervision of implementing social protection policies is in all three countries with the Ministry of Labour.²⁸ Nevertheless, the three countries have undergone different developments with regard to the institutional set-up and administration of social protection benefits in the last decade. While the semi-autonomous institutions administrating social insurance programmes in Armenia and in Georgia have lost financial autonomy and

²⁸ Ministry of Labour and Social Protection in Azerbaijan; Ministry of Labour and Social Issues in Armenia, Ministry of Labour, Health and Social Affairs in Georgia.

institutional power, the State Social Protection Fund in Azerbaijan has strengthened its position.

In Armenia, the former State Social Insurance Fund has been renamed into State Social Security Service and formerly separate kept social insurance contributions were integrated in the State Budget in 2008. Fiscal decentralisation efforts aim at strengthening tax collection at community level while at the same time certain social responsibilities have also been shifted to the community level, but presently it is not clear whether all local governments will be able to meet all of their obligations. Main social protection programmes are financed by central budget allocations.

In Georgia, the former State United Social Insurance Fund stopped operating in 2007 and was replaced by the Social Service Agency responsible for the administration of nearly all social protection benefits, including pensions and means-tested social assistance payments.

In Azerbaijan, social protection benefits are implemented by two institutions: all contributory benefits are administered by the State Social Protection Fund, while means-tested social assistance benefits are administered directly by the Ministry of Labour and Social Protection.

2.6 Main challenges and conclusions

In all three countries combating poverty is considered as the main priority of social protection policies. Nevertheless, funds allocated to this area are still rather low and the largest share of social protection expenditures is dedicated to pension benefits, which, however, seem to constitute an important income source for poor households.

There is a high awareness of technical problems of targeting. Given the limited public resources, there is a debate in the countries whether scarce means should even be more targeted to concentrate the support on those who live in extreme poverty. However, given the very low share of overall spending on social protection policies in the three countries the question should be raised whether a more comprehensive and inclusive approach to support those in need and to approach measures which combat the underlying reasons for poverty.

The institutional changes and centralisation of power might also bear some risks. If social protection administered directly by the government, funding of benefits might be at risk in times of low state revenues. A more decentralised administration of social protection systems including the right to collect funds earmarked for social benefits might be better able to protect the social spending in financially difficult times.

The decision to decentralise social protection administration also includes risks and opportunities. While a centralised structure might ensure uniform financing and administrative procedures as well as better statistical monitoring, a more decentralised institutional structure is better able to respond to clients needs.

Labour Markets in all three countries are characterised by a high degree of informality and a large agricultural sector (see chapter 1). Although those employed in the agricultural sector in Armenia and in Azerbaijan are eligible to contribute the social insurance system, they often do not or at a very low minimum level. Thus, access to contributory benefits is limited for a large part of the population. The problem is acknowledged in the countries and there are attempts to increase coverage via simplified registration procedures. Nevertheless, there is still a large gap in coverage of social protection systems.

The lack of minimum income provisions and access to quality social services results in insufficient social protection of the most vulnerable. There is a weak development of integrated social services. Social protection is mainly focused on cash benefits. A lack of social service provision is particularly visible in the field of disability policies, which concentrate mainly on cash benefits in the form of disability pensions, but do not provide adequate re-integration and rehabilitation services. A further area where a lack of social services and social work at community level seems to be the reason for a very slow progress is the deinstitutionalisation of children living in homes.

References

Asian Development Bank (ADB) (2008): Social Protection Index for Committed Poverty Reduction. Volume 2: Asia. <http://www.adb.org/Documents/Books/Social-Protection/Volume2/default.asp>

Georgian-European policy and legal advice centre (GEPLAC): Georgian Economic Review 2009. <http://www.geplac.ge/newfiles/GeorgianEconomicTrends/2006/GER%20%20Year%202009.pdf>, accessed on 30th November 2010.

Khachatryan, Haroutiun (2009): Armenia to cut its budget next year despite expected economic recovery. <http://www.silkroadstudies.org/new/inside/turkey/2009/0911111analyst.pdf>, (accessed on 8 January 2010)

Lewis, Maureen; Verhoeven, Marijn (2010): Financial crises and social spending. The impact of the 2008-2009 Crisis. World http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1670341 (accessed on 18 March 2011)

Mogilevsky, Roman; Atamanov, Aziz: Technical assistance to CIS countries. Case network studies and analyses, No. 369, http://www.case-research.eu/upload/publikacja_plik/21937134_sa369.pdf, (accessed on 18 March 2011).

UNICEF (2006) 'Understanding Child Poverty in South-Eastern Europe and the Commonwealth of Independent States', Innocenti Social Monitor 2006, Innocenti Research Centre, Florence

UNICEF (2009): Innocenti Social Monitor 2009: Child well-being at a crossroads: Evolving challenges in Central and Eastern Europe and the Commonwealth of Independent States. Innocenti Research Centre, Florence.

http://www.unicef-irc.org/publications/pdf/ism_2009.pdf, (accessed on 18 March 2011)

United Nations/World Bank (2010): Georgia Joint needs assessment. Donor Funding in Support of Post-Conflict Recovery and Reconstruction. A second progress report. June 2010.

<http://www.ungeorgia.ge/userfiles/files/JNA%20Progress%20Report%20II%20June18%20final.pdf> (accessed on 18th March 2011).

Tables

Table 2.1: Social protection expenditures in GDP, in %

	99	00	01	02	03	04	05	06	07	08	09
Armenia	6.1	5.2	5.1	4.5	4.5	4.4	4.6	4.7	4.7	6.0	7.9
Azerbaijan				5.2	4.7	4.0	3.0	3.7	3.1	5.1	
Georgia					4.0	4.7	5.4	5.0	3.8	1.7	2.6

Source: Armenia and Azerbaijan: SPSI studies, own calculations. Azerbaijan, only SIF expenditures. Please note that figures are not directly comparable due to a different statistical basis.

Table 2.2: Social protection expenditures 2009*

	Social protection expenditures in € (mln)	In % of state budget	In % of GDP
Armenia	480.2	26.2	7.9
Azerbaijan	1544	15	5.1
Georgia	609.2	26	

Source: Armenia and Azerbaijan: SPSI studies, own calculations. Azerbaijan, only SIF expenditures. Please note that figures are not directly comparable due to a different statistical basis

3 Poverty and Social Exclusion

3.1 Historical Background

Until 1989, poverty officially did not exist in the Soviet Union as guaranteed employment, a universal system of entitlements, as well as consumer subsidies from the State provided food and other basic necessities to almost all of the population. The cornerstone of the Soviet social welfare philosophy was the right (and obligation) to work and the state provided a universal job guarantee. This job guarantee was combined with substantial non-cash benefits provided at enterprise level including subsidised housing as most important benefit. Large enterprises also maintained day-care centres, polyclinics, cafeterias providing subsidised meals, kindergartens, and often also provided subsidised stays at health or recreational facilities. Furthermore, a formal system of transfer payments provided for retirement or compensated individuals at a disadvantage such as disabled and orphans. Last but not least, due to free health care and education services the Soviet system was characterised by widespread access and high levels of service use (Braithwaite, 1995).

It is well known that not all could equally benefit from this system and some benefits were not adequate to cover basic needs. This applied mainly to families with more than three children, single parent families and to pensioners in case they did not have any other access to income than to their pensions. It was only in the early 1970s that 'maloobespechennost' (under-provisioning) had been recognized as a problem and with the 1974 decree identifying "under-provisioned families" it had been officially recognised "that there were some shortcomings in the generalized system of social support embodied in Soviet socialism" (Braithwaite, 1995; 2).

However, there was hardly any monitoring of income poverty in the Soviet Union, and the only data available are those from Atkinson and Micklewright (1992) who used data from the 1988 USSR Family Budget Survey and took 75 rubles as a proxy for the national 'poverty threshold'. According to their calculations, the proportion living in poverty varied considerably across the Republics with rates above 30% in Central Asian countries and in Azerbaijan (33%), 18% in Armenia and 13% in Georgia, up to rates of just 2% or above in the Baltics (see table 3.1).

Levels of income inequality were generally low with only Azerbaijan out of the three South Caucasian countries experiencing a Gini coefficient above 0.3. However, the 1989 calculations of Atkinson and Micklewright might underestimate income disparities as the sampling frame of the Family Budget Survey did not include the entire population and usually excluded individuals at both ends of the distribution (Falkingham, 2003; Braithwaite, 1995). Despite these limitations, it is no doubt that high social expenditure²⁹ and low wage differentials led to a more egalitarian income distribution in the Soviet Union than in most market economies.

In the years following the break-up of the Soviet Union poverty rates and income inequality considerably increased. While definite data on poverty levels at the end of the last millennium are not available, the existing data based on national poverty lines suggest that half of the population in Armenia, Azerbaijan and Georgia lived below the national poverty line in 2001 (table 3.2). The reasons for this development are manifold. As a consequence of the enormous decline in GDP, all three countries experienced labour adjustment processes including declining employment rates and a considerable reduction or non-payment of wages. The jobs once guaranteed by the state ceased to exist and private-sector activities could not absorb the losses. Moreover, wages and pensions in real terms eroded due to rapid inflation. The countries did not have the fiscal space to maintain their basic social

²⁹ According to Milanovic (1998; 13), social transfers comprised 13.6 percent of total gross income in the Soviet Union in the late 1980s.

transfers and cuts in social and health services and education followed (Falkingham, 2003). The former state and collective farms in Armenia and Georgia, and later also in Azerbaijan, were dissolved and their land allocated among the farm members. This form of land privatisation has produced a highly equitable land ownership structure with a very small average land plot of 0,5 hectare to 1,5 hectare in most cases. Consequently rural sectors with predominantly subsistence farming were created and could only partly contribute to the alleviation of poverty (World Bank, 2000).

3.2 Profiles of Poverty and Social Exclusion

In this section we will present the main poverty profiles presented in the three country reports. Since the end of the 1990s, many countries in the region have moved to ongoing surveys that periodically collect representative data on income and non-income dimensions of living standards. However, it is difficult to construct a set of poverty statistics that allow comparisons across time within a country and across countries at any one time, as definitions, survey methodologies and coverage all vary. This, in particular, is the case if poverty rates are based on administrative poverty thresholds as it applies to all three countries. Furthermore, taking into account the high shares of self-employment and informal economy in all three countries, it is recommended to go beyond a purely income related poverty measurement in order to draw a more complex picture in all three countries. This is why the poverty profiles given below do not limit themselves to provide monetary indicators but also include non-monetary poverty indicators where available. Further details on poverty measurement and statistical problems are outlined in Annex 3.1.

Although absolute poverty might have been reduced compared to the early years of independence, a large part of the population of the region still is at risk of poverty and social exclusion. Taking into consideration that comparisons have to be made with caution due to the above mentioned limitations, it seems that poverty rates are lowest in Belarus, Azerbaijan, and Ukraine followed by Armenia and Moldova. They seem to be highest in Georgia (see table 3.3) although economic growth rates since 2003 were at a similarly high level as in Armenia. Despite the dominance of the oil sector in Azerbaijan, consumption inequality seems to be significantly less than in Georgia, but higher than in Armenia with a Gini coefficient of 31 compared to 38.0 in Georgia and 27.5 in Armenia (World Bank, 2010; 45).³⁰ Poverty rates are higher in rural than in urban areas indicating that the dominant subsistence agriculture contributes to the persisting high number of working poor. Furthermore, as we will show in subsequent chapters, many people in particular in rural areas have limited access to basic utilities, social and health services. Inequalities in terms of employment opportunities and access to education are widespread preventing people escaping from poverty. Last but not least high rates of infant mortality and child poverty give reason for concern.

Poverty and Social Exclusion in Armenia

During the last decades poverty rates in Armenia could be steadily decreased, namely from 56 % in 1998/99 to 28% in 2008. However, in 2009 poverty rate again rose which can be mainly attributed to the economic and financial global crisis. The deep recession of the Armenian economy from 2008 to 2009 negatively affected the progress in poverty reduction, and in particular the increase of extreme poverty from 1.6% in 2008 to 3.6% in 2009 gives reason for concern. A further increase of poverty rate is to be expected in view of expected rise in retail natural gas prices and the significant inflationary pressure (EC, 2010). In addition, remittances which play a significant role in maintaining decent living standards are falling due to the deteriorating situation on the labour markets in the destination countries of the Armenian labour migrants; according to the Armenian country report remittances declined by 27% from 2008 to 2009.

³⁰ For comparison, Gini coefficients in Belarus are around 28.0, Moldova at 35.0 and Ukraine at 27.5.

As outlined by the country report, the decreasing poverty rates from 2004 to 2008 are accompanied by a decline in the poverty gap and the poverty severity. The poverty reduction was mainly driven by double-digit economic growth, increase of labour income and social transfers as well as remittances.

Poverty rates are slightly higher in rural (35%) than in urban areas (34%) but highest rates are recorded in urban areas outside the capital (42%). The lowest poverty rate (27%) has been reported for Yerevan reflecting the economic development. Rural-urban disparities vary considerably across the country and within one region (*marz*)³¹. A poverty mapping carried out by World Bank in June 2007 undertook a decomposition of *marz* poverty into urban and rural areas, and thus allowed to reveal considerable disparities within *marzes*. The figures in that study indicate that the access to irrigated land and food production still plays an important role in coping with poverty (World Bank, 2007; 14, 25). If we look at the extreme poor population, lowest rates are given for rural areas once more indicating the importance of subsistence agriculture as prevention from extreme poverty. However, against the background of the small plots of land owned by the families and the limited access to credits, fertilisers and technologies, productivity in agriculture remained low and could not contribute to poverty alleviation to a great extent. To maintain food security in urban areas, poor households depend to a large extent on money transfers from labour migrants: Remittances account for 26% and 31% respectively in the income of the poor and extremely poor urban households (UNDP, 2009; 66).

If we include material deprivation indicators such as access to safe drinking water, sewerage system or heating we get a more comprehensive picture on rural-urban poverty disparities. Although nearly every Armenia household has an own home with a centralised water supply system, only 20% of the rural households have access to a centralised sewerage system which has considerable implications for sanitation and public health. The availability of central heating declined considerably in the last years indicating that the traditional district heating systems have nearly completely disappeared and households more and more rely on natural gas for heating - 69.4% (NSS, 2009; 130-131).

It is obvious that social transfers (pensions, social assistance, family benefit) play a crucial role in poverty reduction, and in particular to the reduction of extreme poverty: the country report states that without social transfers, extreme poverty would have increased in 2009 by 19 percentage points. Pensions which constitute the largest component of social transfers have the highest effect on poverty reduction, but also social assistance and in particular family benefits considerably reduce extreme poverty. However, many targets of the first Poverty Reduction Strategy Paper which was elaborated in consultation with stakeholders, World Bank and IMF and adopted in 2003 could not be achieved, in particular the proportion between the average pension and average salary as well as the size of per capita family benefits envisaged by PRSP-1 (Republic of Armenia, 2008; 27f.). With the second PRSP which was translated into the Sustainable Development Programme (SDP) 2008, the focus remains on the improvement of living conditions of the population and the elimination of extreme poverty: the objective is to reduce material poverty to 8% and extreme poverty to 1.2% until 2012. In view of human resources development, the SPD plans to further develop health and education services in order to improve efficiency, quality and accessibility indicating into the direction of a more preventive approach.

Poverty and Social Exclusion in Azerbaijan

In comparison to the other two countries, Azerbaijan had a 2.5 higher poverty rate just before the break up of the Soviet Union (33.6%) and thus started independence with a substantial social burden (see table 3.1). In 2001 Azerbaijan introduced a new methodology for conducting Household Budget Surveys which since then has been the main source for measuring poverty in the country. In comparison with the rate in 2001 (49%), the year in

³¹ Armenia is divided in 10 regions (administrative units) called *marzes*.

which the new methodology was applied first, Azerbaijan records a steady and remarkable decline of poverty until 2009 reaching 11%. This significant improvement can be attributed to macroeconomic stability and the high economic growth in the past years which have been translated in substantial increases in wages and expanded public transfer programs leading to increased consumption levels of many households in the country. In particular the narrowing of the gap between the official poverty line and the minimum wage on the one side, and between the poverty line and the minimum pension level on the other side contributed to a decrease of the population's share of the poor (SPSI AZ, 2011). The official rates recorded by the State Statistical Committee (SSC) of Azerbaijan are similar to those resulting from an LSMS survey undertaken by World Bank in collaboration with the Ministry of Labour and Social Protection of the Population during the first quarter 2008 (World Bank, 2010; 8). However, it is worth mentioning that the subjective perception of poverty provides a different picture. According to a comparative study on subjective well-being in the Southern Caucasus which is based on 2006 survey data, 49% of the population of Azerbaijan rates the economic situation of their households as "poor" or "very poor". Results are similar in Georgia and only Armenia shows better results (Afandi et al., 2009; 207).

According to the LSMS survey 2008, which sought establishing comparability with the LSMS survey 2001, rural poverty is higher than urban poverty with poverty rates at 18.5% and 14.8% respectively. In comparison to LSMS 2001 results, when rural areas were less poor than urban areas, urban poverty declined more rapidly than rural poverty which is explained by the fact that economic growth took place outside the agricultural sector similar to other countries of the region. Low profitability of the agricultural sector and the dominance of subsistence agriculture contribute to high number of working poor in rural areas: more than 60% of the rural poor are (self-) employed. This once more indicates that the agricultural sector is unable to create gainful employment and as a consequence does not contribute to considerable reduction of poverty rates on a long term (World Bank 2010; 39).

Despite the improvement in official poverty rates throughout the last years, we can see that poverty is still a serious problem if looking at non-monetary material deprivation indicators. As the Azeri country report states a substantial part of the population has limited or no access to basic utility services such as water, gas or telephone. Conditions are worse in rural areas. There, only 26.6 % of the population has access to hot water and only 35.5 % to gas supply. The number of households lacking at least three of six durable goods (washing machine, color TV, refrigerator, personal car, and mobile or landline telephone) is also highest in rural areas and account for 33.8% of all households (in comparison to 4.3% in Baku). Also housing conditions are bad and as LSMS 2008 data suggest, more than 65% of the poorest quintile report on living in houses too small for them. However, overcrowding housing conditions seem to be also common among richer quintiles and are most accentuated in urban areas (World Bank 2010; 29-32).

Since 2003, the government of Azerbaijan has implemented a number of State Programs on poverty reduction in collaboration with international organisations. Priorities of these programs are the socio-economic and human development, regional infrastructure, rural development and institutional reforms. In this context, the means-tested Targeted Social Assistance (TSA) programme is to be mentioned which was introduced in 2006. According to the World Bank report the targeting mechanism of this program is well developed and 86% of the TSA beneficiaries belong to the bottom 40 percent of the population and 49% from the bottom decile. Without social transfers the poverty incidence would increase by 11 percentage points whereby pensions account for the lion's share in poverty reduction – 6.8 percentage points (World Bank, 2010; 104 f). Beyond that, a clear monitoring of the impact of governmental measures on poverty reduction is not possible due to the lack of well-defined targets and indicators (SPSI AZ, 2011).

Poverty and Social Exclusion in Georgia

Due to manifold definitions of poverty, frequent changes of the national poverty line and obvious deficiencies in methodologies, there is no common understanding on the poverty

level in Georgia. There have been two ways of measuring poverty in Georgia since independence. One is the poverty measurement in relation to the subsistence minimum which is based on a food basket that accounts for 70% of the amount and 30% of non-food items. However, from 2005 the government of Georgia did not publish absolute poverty indicators anymore. Since 2006, the National Statistics of Georgia has published relative poverty rates with respect to 60% and 40% of median consumption. Interpretation of the poverty rates has to be done with caution and some experts consider that neither the absolute poverty threshold nor the relative poverty threshold adequately reflect the situation of poverty in the country. In 2009, 21% of the population were in relative poverty with respect to 60% and 8.8% with respect to 40% of median consumption. As calculated by the Georgian country team, the share of population living below the subsistence minimum in 2009 was much higher – 41.2%. In a Welfare Monitoring Survey (WMS) carried out by UNICEF during May-July 2009 besides the relative poverty threshold another poverty threshold equivalent to 2.5 USD a day per person was used. According to the latter threshold 41.5 % of the Georgian households or 44.8% of the population were poor (UNICEF 2010; 17).

Poverty rates in rural areas are considerably higher than in urban areas. In 2009, the poverty rate with respect to the subsistence minimum was at 36.3% in urban areas whereas it was 46% in rural areas. According to the WMS 2009 data, highest poverty rates are reported from the Northern mountain regions (*mkhare*) Racha, Kakheti, Mtskheta-Mtianeti due to scarce land which is unsuitable for commercial agriculture (UNICEF Georgia, 2010; 19). As in the other both countries, persisting high poverty rates in rural areas are due to the fact that economic growth took place outside the agricultural sector. Furthermore, incomes in agriculture remained stagnant during the last years and average monthly incomes in rural areas are less than half of those in urban areas. The situation is even worse when referring to rural self-employed who are mostly involved in subsistence agriculture. Income from subsistence agriculture constitutes only 18% of the national average (SPSI GE, 2011; 24).

When it comes to non-monetary poverty indicators, the Georgian country report refers to the WMS 2009 data which uses several indicators such as access to utilities like water, sanitation and heating, as well as material deprivation measured in terms of housing conditions and durable goods in a household. 15% of all households experience both lack of durable goods and poor housing conditions. In terms of access to utilities the WMS 2009 data confirm that rural areas are more disadvantaged than urban areas: 10% of interviewed households experienced difficulties in obtaining adequate access to water, sanitation and heating while 63% lacked access to at least one form of these utilities. More than two-thirds of these households are situated in rural areas. As regards social exclusion indicators, it is worth mentioning that according to the survey, 58.1% of population experience lack of access to health care. The WMS 2009 data also confirm that households living below the official poverty line are more likely than others to experience other non-monetary dimensions of poverty (UNICEF, 2010; 28, 31-33).

As already mentioned in chapter 2, the targeted social assistance was introduced in Georgia in 2006 and applies a proxy means targeting mechanism. According to the World Bank Study in 2007, the TSA can be considered as strongly pro-poor since two-thirds of the TSA resources accrue to the bottom 20% of the population. However, it is also stated that TSA covered only 19% of the poor and 30.4% of extreme poor which is mainly due to the modest resources allocated to this programme (World Bank, 2009a, 97). The latter also explains the modest impact of the TSA to poverty reduction in relation to pensions the coverage of which is much higher. Using the official poverty threshold (60% under median consumption) the WMS 2009 states that pensions have a much higher impact on poverty reduction than the TSA. Thus, if pension income is removed from the household consumption value used to calculate the poverty rates, the poverty risk of households rises considerably – from 23.7% to 40.4%, whereas the poverty risk of households rises to 26.3% when removing TSA. The impact of TSA is much more pronounced in households living in extreme poverty (UNICEF 2010; 44).

3.3 Determinants for Vulnerability

Several factors have a considerable effect on whether a person is becoming vulnerable to poverty and social exclusion or not. In order to get a clearer picture on who are those vulnerable groups, we go into more detail regarding the main factors which have a direct correlation to poverty and social exclusion: household composition, employment status and educational level. Besides these aspects other factors such as e.g. gender, health status, ethnicity and geographical location are likely to influence the risk of poverty. Reference will be given under the following chapters as far as data are available. A special chapter is dedicated to IDPs in order to acknowledge the particularly vulnerable status of these people in Azerbaijan and Georgia which has been already referred to in chapter 1.

Household Composition

The size of households is directly associated with poverty and larger households tend to have a higher risk of poverty throughout the region. Further to this, children constitute a considerable poverty risk in all three countries and already the presence of one child increases the poverty rate. As reported in all three country reports, households with three or more children face considerable higher poverty.

Although methodologies are different and poverty rates are not strictly comparable, it can be said that child poverty is an issue in all three countries. Regardless of the poverty thresholds used the percentage of children living in poor households is higher than the headcount for the whole population and much higher than that for pensioners.³² The country reports from Azerbaijan and Georgia assumes that children from IDP households are in a particular disadvantaged position due to lacking economic opportunities, access to education, bad housing etc. The extent of poverty is difficult to assess due to absence of data.

Besides children, the presence of elderly in a household also increases the incidence of poverty. The Armenian report states that households with two adults, two children and one elderly face a higher risk of poverty than households with two adults and two children only. However, households composed of only elderly, have a lower risk of poverty compared to the average. This trend is also reported for Georgia. This situation might suggest that social transfers are more effective for pensioners than for other household members. On the other hand the high employment rates for elderly in all three countries suggest that pension level is rather low and older people are forced to work in order to earn their own or family's living (see also chapter 4).

Armenia reports on another element in household composition that affects poverty: the gender of the household's head. Despite the high number of emigrants and the considerable amount of remittances transferred to family members left behind, the poverty rate of female headed households is considerable higher (36.9%) than male headed households (33.1%).

Employment status

Throughout the region, unemployed face a significantly higher risk of poverty and exclusion than employed. However, we can also see, that being employed does not necessarily safeguard from poverty and the number of working poor remains high in all three countries. The poverty risk is higher among self-employed than among those in wage employment. In particular self-employment in low-productivity sectors such as subsistence agriculture means significant vulnerability to poverty as earnings (including the value of in-kind consumption) have remained extremely low.

³² According to Armenia Country Report, child poverty rates are at 39.6% (age group 0-5), poverty rates for persons aged 65+ are at 33.9% (SPSI AR, 2011; 106). Based on LSMS 2008 data, the World Bank Living Conditions Assessment in Azerbaijan reports on child poverty rate (age group 0-5) of 15.6% and on a poverty rate for pensioners of 10.7% (World Bank 2010; 26). Poverty rate related to subsistence minimum for children in Georgia according to the WMS 2009 is at 49.0% and for pensioners at 41.7% (UNICEF, 2010; 22).

In Armenia, unemployed account for the highest poverty rate with 38.8%, compared to self-employed (29.7%) and salaried workers (25.5%). The rate for unemployed is even higher in urban areas other than Yerevan (49.3%), but lower in rural areas which can be explained by the access to subsistence agriculture. In this context the country report raises the issue of the extremely low coverage of unemployment benefit: only 30% of the unemployed meet the eligibility criteria (SPSI AR, 2011).

Unfortunately the country report from Georgia does not provide any data backing correlation between employment status and poverty but raises the issue of high employment shares in subsistence agriculture and precarious jobs entailing high numbers of working poor. The only data available referring to poverty rates according to employment status are those from the World Bank Poverty Assessment 2009 and the Welfare Monitoring Survey WMS 2009 carried out by UNICEF. Both reports confirm the high correlation between employment status and poverty in Georgia and report highest poverty incidence among unemployed. The WMS 2009 provides differentiated data according to three groups having different employment status: (a) regular earners, (b) employed in some way and (c) employed or owns land. The WMS data suggest that 60% of Georgian households are without a regularly paid earner. The survey confirms that households with one member in regular paid work halves the incidence of poverty compared to households without any member in regular paid work. However, poverty rates increase considerably if referring to households with one member employed in some way or with one member employed or land-owner. These 'in-work poverty rates' suggest that employment does not necessarily allow for a decent living and prevent from poverty especially in case of high rates of self-employment as it is the case in Georgia (UNICEF 2010; 24-25).

According to the LSMS 2008, the phenomenon of working poor also applies for Azerbaijan where the poverty rate among the people employed reaches 17% in the agricultural sector. Similar to the Georgia and Armenia, poverty rates are highest among the unemployed – above 22% (World Bank 2010, 99).

Educational level

In chapter 1, we already indicated disparities in access to education and - consequently - in educational attainments according to economic status. In particular, increasing costs for education such as fees for the provision of pre-school education or the payment of tuition fees in order to prepare for entrance exams are not affordable for poor households.

Poverty rates among household heads with higher educational attainments are lower throughout the region. While this indicates that education pays off, we also observe that poverty rates are still high among households headed by a member with specialised secondary education which in turn can be explained by the difficulties in entering the labour market and consequently high unemployment among this group.

In Armenia households headed by a member with tertiary education are less poor (10.3%) than households headed by a member with secondary (25.6%) or incomplete secondary education (28%). Although it is worth mentioning that compared to 2004, poverty rates could be reduced the most among the poor with secondary and specialised secondary education, individuals having general secondary education still constitute the largest group among the poor which indicates huge difficulties in finding jobs allowing a decent living (NSS 2009; 40).

Also data from Azerbaijan suggest that higher education is a way out of poverty indicating a low poverty risk of those with formal tertiary education (4.2%) compared to a poverty rate of 18.2% among those with primary education or below and to 13.5% among those with general secondary education (World Bank 2010; 27). This trend is being confirmed for Georgia by the World Bank Poverty Assessment indicating that household heads with incomplete secondary education facing the highest risk of poverty (31%) compared to those with technical and vocational education (21.7%) or with university degree (12.1%) (World Bank, 2009a; 42).

Access to Health Services

The health status of a person is an important prerequisite for his integration in work and social life. Consequently, limited access to health services may have a negative effect on the employment opportunities and on the well-being of a person and his family. As can be seen under chapter 5, out-of-pocket payments have increased considerably during the past years in all three countries and meanwhile constitute more than half of the overall health expenditure. Going down to the household's level, it is obvious that health care expenditures constitute a large part in all three countries and thus is a heavy burden in particular for poorer households. Out-of-pocket payments of private households as share of total health expenditure are highest in Azerbaijan with 67.8% compared to Georgia with 66.3% and Armenia with 50.9% (WHO, Health for All Database, 2008). Obviously, this development hinders poor people to consult a medical professional as confirmed by consultation figures reported from Armenia. According to ILCS 2009 data, only 30.5% of those reported being sick consulted a doctor for advice or treatment whereby the share is much lower among the poor and extremely poor.³³ This tendency, albeit to a lower extent (7.7%), is reported from a survey carried out in Azerbaijan. Also, the number of live birth deliveries at health care facilities is much lower among the poor than among the non-poor which might be also one of the reasons for the high infant mortality in Azerbaijan (SPSI AZ, 2011; 88). The situation is even worse in Georgia where the health insurance system has been privatised. There, in almost 60 per cent of all households at least one person needed medical services or medicines which the household could not afford. The medical state insurance which shall provide medical services free of charge for the poorest population could cover only 21.3% of this population (UNICEF, 2010; 4, 53).

Internally Displaced Persons

The majority of IDPs remains poor and vulnerable. Most of them do not have regular and adequate sources of income and are heavily dependent on state transfers. In addition to this, their housing conditions are often still abominable, and last but not least they are not sufficiently integrated into the host societies. This picture has been confirmed by Georgia and Azerbaijan who both have a considerable share of IDPs. The Georgian country report refers to a survey on the socio-economic conditions of IDPs conducted by the Danish Refugee Council and the Swiss Development Agency in 2008 which revealed that nearly half of all IDPs from South Ossetia and Abkhazia considered their economic status as bad and state that they have just enough for food. According to this survey which does not yet include the IDPs newly displaced from Abkhazia and South Ossetia as consequence of the August 2008 conflict, most of the IDPs are located in Tbilisi and the Samegrelo region. IDPs living in Tbilisi are much better off: 33.3% of IDPs located in Samegrelo region considered their economic status as very hard and even stated that they were starving. It is most likely that the situation of the newly displaced IDPs is equally vulnerable. The main underlying cause for poverty is the high unemployment and underemployment. Their main income is usually made out of social benefits. According to the a.m. survey, only 31 % of IDPs throughout Georgia are employed, and this number also includes those who are involved in subsistence agriculture. IDPs face additional difficulties to (re-)enter the labour market due to administrative obstacles or the lack of social capital. The majority of the "old" IDPs still live in collective centres with no or limited access to heating and hot water, and poor sanitary conditions affect the health status of IDPs (SPSI GE, 2011).

The picture is similar in Azerbaijan. Also there, the majority of IDPs is located in Baku or in other big urban centres. They migrated to the cities in the hope to find a job and to have better access to governmental or non-governmental assistance programs. According to the

³³ As reported from Armenia, the share of population consulting a physician considerably differs according to the living standard: 35.3% of non-poor compared to 21.4% of poor and 1.2% of extremely poor consulted a doctor (SPSI AR, 2011; 94).

LSMS 2008 survey, 86% of the IDPs are living in urban areas. IDPs in other urban centres than Baku seem to be worst off since poverty rate of IDPs is estimated highest there and amounts to 18.3% compared to 7.1% of other population living in the same non-Baku urban areas and compared to a poverty risk of 11.3% throughout whole Azerbaijan (World Bank 2010; 36-37). Housing conditions are extremely bad and most of IDPs live in non-residential areas like temporary shelters, former dormitories, half-built buildings, abandoned plants or other facilities without sewage, heating or other elementary conditions.

3.4 Main Challenges and Conclusions

Despite a considerable GDP growth in the 2000s in all three countries, poverty and social exclusion still remains a key challenge for a large part of the population in Southern Caucasus. Further to this, low spending in key social policy sectors led to deficits in the different dimensions of human well-being which are enforcing each other: Due to increasing education costs and out-of pocket payments in health care, the share of population with low income has limited access to health care and education. In turn, low educational attainments and bad health status deteriorate the opportunities to get access to employment etc.

Furthermore, employment in all three countries is highly vulnerable due to high shares in agriculture and small-scale informal activities. Poverty, material deprivation and social exclusion are widespread in rural areas and subsistence agriculture in most cases can be considered as hidden unemployment and as coping strategy against poverty. Besides these regional disparities, some groups find themselves to face a higher risk of poverty such as unemployed, pensioners, and families with three or more children, IDPs and other population groups that have a disadvantaged standing in the labour market. Again, low level of benefits and low coverage of the social assistance and social security schemes contribute to this vulnerability.

It is obvious that all three countries should undertake more efforts to address the main determinants of poverty. Due to the fact that low benefits and low coverage of social assistance schemes and social protection schemes could not eradicate extreme poverty, it should be considered to combine them with minimum income schemes. In particular in rural areas where families lack income in cash, minimum income schemes could contribute to provide access to basic services such as health and education. Besides, in order to address the main determinants of extreme poverty, the introduction of child benefit programmes which include a progressive component and therefore target big households could be another option.

It is also obvious that poverty alleviation programmes need to integrate a broader social inclusion perspective. This also implies the need to combine measures in different policy fields such as economy, employment, education, social protection and encompass income with non-income related measures.

In order to minimise the risk of inter-generational poverty, early childhood support and other measures which support the education of those at risk of poverty should be strengthened. The creation of jobs outside the agricultural sector offering decent working conditions is clearly another crucial element in the direction of poverty reduction. Along with this, entrepreneurship should be clearly supported through the abolishment of institutional and legal impediments in particular for SMEs and combined with training measures for the future entrepreneurs.

Further to this, measures to support the (re-)integration of unemployed into the labour market and to prevent young people from unemployment should be strengthened. In particular, a considerable increase of active employment measures combined with a comprehensive design and targeting are recommended. It is important that IDPs as a special vulnerable group are integrated in the respective employment and educational programmes and get involved in already partly existing measures such as support for small business and professional retraining measures, education vouchers etc..

Last but not least, it is obvious from all three reports that improvements of poverty measurement at national level with a view to international comparability are needed. In this context it is also crucial to improve monitoring and evaluation of the implementation of poverty alleviation programmes and measures. The EU with its long lasting experience in poverty measurement could take a relevant role in this process by providing expertise and best practice.

References

- Afandi, E., Habibov, N. (2009): Analysis of subjective wellbeing in low-income transitional countries: evidence from comparative national surveys in Armenia, Azerbaijan and Georgia', *Journal of Comparative Social Welfare*, 25: 3, 203 — 219
- Atkinson, A.B. and Micklewright, J. (1992) *Economic Transformation in Eastern Europe and Distribution of Income*. Cambridge: CUP
- Braithwaite, Jeanine (1995): *The old and new poor in Russia*, ESP Discussion Paper 21227, World Bank
- European Commission (2010): *The EU's neighbouring economies: emerging from the global crisis*, Directorate General Economic and Financial Affairs, Occasional Papers 59, April 2010
- European Commission (2009): *Social Protection and Social Inclusion in Belarus*
- European Commission (2009): *Social Protection and Social Inclusion in Moldova*
- European Commission (2009): *Social Protection and Social Inclusion in Ukraine*
- Falkingham, Jane (2003): *Inequality and Poverty in the CIS-7, 1989-2002*, Social Statistics Research Centre, University of Southampton. Paper was prepared for the Lucerne Conference of the CIS-7 Initiative, January 20-22, 2003.
- GEPLAC – Georgian-European Policy and Legal Advice Centre (2008): *Georgian Economic Trends, Quarterly Review*, October 2008, web: <http://www.geplac.ge/newfiles/GeorgianEconomicTrends/2008/October%202008%20%28en%29.pdf> (accessed on 1 December 2010)
- IMF/World Bank (2002): *Poverty Reduction, Growth and Debt Sustainability in Low-Income CIS Countries*, web: <http://siteresources.worldbank.org/ECAEXT/Resources/Joint+IFI+paper+growth&debt.pdf> (accessed on 1 December 2010)
- Milanovic, Branko (1998): *Income, Inequality and Poverty during Transition from Planned to Market Economy*, World Bank, Washington D.C.
- National Statistical Service (NSS) of the Republic of Armenia (2009): *Social Snapshot and Poverty in Armenia*, Yerevan
- Republic of Armenia (2008): *Sustainable Development Programme*, Yerevan
- UNDP (2008): *Georgia Human Development Report 2008*, Tbilisi
- UNDP (2009): *National Development Report Armenia 2009. Migration and Human Development. Opportunities and Challenges*.
- UNICEF Georgia and Institute of Social Studies and Analysis (ISSA) (2009): *Study of Well-being indicators of households in Georgia (data files)*, unpublished
- UNICEF Georgia (2010): *How do Georgian Children and their Families cope with the impact of the financial crisis? Report on the Georgia Welfare Monitoring Survey 2009*, unpublished
- World Bank (2000): *Making Transition Work for Everyone*, Washington D.C.
- World Bank (2007): *Armenia. Geographic Distribution of Poverty and Inequality*, Report No. 41181-AM
- World Bank (2009): *Armenia. Implications of the Global Economic Crisis for Poverty*, Washington D.C.
- World Bank (2009a): *Georgia Poverty Assessment*, Report No. 44400-GE
- World Bank (2010): *Azerbaijan. Living Conditions Assessment Report*, Report No. 52801-AZ

Annex:

Methodologies of poverty measurement applied in Armenia, Azerbaijan and Georgia and statistical problems

In Armenia, Azerbaijan, and Georgia, poverty figures are predominantly measured in administratively determined “absolute”. Georgia and Azerbaijan also use relative poverty lines. Absolute and relative poverty calculations in the countries are based on household consumption data derived from Household Budget Surveys or – for the case of Armenia – the so-called Integrated Living Conditions Survey (ILCS). Adjustments for seasonal and regional differences in prices are applied. The application of equivalence scale in order to calculate consumption expenditure per adult equivalent is treated differently.

As for Armenia, the ILCS has been carried out first in 1998/99 and since 2001 on an annual basis. In 2004, the ILCS was improved by updating the sample frame and expanding the sample size so that comparisons between early 2000 and 2005 and later are not possible. In 2009, the methodology was again adjusted and a new minimum food basket was introduced. Further, the food and non-food shares of products and services were adjusted and the transition from a two-tier to a three-tier poverty assessment including the extreme (food), the lower and the upper poverty lines were introduced. The extreme poverty line is based on the monetary value of a minimum food basket (2,412 calories per capita per day), whereas the lower and upper poverty lines include different food shares. The equivalence elasticity coefficient applied is 0.87 and the coefficient of households’ size economies is 0.65.

In Azerbaijan, the State Statistical Office introduced a new HBS methodology in 2001 which is carried out on a quarterly basis. Azerbaijan uses two poverty lines, the first one is an absolute poverty line based on a minimum consumption basket which includes the monetary equivalent of a minimum food consumption basket (2,200 calories per capita per day). The food share amounts to 70% of the consumption basket. The second one is a relative poverty line set at 60% of the median per capita consumption level. No equivalence scale is being applied.

In Georgia, integrated household surveys have been carried out since 1996. To measure poverty absolute and relative poverty thresholds are used. The absolute poverty line is based on the official subsistence minimum which is recalculated every year. The underlying consumption basket is composed of the monetary equivalent of a food basket (2,300 calories per capita per day) accounting for 70% and of the monetary equivalent of non-food items for the remaining 30%. However, absolute poverty rates have been published only until 2004. Since 2006 Georgia publishes only relative poverty rates with respect to poverty thresholds of 60% of median consumption and 40% of median consumption. The absolute poverty rates which are included here in the report are based on calculations of the Georgian country team.

Tables

Table 3.1: Summary statistics on the distribution of per capita income and poverty within the Soviet Union by republic, 1989

	Gini coeff ¹	Mean per capita income ² (Roubles)	Mean relative to Russia	Percent of population with per capita income below 75 Rbs., 1989
Russia	0.278	178.65	100	5.0
Lithuania	0,278	201.93	113	2.3
Latvia	0.274	198.72	111	2.4
Estonia	0.299	219.18	123	1.9
Ukraine	0.235	153.35	86	6.0
Belarus	0.238	170.29	95	3.3
Moldova	0.258	141.33	79	11.8
Georgia	0.292	150.15	84	13.0
Armenia	0.259	134.85	75	14.3
Azerbaijan	0.328	110.33	62	33.6
Kazakhstan	0.289	142.92	80	15.5
Kyrgystan	0.287	104.06	58	32.9
Tajikistan	0.308	82.94	46	51.2
Turkmenistan	0.307	102.26	57	35.0
Uzbekistan	0.304	91.29	51	43.6
All USSR	0.289	158.83	89	11.0

¹ The Gini coefficient is a summary measure of inequality. 0.00 implies perfect equality where every observation has the same income; 1.00 perfect inequality where the last observation has all the income.

² Monthly per capita gross household income for workers and collective farm workers.

Source: Tables 8.4 and U13, Atkinson and Micklewright, 1992.

Table 3.2: Poverty Indicators, 2001 (2002, 2003)

	Poverty headcount below the national poverty line, % of population	GINI Index
Armenia	50.9 (2001)	36.22 (2001)
Azerbaijan	49.6 (2001)	36.50 (2001)
Georgia	52.1 (2002)	36.90 (2001)
Belarus	30.5 (2002)	30.66 (2001)
Moldova	62.4 (2001)	36.18 (2001)
Ukraine	19.5 (2003)	28.28 (2002)

Source: WB-WDI database

Table 3.3: Absolute poverty rates in relation to national subsistence minima, 2004-2009, in % of population

	2004	2005	2006	2007	2008	2009
Armenia	36.4	29.8	26.5	25.0	23.5	34.1*
Azerbaijan	40.2	29.3	20.8	15.8	13.2	11.0
Georgia		41.4	43.0	46.0	40.4	41.2
<i>Georgia – relative poverty level (60% of median consumption)</i>	<i>24.6</i>	<i>24.0</i>	<i>23.3</i>	<i>21.4</i>	<i>22.1</i>	<i>21.0</i>
Belarus	17.8	12.7	11.1	7.7	6.1	
Moldova	26.5	29.1	30.2	25.8		
Ukraine	13.7	13.2	14.2	14.3	13.2	

Source: SPSI reports Armenia, Azerbaijan, Georgia; WIIW SPSI Synthesis Report

*) In 2009 a new methodology for measuring the absolute poverty rate was introduced in Armenia.

Table 3.4: Access to basic utility services by rural-urban areas, 2008/2009, in % of households

	Armenia (2008)		Azerbaijan (2008)		Georgia (2009)	
	Rural	Urban	Rural	Urban	Rural	Urban
Water Supply	92.4	99.4	46.8	95.5	81.7	98.1
Central Heating	0.7	1.0	0.2	24.3	0.1	1.8
Hot water	n/a	n/a	26.6	75.4	5.8	41.7
Gas supply	n/a	n/a	35.5	87.9	9.9	73.0
Bathroom	n/a	n/a	42.0	86	25.3	82.8
Sewerage	21.3	91.3	n/a	n/a	10.1	86.4

Source: Armenia: NSS 2009, 128-131; SPSI Azerbaijan; Georgia: UNICEF/ISSA, 2009

Due to different sources, comparability between the figures is limited.

Table 3.5: Other poverty Indicators

	Average Share of Food Expenditure, in %	Infant Mortality (per 1000 live births)***
Armenia	51.9 (2008)	21
Azerbaijan	52.8 (2009)*	32
Georgia	53 (2009)**	26

Source for average share of food expenditure: Armenia (NSS, 2009; 85); Azerbaijan: SSC – Budget of Households (www.azstat.org), Georgia: Geostat, web: http://www.geostat.ge/index.php?action=page&p_id=434&lang=eng (accessed on 3 March 2011)

* Azerbaijan: Share of food and non alcoholic expenditure

** Georgia: Share of Food Expenditure in Total Consumption Expenditure of the Population, in %

Source for Infant Mortality: Transmonee 2010;***estimates developed by the Inter-agency Group for Child Mortality Estimation using a methodology described in UNICEF, WHO, WB and UNPD, 2007. The methodology makes use of mortality data from different sources, including vital registration, surveys and censuses. These estimates may differ significantly from the figures derived from vital registration data (Table 3.1), in particular for countries where the registration of deaths and births is incomplete and/or where a definition of 'live birth' different from the one recommended by the WHO is adopted, see also Menchini and Marnie, 2007.

4 Pensions

Pensions in the Southern Caucasus are low and average replacement rates are even lower than those in Belarus, Moldova and Ukraine. The income position of pensioners is a matter of concern throughout the region. Pensions are not sufficient to ensure a decent living, and pensioners are often depending on family support or are obliged to work in order to survive.

The need for pension reforms in the long run is acknowledged widely. All three countries consider strengthening the role of funded pensions. However, in the short run changes in the pension systems are mainly directed increase minimum pensions and reduce poverty among pensioners and it appears that all three countries still have an unfinished reform agenda: Pension reforms have been stalled due to political and economic reasons.

Fertility rates are comparatively high in Azerbaijan, but lower and at the same level as other Eastern Partnership countries in Georgia and Armenia (see chapter 1). There is, however, a remarkable difference in life expectancy, which is considerably higher in the Southern Caucasus than Belarus, Moldova and Ukraine or the Baltic States. This might be a reason why – in contrast to many other CIS countries – the Southern Caucasus countries succeeded in increasing the retirement age. Demographic challenges are considered as main driver of reform. Given the low share of pension expenditures in GDP, however, it is questionable whether the main challenge for the Southern Caucasus in the long run is in fact financial sustainability and or whether the political discourse gives sufficient attention to adequacy of pensions which goes beyond a mere protection against poverty.

4.1 *Historical Background*

Before the split of the Soviet Union, pension systems in Armenia, Azerbaijan and Georgia were designed according to a common „socialist“ model.³⁴ Public pensions generally were pay-as-you-go financed and benefits based on the years of service and the income of the last years before retirement. There were no occupational or private pensions.

Benefit entitlement was characterized by low retirement age: official retirement age for men was 60 years, and for women 55 years. Employees working in so called “hazardous conditions” could retire 5 to 10 years earlier. Pensions were granted after at least 20 years of service for women, 25 years of service for men. Average replacement rates were low and determined by the length of service and the salary during the last 12 months before retirement. Another overall characteristic of the pension systems was the absence of index-linked pensions, leading to a devaluation of pensions over time especially compared to wage development. In addition, typical elements of the socialist pension system were those providing minimum protection – a minimum pension or flat-rate basic amount. In time, because pensions were not index linked, flat-rate elements overlaid the income-related factor so that a significant number of pensioners were drawing the same amount of pension. The amount of the pension was determined more by the year when the person became a pensioner than by the former working career. Pensions of the same age cohorts were characterized by low differentiation.

Although social security systems in socialist countries were employment based, restricted to the working population, the communist obligation to work, resulting in high labour force participation meant that pension systems were characterized by a broad coverage similar to universal schemes

This is why at the beginning of the transition, pensions in former socialist countries were assessed as ‘too low, offered to too many and provided too early’ (Holzmann 1992).

³⁴ For details on the institutional heritage of pension systems in CIS countries see Holzmann (1992) Lindeman et al (2000), Horstmann und Schmähl (2002), Góra et al (2010), Falkingham and Vlachantoni (2010).

After gaining independence in 1991, Azerbaijan, Armenia and Georgia adopted national pension legislation which was basically based on the previous existing law. Due to the conflict between Armenia and Azerbaijan further development of pension legislation was delayed until the mid 90ies and the pension systems in the three countries basically operated on the basis of the common joint heritage.

4.2 Pension system developments since 1995

Significant changes in pension legislation in the three countries did not occur before the mid 90ies. Pension reforms have been initiated in all three countries, taking into account recent and future challenges of ageing societies and the low coverage of the pension system in Armenia and Azerbaijan. While Armenia and Azerbaijan have opted for a diversified pension system which introduces a strengthened link between income and pensions in the PAYG system and an additional funded element, Georgia has chosen a completely different reform path by introducing flat rate tax financed pensions.

This section gives a short outline of main developments in the three countries and further on discusses stakeholders and main drivers of reform in comparative perspective.

Pension system developments in Armenia

The current pension system of Armenia has been basically shaped by legislation enacted in 2002. With a minimum period of 5 years employment, a full pension can be drawn with an employment record of 25 years (men) and 20 years (women). Retirement age was raised to 63 for both, women and men. The pension amount consists of a flat-rate basic part and an individual component based on the length of service, but not on the individual income. Neither the basic part nor the individual parts were indexed regularly. Far reaching exit pathways for early retirement were gradually closed.

For those with an employment record of less than 5 years and reaching the age of 65, a so-called social pension is paid which equals the basic amount. Social pensions are financed entirely out of the state budget.

Since 2008, mandatory social insurance contributions were no longer paid into the extra-budgetary account but integrated into the state budget. Social insurance contributions are of a regressive scale (see for more details chapter 3). The State Social Insurance Fund SIF, formerly responsible for the administration and pay-out of pensions was re-organised and renamed into the State Social Security Service.

Pensions are financed by social contributions. Even if large part of the contribution income is financing pensions, it is also used to finance sickness and maternity leave, work injury and unemployment benefits. Employees pay a rate of 3% of the nominal wage, the employer contribution is of a regressive scale and constitutes of a fixed amount plus a percentage between certain income thresholds. The average total contribution rate is 23%.³⁵

Current pensions in Armenia are low, the average pension amounts to 2/3 (social pension 1/3) of the minimum consumer basket.

In the end of 2008, a pension reform concept was approved by the government. This concept basically consists of two parts. On the one hand, pensions should be lifted to the level of the minimum consumer basket by annual increases. On the other hand, a stronger link between former income and the pension amount should be established through the introduction of a mandatory funded pillar for those of 40 years of age or younger. The individual contribution is planned to be 5% of the individual income and shall be supplemented by a state contribution at the same level. While the concept was approved, the implementation of the new system has been delayed and legislation was only passed in the end of 2010. It was opted to start

³⁵ See for more details chapter 2.

with the implementation of a voluntary private 3rd pillar in 2011, while the mandatory funded part of the pension scheme is envisaged to be launched only in 2014 (SPSI AR, 2011).

Pension system developments in Azerbaijan

Following the pension legislation enacted in 1993 and amended until 1999, eligibility criteria included a minimum insurance period of 20 years (women) and 25 years (men). Retirement age was 62 for men and 57 for women. Early retirement was allowed for many reasons, depending on the number of children, specific workplaces or granted as certain privileges. The pension amount was determined by type and length of employment as well as the previous earnings. The pension formula provided for 60% of the average monthly earnings in the last 2 (or five best) years plus 2% for each year over the minimum employment period. As of 2005, the reference period was extended to 6 years. Pensions were indexed discretionary. Pensions were financed by social insurance contributions made by employers at the level of 27% of the payroll.

In 2001 further development of the pension system was initiated. The minimum pension was increased considerably in 2002. However, intentions to increase the retirement age failed. Further changes in the first half of the decade concentrated on administrative reforms. The State Social Protection Fund took over the administration of pension payments and started to establish individual accounts for the insured. This was linked to a comprehensive technical modernisation of regional and local offices and equipment purchases mainly financed by World Bank loans.

In 2006, the calculation of the pension formula changed. Today, the pension amount is composed of a basic part and an insurance part which is determined by notional capital on the individual insurance account. The basic part was considerably increased in 2006 from € 22 to € 66 and is fixed by presidential decree.

The total contribution rate for social protection was reduced to 25%, of which 22% is paid by the employer and 3% by the employee. Half of this 25% contribution rate (12.5%) is channelled to the notional defined individual account of the insured person. The NDC account is credited with a notional increase each year equal to the consumer price index. The pension is calculated by dividing the notional account balance by average life expectancy, currently, the notional capital is divided by 144, i.e. further life expectancy at retirement age is estimated at 12 years.

Although it was envisaged to calculate the insurance part of the pension according to the new pension concept as of 2006, actual implementation started only in 2010. The funded part of the new pension system seems to be delayed in implementation (SPSI Azerbaijan).

Pension system developments in Georgia

The Georgian pension system was changed in 1995 and turned into a flat rate pension system. In 1996, the retirement age was increased rather exceptionally by 5 years in one go to 65 for men and 60 for women without any transition period. Eligibility for pensions was based on an employment record of 25 years (men) and 20 years (women). The pension was a fixed amount and not linked to the length of service or the previous income. The pension amount was low; from 2004 onwards the amount was increased in order to close the gap between the pension and the subsistence minimum. In 2006, the minimum period of membership in the system was cancelled and since then, pensions have been exclusively residence-based. In 2007, an increment for the length of service between 2.5% and 13% of the flat rate amount has been introduced and linked pension payments at least partly again to the length of employment.

Pensions were financed out of the unified social tax with 31% of the payroll to be paid by employer and 2% by the employee. In the context of comprehensive tax reforms starting in 2005 the social tax was reduced to 20% initially and merged with a flat rate income tax (formerly 12%) to a unified flat rate tax of 25%.

The State Unified Social Insurance Fund, who was in charge of paying out pensions was abolished in 2007 and pension administration was taken over by the newly established social service agency, merging the payments of social assistance and pensions (SPSI Georgia, 6)

Today, pensions in Georgia consist of a residence based flat rate pension with a length of service increment and currently there are no political debates to introduce changes in the pension system.

Stakeholders and main drivers of reform

The main drivers of pension reform identified in the SPSI studies are national governments.

In the case of Azerbaijan, the State Social Protection Fund has also played an important role in particular with regard to the modernisation of administration of the pension system, which is considered in the country as an important pre-condition for implementing further reforms. In Armenia and Georgia however, the detached pension administration institutions established at an earlier stage had been dissolved. Pensions in both countries are financed directly out of the state budget. By this, the financial autonomy of the social insurance institutions have been limited and the administration have been more closely linked to the government.

In many transition countries, the administrative structure of pension systems has been a matter of concern during the transition phase. More independent and self-governed social insurance have been, on the one hand, considered as an important element of a continental “Bismarck” model of social insurance. On the other hand, these institutions have been partly also considered as powerful actors in the reform process with their own political agenda, partly reflected in strong resistance to introduce systemic changes. (Horstmann and Schmähl 2002). In essence, however, the role of social insurance administration as actors and drivers of reform in the three countries of southern Caucasus seems to be limited compared to some Central- and Eastern European countries such as e.g. Poland, the Czech or Slovak Republic.

National actors representing pensioners’ interests (parties, NGOs) seem to be of little influence in all three countries.

Pension reforms in transition economies have attracted – given their budgetary impact – high attention by international donors, in particular the IMF and the World Bank. So far, their direct influence in shaping pension reform in the regions has been nevertheless rather limited. Loans linked to pension reform in all three countries were smaller than in e.g. Romania, Bulgaria, Lithuania or Latvia and classified as support to parametric reforms (World Bank, 2006). Nevertheless, the social policy discourse in the region was – similar to the discourse in Central and Eastern European countries - influenced by the no longer wanted paternalistic socialist overall responsibility of the state, by challenges of poverty, unemployment and demographic ageing. Nevertheless, experiences in Central and Eastern Europe demonstrated that the introduction of funded pensions against the background of an already existing pension system with broad coverage was more difficult than in certain Latin American countries and connected with rather high transition costs. Thus, actual developments in Central and Eastern European countries led to the introduction of smaller mandatory funded systems, sometimes connected with a shift to a notional defined contribution system in the pay-as-go pillar, as in e.g. Latvia or Poland. The situation in the former CIS countries lags behind. These countries as well have to take care of existing pension claims of the former system and a systemic change would also have to consider transition costs, but a second important factor to was - and still is - the insufficient development of capital markets as an important pre-condition to introduce funded pensions.. In Armenia, Azerbaijan and Georgia, the degree of financial intermediation (see chapter 1) is rather low and might be also an important reason why funded pension implementation in the region remains rather a theoretical discourse. Armenia and Azerbaijan both have opted for an introduction of funded elements, but implementation lags behind. The recent economic and financial crisis did even deteriorate the situation and increased awareness of the risks associated with funded pensions.

4.3 Main challenges and conclusions

Adequacy

Pensions in the three countries in Southern Caucasus are low compared to earnings of the working population. The large share of working pensioners suggests that many pensioners are forced to work after retirement (see also section 1.4 on labour market participation by age group). Replacement rates in the mid 90ies were low and amounted to 24% (Armenia); 29% (Azerbaijan) and 36% (Georgia). For comparison, average replacement rates were at around 40% in Belarus and Ukraine (Castello Branco 1996, 10). The share of pension expenditures in GDP in Azerbaijan in 1997/1998 was less than the half of that of Moldova or Ukraine (Lindeman et. al 2000). In 2005, despite the economic growth experienced after 2000, replacement rates further declined. After that, replacement rates in particular in Azerbaijan started to increase and as of 2009, they stood at 34% in Azerbaijan and 14% in Georgia and at 22.7% in Armenia (see Figure 1).

In all three countries, pensions were not able to protect pensioners from poverty during the transition. Today, only in Azerbaijan average pensions are above the official poverty level, as they have been considerably increased between 2004 and 2008 (see figure 4.2).

Average pension payments were only at about 50% of the poverty line in Armenia 2006. Pension increases in 2008 and 2009 aimed at closing the gap between the minimum consumer basket and the average pension, which reached around 70% of the minimum consumer basket in 2009. However, the financial crisis put strain on public budgets and since 2009 further planned increases of pensions were stopped.

In Georgia, pensions were increased substantially between 2004 and 2009 and the gap between the subsistence minimum and the average pension was narrowed, still, however, the average pension in 2009 only reaches less than 80 per cent of the official subsistence minimum.

In summary, compared to a number of other CEE countries where pensioners were rather well protected during the transition phase, the relation of pensions to average wage and national official poverty thresholds in Southern Caucasus illustrate that pensioners are in a weak position. Nevertheless, pension increase in particular since 2004 and 2005 have been increases in real terms which were addressed to close the gap between poverty line and pensions. In all three countries pension increases have been carried out ad hoc and were not linked to higher pension claims of new pensioners. Thus the income position of pensioners is very much determined by (and vulnerable to) governmental ad hoc decision than by systemic changes in the pension scheme. The lack of adequacy of pensions is an unsolved issue and is reflected in a comparatively low share of pension expenditures in GDP in all countries. While pension adequacy is considered in the reform concept outlined for Armenia, the envisaged pension reform in Azerbaijan and the current system in Georgia leaves many open question with regard to the future income situation of pensioners. This in particular refers to the pensions of women. Currently, pensions are more or less the same for men and women, but the gender pay gap is high. Armenia and Azerbaijan consider implementing pension reforms which link pensions to a larger extent to previous earnings. Given the income difference and lower retirement age for women in Azerbaijan, the impact of pension reforms on women needs to be considered in particular. Against the background of pension schemes which refer strongly to previous lifetime earnings lower retirement ages for women will result in lower pensions.

Given the high incidence of poverty among pensioners one important aspect when assessing the adequacy of pensions is access of pensioners to health care. In all three countries access to health care is limited and the share of private co-payments is high in international comparison. The Georgian study emphasizes that health status and poverty are related in many ways. Furthermore, the need for health care often increases with age. With regard to long-term care for the elderly, a social service infrastructure to support those elderly in need of care seems to be largely absent and the only form of social support for pensioners

appears to be the disability pension. Thus, pensioners are dependent on informal family support in case they are in need of long term care.

Even if pensions are not the only income source in old age, it is unlikely that large part of the elderly in the southern Caucasus can draw on substantial other income source apart from support from their family members and subsistence farming. Thus it will be important that the achievements of recent years in raising the pension level will be secured and pensions are further brought above the poverty level.

Financial Sustainability

In 2007, the share of pension expenditures in GDP has been around 3% in all countries (see Table 4.1).³⁶ This share is considerably lower than in Belarus (9%), Moldova (7%) or Ukraine (14%). Currently, pension expenditures do not represent a considerable burden on public finances.

However, the region is confronted with ageing populations due to declining fertility and emigration (see chapter 1). The old age dependency ratio in the Caucasus is expected to increase from 13.8 (2008) to 23.8 (2030). In particular Georgia will experience a dramatic increase in the old-age dependency ratio and will reach an old-age dependency ratio in 2030 close to the EU average. This will put strain on the financial sustainability of the pension systems, even if replacement rates and the overall share in pension expenditures is low.

What seems to be even worse is the high level of informality of the labour market and low coverage which results in much higher system dependency ratios, a matter of concern throughout the region since more than a decade (Castello Branco 1996, 18). Non-registered work and weak contribution collection threatens financial sustainability of the pension system in the short and medium term. Currently, only 40% of the labour force is covered by the pension system in Armenia. Payroll tax revenues in Armenia, Azerbaijan and Georgia in the share of GDP were considerably lower than in other CIS countries and amounted to around 2% of GDP in Armenia and Azerbaijan and even only around 1% in Georgia. In comparison, in Belarus and Ukraine they were estimated to be at around 10% (Castello Branco 1996, 12).

Thus, the future financial sustainability is a considered as a particular challenge in the region and pension reforms have responded to aging societies by increasing the retirement age and the intention to introduce funded elements in the pension system. The challenge of the informal sector and a consequently weak contribution base is acknowledged and there are attempts to increase formality by lowering taxes and social contributions or, for example, a simplified registration procedures for self-employed. Georgia has opted for a tax financed pension system and has considerably lowered income taxes, resulting in a universal coverage of the pension system. It remains to be seen whether policies to increase coverage in Armenia and Azerbaijan will succeed in higher coverage rates.

Employment of the elderly, early retirement and increase of retirement

Pensioners in all three countries are allowed to work while drawing a pension.

The countries studies report that employment of the elderly is rather high, in particular compared to youth employment (see chapter 1). Against the background of the low level of pensions as discussed above, one could assume that pensioners have to rely on additional income from work or subsistence farming while drawing a pension.

All three countries have increased the retirement age in the last decade. Given the low retirement ages in the ex-Soviet countries and the political difficulties to increase the retirement age in many Western, Central and Eastern European countries, this political achievement is rather remarkable (see Table 4.2). The countries of the Southern Caucasus

³⁶ The share increased to 5-6% in 2009. However, this increase is partly to be explained by a shrinking GDP in 2008/2009 and needs to be interpreted cautiously.

addressed the issue of rising the retirement age earlier than e.g. Belarus, Moldova and Ukraine or the Russian Federation.³⁷

The increase of the legal retirement age is considered in Europe as an important signal to extend working lives and to counterbalance the impact of increasing life expectancy and demographic ageing on pension finances. The importance of working longer in the European has just recently been emphasized in the Green paper on pension of the European Commission published in July 2010 (European Commission, 2010).

Nevertheless, an increase in the legal retirement age does not necessarily result in the increase of the effective retirement age, which actually describe the real exit age when people start drawing a pension. This could differ remarkably from the statutory retirement age. One important reason for the difference between effective and statutory retirement age are early exit pathways.

In all three countries of the Southern Caucasus, early retirement options have been comprehensive in the past, often granted as certain privileges or linked to professional groups. These privileges have been abolished in Georgia in 1989, in Armenia the existing schemes of long service pensions and privileged pensions are currently under review.

An important exit pathway in this respect in all three countries is the disability pension. Disability pensions are granted on the basis of certification of a medical commission which is not directly linked to the social protection administration. The disability status is classified in various degrees and the level of disability pension is dependent on the degree determined. The system of disability determination is considered as weak with no attention given to the rehabilitation and re-integration of the disabled and vulnerable to corruption (SPSI AR, 2011).

The share of disability pensions is particularly high in Azerbaijan and Armenia (see Table 4.2) On reason for the different share of disability pensions is for sure the level of the disability pension. In Georgia, the disability pension is lower than the basic pension, i.e. persons reaching the retirement age will apply for an old-age pension. The share of disability pensions for persons above retirement age in Georgia is rather small. In Azerbaijan, however the highest disability pension amounts up to € 170 (200 manats) and is considerably higher than average and minimum pension. Consequently, a considerable number of pensioners draw a disability pension.. In Armenia, the level of disability pension is between 100 and 140% of the basic pension.

The SPSI study Armenia illustratively describes the reasons why the system of disability certification results in an over-proportional share of persons with a disability status, as it provides incentives for an early withdrawal from the labour market, is not focused on rehabilitation and re-integration of disabled persons and, further to that, vulnerable to corruption. Similar issues are raised in the SPSI study Azerbaijan.

Thus, in order to bring statutory and effective exit age closer together, it seems that the system of disability pensions needs to be reviewed with regard to its incentives and targeting mechanisms while providing disability pensions to those in real need.

³⁷ See de Castello Branco (1996, 14) for an overview of retirement ages in 1996.

References

Chawla, Mukesh, Gordon Betcherman and Arup Banerji et. al. (2007): From Red to Gray: The “Third Transition” of Aging Populations in Eastern Europe and the Former Soviet Union. Washington, DC: The World Bank.

De Castello Branco, Marta: Pension reforms in the Baltics, Russia, and other Countries of the Former Soviet Union (BRO). International Monetary Fund, Working Paper WB/98/11, 1998.

European Commission (2010): Towards adequate, sustainable and safe European pension systems. Green paper.

<http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=839&furtherNews=yes>

Falkingham, Jane, Vlachantoni, Athina (2010): Pensions and social protection in Central Asia and South Caucasus: developments in the post-Soviet era. <http://www.southampton.ac.uk/ageing/docs/papers/CRA%20DP%201002.pdf>, (accessed on 18 March 2011)

Góra, Marek; Oleksandr Rohozynsky and Oxana V. Sinyavskaya (2010): Pension Reform Options for Russia and Ukraine: A Critical Analysis of Available Options and Their Expected Outcomes, CASE Network Report No. 91.

Gugushvili, Alexi (2009): Political Economy of old-age pension reforms in Georgia. *Caucasian review of international affairs*, VOL. 3 (4) – autumn 2009

Holzmann, Robert (1992), ‘Social policy in transition from plan to market’, *Journal of Public Policy*, 12, 1–35.

Horstmann, Sabine und Schmähl, Winfried eds (2002): Transformation of pension systems in Central and Eastern Europe. Cheltenham, Edward Elgar.

Lindeman, David, Rutkowski, Michal and Sluchynskyy, Oleksiy (2000): The evolution of pensions systems in Eastern Europe and Central Asia: Opportunities, constraints, dilemmas and emerging practices. Washington DC. The World Bank.. [http://lnweb90.worldbank.org/eca/eca.nsf/Attachments/The+Evolution+of+Pension+Systems+in+Eastern+Europe+and+Central+Asia/\\$File/Prague-pensions.pdf](http://lnweb90.worldbank.org/eca/eca.nsf/Attachments/The+Evolution+of+Pension+Systems+in+Eastern+Europe+and+Central+Asia/$File/Prague-pensions.pdf)

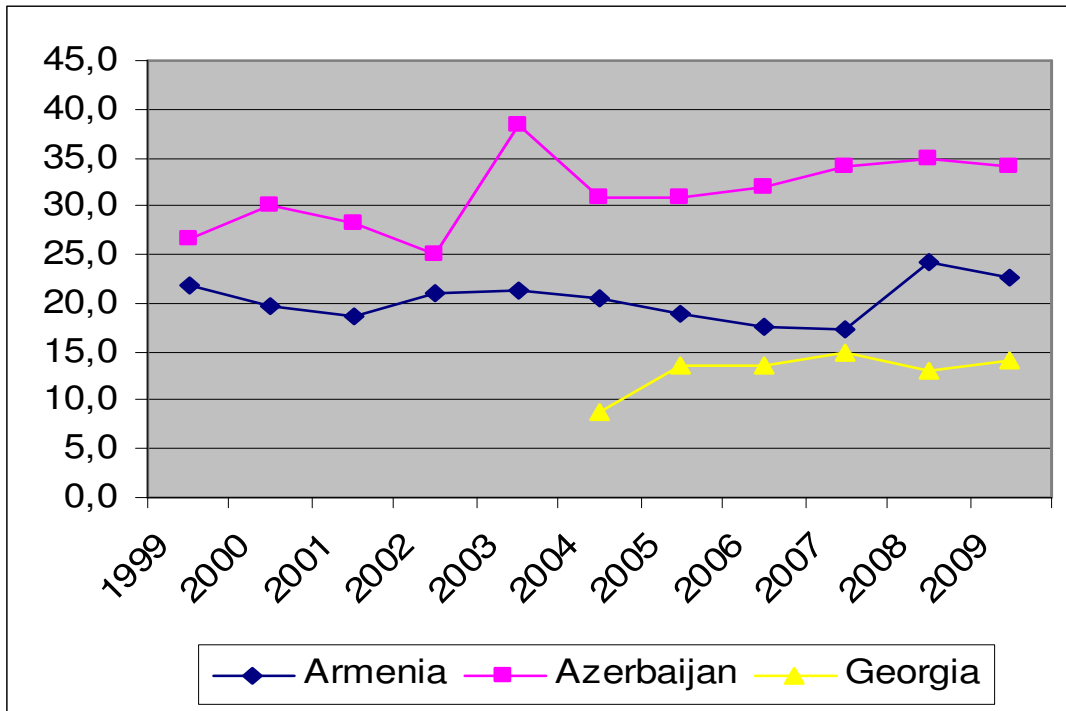
Independent evaluation group – World Bank (2006): Pension reform and the development of pension systems. An evaluation of World Bank assistance. Washington, D.C.

MISSCEO 2005 and MISSCEO 2006;

http://www.coe.int/t/dg3/socialpolicies/socialsecurity/MISSCEO/tables_en.asp#2007

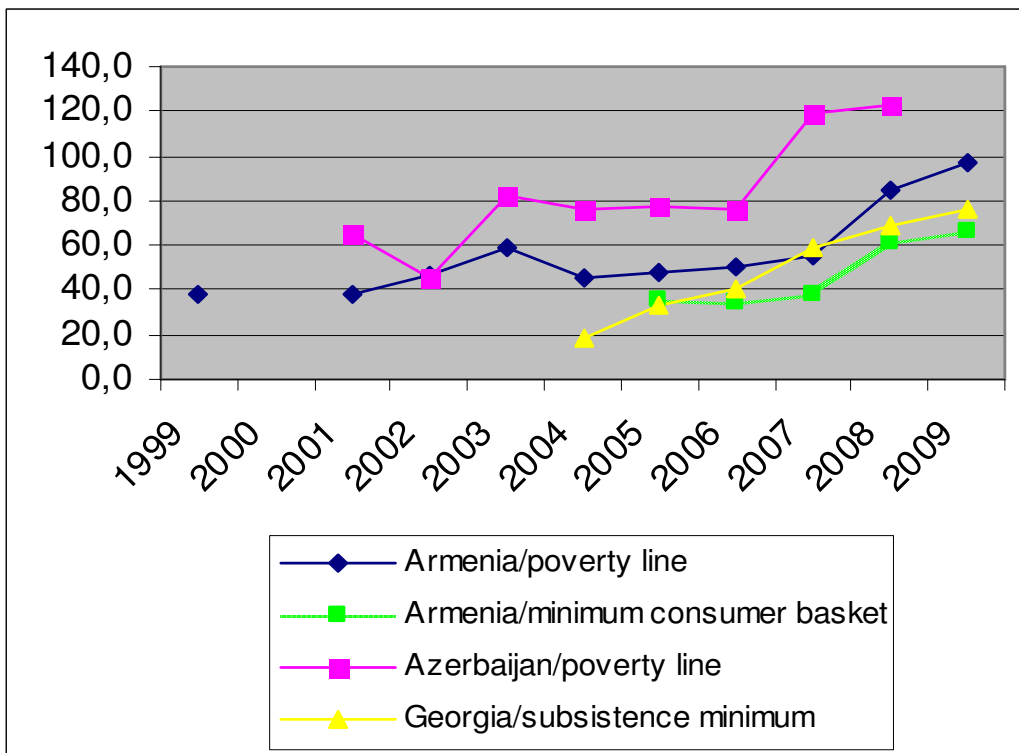
Figures and Tables

Figure 4.1 Average pension in relation to average wage, 1999-2009, in %



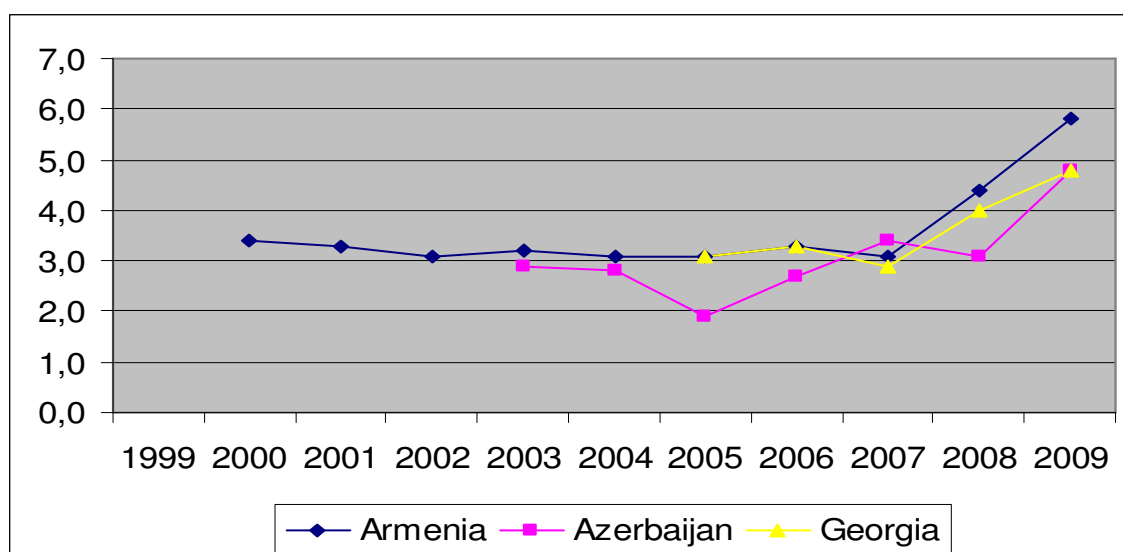
Source: SPSI studies Armenia, Azerbaijan, Georgia 2011

Figure 4.2: Average pension in relation to poverty line/minimum consumer basket/subsistence minimum, 2001-2009, in %



Source: SPSI studies Armenia, Azerbaijan, Georgia 2011

Figure 4.3: Pension expenditures in % of GDP



Source: SPSI studies Armenia, Azerbaijan, Georgia 2011

Table 4.1. Retirement age in the region/Baltic States

Country	Retirement age 2010 (women/men)	Retirement age after 2020 (women/men)
Armenia	63	63
Azerbaijan	57/60	60/63
Georgia	60/65	60/65
Belarus	55/60	55/60
Moldova	57/62	57/62
Ukraine	55/60	55/60
Estonia	63/61	65
Latvia	62	62
Lithuania	62	65

Source: SPSI studies, SPSI synthesis report on Belarus, Moldova and Ukraine, EU Green paper on pensions, technical Annex, asisp annual report 2010 Estonia (www.socialprotection.eu)

Table 4.2: Share of disability pensions in all pensions (old-age and disability), in %, 2009

	Old age pensions	Disability Pensions
Armenia	69	24
Azerbaijan	73	27
Georgia	83	17

Source: SPSI studies

5 Health

Armenia, Azerbaijan and Georgia look back to system and institutional uniformity in regard to their health care systems before 1990. Economic and political collapse partly accompanied by violent conflicts with a dramatic gross domestic product (GDP) fall after achieving independence had serious consequences in already poor state of health of the respective countries' populations.

The course of institutional changes in the health sector differs significantly. While Armenia and Azerbaijan follow a more or less similar course of public financed health care system at least for a part of services, Georgia struck a new path following a nearly totally privatised health care system with national insurance coverage only for the poorest part of the population.

However, the health care system in the Caucasus countries of Armenia, Azerbaijan and Georgia is not considered to have high priority in the allocation of funds across the various sectors of the state budget. Only a small share of the state budget is foreseen for public health care expenditure leading to out-of-pocket payments, both formal and informal. This form of health care funding constitutes now a considerable part of the total health care expenditure in all three countries, leaving access to health care services restricted to particular social strata, and to the general populace, only once acute treatment is indispensable.

The present chapter provides a comparative analysis on health and long-term care systems in Armenia, Azerbaijan and Georgia, including a review of both the adequacy and quality of health and long-term care services, and access to these services. The demographic changes these countries are faced with, as well as policy goals and economic developments reflected in reforms so far undertaken and ongoing in health care systems, are analysed to assess sustainability of the reform strategies followed.

The main challenges for the coming years will be to improve population equity and access to health and long-term care services, to improve quality of care and to incorporate best practice in health care delivery, as well as to reduce out-of-pocket payments.

5.1 Historical Background

Overview on common Soviet legacies

Between 1921 and 1991 the health care system in all three Caucasus countries was organised according to the Soviet Semashko system. The guiding principle of this system was access to universal and free medical services at primary, secondary and tertiary levels of care for the entire population. This tax-financed system was an integral part of the centrally planned state economy system with centralised five-year and annual planning of resources and personnel.

The main role of the Ministries of Health of Armenia, Azerbaijan and Georgia was to administer centrally planned policies. Only some micro-management responsibilities not relevant to any policy making and reporting to central authorities were delegated from the top of the vertical hierarchy in Moscow to the relevant Ministries of the Soviet Republics.

Financing of the system was administered at the central level. The budget allocated for health care financing was not linked to any preconditions such as quality assurance, performance assessment and improving health indicators. The only indicators considered relevant were infrastructure and quantity.

The Soviet government operated this extensive health care system at relatively low share of public expenditure on health at GDP. Already during the Soviet era out of pocket payments by patients was common. However, it was not considered to be a barrier to accessing health care due to its low rate. Health spending in the mid-1980s consisting of low levels of budget

funding and low out of pocket payments was only about 4% of GDP in the USSR (Feeley, 2003; 5). Expanded physical capacity, oversupply of health personnel, unequal allocation of resources and overcapacity in hospital beds were the result of this input oriented financing system.

In addition, geographical jurisdiction led to disparities and qualitative differences in provision of health services between urban and rural regions. Another issue that caused inequity was existence of parallel health services. The so called system of industrial health care (Golinowska, 2007) was better developed and equipped, and was established for particular industries and certain service providers like railways, military, police and central administration.

Primary Health Care (PHC) was offered in urban regions in special departments of ambulatory-polyclinic facilities. PHC stood in the shadow of inpatient services, and secondary and specialised care generally. Main investments and developments were undertaken in the hospital sector that also disproportionately engaged most health care workers.

However, while the health system was at least effective after World War II (Golinowska, 2007) in the control of communicable diseases, its insufficient flexibility and weak primary health care and health promotion made it impossible to cope with and control the increasing burden of non-communicable disease (Chanturidze 2009).

At the time of the collapse of the Soviet Union, the Soviet Republics of Armenia, Azerbaijan and Georgia inherited a sector that was already defined long before as non-productive. To that effect, medical facilities and equipment were outdated, health care workers and hospital beds were oversupplied and outpatient services were underutilised while inpatient services were overused.

Reforms undertaken during transition went more or less in the same direction in all post Soviet countries: decentralisation and at least partial privatisation of health care services, introduction of new models for health care financing, hospital downsizing and strengthening primary health care services were the main reform efforts followed.

5.2 Health system developments since 1995³⁸

Development of health care systems in Armenia, Azerbaijan and Georgia followed different dynamics and tendencies. An overview of the current health care systems in all three countries is given below:

Health system developments in Armenia

Health care reforms in Armenia achieved their full range starting in 1996 as the law on medical aid and services to the population was adopted. This law prepared the ground for minimising financial support of the state and, since independence, the prevailing system of alternative funding including out-of-pocket payments (Hakobyan, 2006). In addition to legislative regulations, the health care system in Armenia is based on constitutional regulations. According to the Constitution of 1995, the state has the obligation to ensure health care and to contribute to effective and affordable medical services for the population.

The reform limited the responsibility of the Ministry of Health and transferred the financial responsibility for the provision of statutory health services from the central government to regional governments. The Ministry of Health is today only in charge of regulatory functions and is no longer responsible for planning, regulation, financing and operation of all health services. Its main role comprises developing and implementing national health care policies. It is responsible for development and implementation of strategies, national health standards

³⁸ The overview of health care system developments in this chapter is mainly based on the SPSI country reports and relevant literature of the European Observatory and WHO. Relevant legal acts in the health care field have been also reviewed.

and quality measures. Furthermore, it drafts government-supported programmes and monitors their implementation and outcomes. Regional and community administrations and health institutions cooperate with the Ministry of Health in performance of these tasks (Hakobyan, 2006).

Public health services are decentralised and divided into national, regional and community administrative levels with a growing tendency for the importance and role of the regional level. Provision of primary and secondary health care services is under the responsibility of regional and communal governments. The Ministry of Health remains responsible for tertiary care hospitals as well as State Hygiene and Anti-Epidemic Inspection services, while most hospitals and polyclinics are under the responsibility of governments at regional level (Hakobyan, 2006).

According to the SPSI country report of Armenia, primary health care services and specialised services provided at the ambulatory polyclinics are defined under the Basic Benefit Package. The BBP is offered free of charge and covers hygienic anti epidemic services, health care for children, socially vulnerable groups, communicable and non-communicable disease control and the emergency health care program. However, as the list of (vulnerable) people entitled to the BBP gets longer each year, the money and, accordingly, the services available to each individual decrease.

Except for the groups of population and services covered by the BBP, all other health services are to be purchased by patients.

Secondary health care is provided in municipal and regional hospitals, health centres, maternity homes and dispensaries. The hospital merging decree (2003) secured reduction of overcapacity of hospitals and a coordinated administration of the services without duplication and overlapping. In contrary, tertiary, highly specialized care is provided mainly in the capital in specialised single-purpose facilities (hospitals, health centres) with a major focus on complex technologies (Hakobyan, 2006)

Long term care

Long-term medical care services in Armenia are extremely limited and the private sector is not involved in provision of these services (Hovhannisyan, 2001). According to the old Semashko system long term care was provided in hospitals instead of nursing or care homes. The structure remains unchanged in Armenia. According to the SPSI country report, there were 7 social service organizations for aged and disabled people and 12 orphanages for children in 2008 in Armenia. Benefits for these facilities are provided by branches of social security.

Due to limited infrastructure, most patients requiring long term care stay in general hospitals. Free health care services are provided for all disabled persons. Disabled children and adults of the first and the second groups are provided with medicine free of charge, while disabled persons of the third group are provided with medicine at a 50 % discount.

However, lack of information on state funded services on the one hand and on provision of long term care in hospitals make assessment of access and quality impossible.

Health system developments in Azerbaijan

New legislative acts to reform the health care system in Azerbaijan have been introduced since 1993, after a major evaluation of the system undertaken by the government. The legal framework constructing the scope of the health care system was adopted in 1995 by Article 41 of the constitution (Holley, 2004; 57).

Provision of health care services in Azerbaijan is divided between the Ministry of Health and local authorities. The Ministry of Health is responsible for the effective operation of the entire health care system including its planning, regulation and management. Central health institutions and few facilities such as republican hospitals and research institutes are also under the responsibility of the Ministry of Health. The local authorities are responsible for

their own local and rural hospitals, district polyclinics and special dispensaries (Holley, 2004). The district health administrations are accountable to the Ministry of Health in regard to health care delivery, but are financed by funds allocated from the Ministry of Finance via district administrations. This fragmented structure constrains the formal centralised management role of the Ministry of Health making the system rather unwieldy.

Privatization of health care facilities remains limited to pharmaceutical services and dental practices. The Ministry of Health and local administrations own, as before, the majority of health care facilities providing most health care services to the population (Ibrahimov, 2010).

Public health services are provided free of charge to children, students, invalids and pensioners. In addition, around 100 drugs are identified to be provided free of charge by public health facilities. The state funded public health covers also immunization and vaccination in state and municipal medical facilities. Public institutions also provide free medication to certain patients, e.g. those affected by HIV/AIDS, tuberculosis or diabetes (Ibrahimov, 2010). A Basic Benefit Package with state guaranteed services is in preparation and will be fully introduced by the end of 2012 (Ibrahimov, 2010).

Secondary health care consists of both specialised ambulatory services and hospitals providing basic care. According to the SPSI country report, secondary health care facilities are mostly located in the centres of regions. In addition, there is a network of sanatoria providing rehabilitation and post-discharge care. Not different is the situation of tertiary care hospitals in Azerbaijan to other countries which refer to more complex, specialised health services. Tertiary care facilities are, as in other former Soviet countries, located in the capital.

Long term care

Although disabled people do not require any medical consultation they stay in hospitals due to very limited specialised alternatives in Azerbaijan. Long-term care is defined as social care and is provided in both residential facilities and the community, supported by financial benefits and pensions. It is administered by the Ministry of Education, the Ministry of Health, and the Ministry of Labour and Social Protection (Holley, 2004).

Health system developments in Georgia

Georgian health care system underwent two reorganisations during its post Soviet era. The first reform of the health care system in Georgia supported by international donor organisations begun in 1994 (Gamkrelidze, 2002). After the Rose Revolution in 2003 Georgia followed a new path undertaking a radical transformation and major liberalisations including reduction of taxation. With regard to health care the most significant change occasioned by the reform is the opting-out of the solidarity system in general. Changes introduced in health care sector foresaw privatisation in the provision of services and purchasing, liberalisation of regulations as well as minimising supervision. In other words the health care sector was generally marketised (Chanturidze, 2009).

The Ministry of Labour, Health and Social Affairs (MoLHSA) is responsible for overall issues related to health and social affairs. However, there is not much left to regulate and oversee by the MoLHSA, as the health care system is dominated by private actors, market relations on the part of service providers and out of pocket payments on the part of service purchasers. In the process, local authorities lost their main responsibilities as service providers. They are now only responsible for health promotion and in some instances provide disease prevention.

Public health services are addressed and funded by the state health programmes covering prevention, control and surveillance of communicable diseases. Primary health care services are provided mostly in the form of grouped units (polyclinic ambulatory units, hospital polyclinic units) and, a few of them, as separate units registered as limited liability or joint stock companies.

The right to health insurance and free medical aid by provision of services defined as the Basic Benefit Package to the entire population adopted in the constitution of 1994 was

abolished by the new reform. It was introduced in 2007 as a rapid and extensive programme of privatisation of public services, including health care. Only the population deemed to be living below the poverty line³⁹ and some state employees, such as teachers and their families, receive free health insurance within the state funded programme. Vouchers from the state scheme are provided to this group of the population. Most medical care at the primary, secondary and tertiary levels is provided free of charge to people covered by the private insurance (Chanturidze, 2009). In addition, free of charge primary health care services are offered for children aged 0-5, adults aged over 60 with some predefined co-payments^{40 41}. Only 21,3% of Georgians are covered by the national health insurance, leaving a large part of the population score slightly higher than minimum points identified on their own being responsible for purchasing of own private health insurance or making out of pocket payments for health services.

Inpatient care is provided by secondary and tertiary care facilities, general multi-purpose and referral hospitals and specialised hospitals and dispensaries. The hospital development master plan developed and enforced in 2007 regulated both ownership of the facilities to be fully transferred to the private sector, and total hospital sector capacity including geographical accessibility, number of hospital beds, types of services provided and minimum standards for infrastructure and equipment (Chanturidze, 2009).

Privatisation of health care facilities has been ongoing in Georgia since 1995. Almost all pharmacies and dental clinics were privatised in the first two years after introduction of the first health reforms. The current privatisation programme enforced in 2007 foresees a full privatisation of all hospitals within a three year period (2007 to 2009). The government's plan was to privatise out-patient hospitals and village PHCs, similar to the way in which hospitals were privatised, and to give their personnel privileges in the procurement exercise. However, the recent economic downturn impeded the privatisation of the infrastructure in the PHC sector.

Long term care

Long term and social care are under the responsibility of the Department of Social Policy. Financial coverage of institutions housing intellectual disabled people is given by the MoLHSA. The condition of supplementary special schools for children with intellectual disabilities and orphanages is different as they are financed and administered by the Ministry of Education. (Chanturidze, 2009).

However, as in the other two countries, provision of medium and long term care falls far short in Georgia because both planning and education and training of nurses and long term care personnel are not sufficiently addressed.

5.3 Health status in comparison

The health status of the population in all three countries was traditionally among the best in the former Soviet Union. The short period of decrease of life expectancy in all three countries due to armed conflicts has been steadily improved since 1995 (for example, life expectancy at birth in Azerbaijan from 69.5 in 1995 to 73.8 in 2007).

Also infant and maternal mortality rates have been improved considerably in recent years in all three countries (see also Table 5.1), though infant mortality rate in Georgia needs further

³⁹ Classification was conducted by April 2008 to identify people living below the poverty line (scoring less than 70,000 points on the poverty scale) (Chanturidze, 2009; 92).

⁴⁰ State health programmes fund primary care for children aged 0–5 years (with no co-payment) and hospital care for children aged 0–3 years with a 20% co-payment. For those aged over 60 years, state health programmes also fund emergency and hospital care (with a 20% co-payment), with cardio surgery and cancer treatment funded with a 30% co-payment from the patient (Chanturidze, 2009).

⁴¹ Outpatient pharmaceuticals are not covered under any government-backed scheme and the purchase of pharmaceuticals accounts for more than a third of out-of-pocket expenditure (Chanturidze, 2009b).

serious efforts. It is notable that maternal mortality indicators in Armenia and Azerbaijan are not stable and increase and decrease yearly.

According to the SPSI country reports of Armenia, Azerbaijan and Georgia more similarities in all three countries seem to be in causes of death. The most common causes of death in all three countries are cardiovascular diseases, respiratory diseases, cancers and tumors and accidents. Tuberculosis has remained a wide spread disease. Armenia, Azerbaijan and Georgia belong to the countries with the highest incidence of cases of multidrug-resistant tuberculosis (MDR-TB).

HIV/AIDS cases and new cases of HIV infection are being registered in all three countries. While Azerbaijan registers the lowest AIDS incidences with 0.66 per 100.000 and Armenia 2.57 (both Armenia and Azerbaijan have some 4 HIV incidence per 100.000), Georgia seems to have both the highest AIDS (5.29 AIDS incidence per 100.000) and HIV incidences (7.98 HIV incidence per 100.000). Males constitute a major part of the total number of HIV cases. All three countries have established centres for early detection and treatment of the disease (WHO Regional Office for Europe, 2008).

According to the SPSI Azerbaijan report, alcohol consumption in Azerbaijan is disproportionately high in comparison to both other Caucasian countries and countries with similar cultural background. According to WHO, the per capita alcohol consumption of adults in Azerbaijan is 3 times higher than in Georgia and Armenia (WHO Regional Office for Europe, 2008).

In regard to health system performance indicators, all three countries show a low outpatient contact rate (see also Table 5.2 Outpatient Contacts and Inpatient Care Admissions). The underdeveloped status of primary health care has its roots in Soviet era. Primary health care services provide still, in most cases, poor quality; are rather poorly equipped; and engage inappropriate personnel. To avoid two visits and payments first to a generalist and then to a specialist, most patients pass over this level of care and self refer to secondary or tertiary services as the first contact point. In general, consultation of medical services is often delayed or even forgone, and purchasing of medicines is not in all cases affordable due to financial barriers.

5.4 Financing

Armenia, Azerbaijan and Georgia have undertaken health financing reforms to diversify revenues for the health care sector. Though Armenia, Azerbaijan and Georgia shared many of years of common tradition, they experienced varied developments during the last two decades.

While Armenia and Azerbaijan followed the solidarity approach in provision of health services, Georgia moved away from this approach and opted out of a social security system. As a result, except for the most vulnerable parts of the population, everybody relies on the limited benefits package as defined by the state health programmes and out of pocket payments for purchasing health care services.

The health care systems in all three countries are financed by the state budget (general tax revenues), private funds and international/donor help, while private out of pocket payments for health services and pharmaceuticals dominate in all of them. Only a very small percentage of the population purchases private health insurance.

As noted previously, out of pocket payments play a considerable part in purchasing health care services. As the relevant data from 2006 show (see also Table 5.3), they account for approximately 50 to 70 percent of the total health expenditure in Armenia, Azerbaijan and Georgia. Gotsadze, Zoidze and Rukhadze call the situation in Georgia (in an article of the same title) “household catastrophic health expenditure” (Gotsadze, 2009). The report also states that “while during 2000–2007 access to care for the poor improved slightly, the share of households that face catastrophic health expenditure have seemingly increased” (Gotsadze, 2009). According to the WHO data on out of pocket payment as percentage of

total health expenditure (see also Table 5.3) Armenians pay with 51.5% the lowest share of total health expenditure among their both Caucasian neighbours. This is while Moldova with almost the same rate (51.9%) is ranked as the highest in comparison to Ukraine with 40.1% and Belarus with only 17.1%. According to the very same data Georgia has the highest out of pocket payment on health with 72.1% which also mirrors its recently privatised system of health provision and financing.

Public health care expenditure has been slowly but surely increasing to different extents in all three countries. While public health care expenditure as a percentage of GDP increased from 1.0% in 2000 to 1.3% of GDP in Armenia in December 2009, in Georgia it fell back twice in 2003/2004 to 1.3% and in 2007 to 1.5% after a relative increase in 2005 and 2006 to 1.7% and 1.8% (see also Table 5.4). Budgetary allocation for health seems to be the least changed in Azerbaijan having the lowest rate among its neighbouring South Caucasian countries. Ibrahimov (2010) estimates its rate as approximately 1% which is because of both by far higher rate of public expenditure on health during the Soviet era and economic growth of Azerbaijan extreme small. However, allocated funds to cover publicly provided health services and its slight increase between 2000 and 2008 in the case of Armenia and Georgia (there are almost no considerable changes in Azerbaijan) confirm limited efforts and prioritisations of all three countries across the various sectors of the state budget. This is even more obvious if public health expenditure of countries like Moldova, Belarus and Ukraine is paralleled, with almost doubling of public health expenditure in Moldova during the last decade, composing 5.4% of the GDP in 2008 (see also Table 5.4).

While total health expenditure has been decreasing since 2000 in Armenia and Azerbaijan⁴², it has been increasing in Georgia (except for 2007), reaching more than double the total health expenditure of Armenia and Azerbaijan in 2008. This increase (8.7%) though is in monetary terms and does not mean an increased public expenditure on health in Georgia (see also Table 5.5 Total Health Expenditure as % of Gross Domestic Product (GDP)). It is relatively high by international comparison, the EU-12 reaching 6.4% in 2009 (WHO Regional Office for Europe, 2009).

5.5 Personnel in the health sector

Even during the Soviet period Georgia faced an over capacity of physicians of almost 5.0 physicians per 1000 population, the Soviet average being 4.0 physicians per 1000 population in 1990 (see also Figure 5.1). Up to their moderate reduction in 2008, the number of physicians followed an up and down pattern in Georgia. In contrary in 1990, Armenia had a small deficit, with 3.8 physicians per 1000, being under the Soviet average (4.0 physicians per 1000 population). With 3.9 physicians per 1000 population Azerbaijan was in line with the Soviet average of 4.0 physicians (WHO Regional Office for Europe, 2009).

Despite reduction of number of physicians since the early part of the new century, Georgia has still a large number of physicians (4.6). Different is the situation in Belarus where the number of physicians has been increased from less than 3 physicians per 1000 population in 1980 to 4.8 in 2007 (see also Figure 5.1). Reduction of the number of physicians seems to have been best met in Armenia, reaching the EU-15 average of 3.4 physicians per 1000 population in 2006. Azerbaijan's gradual reduction has stabilised at 3.8 physicians per 1000 population since 2000, which is equal to the CIS average (WHO Regional Office for Europe, 2009).

The large increase in the number of physicians in Georgia was due to changes in the state education system in 1991. In 2004, there were four state and 69 private higher education institutions with approximately 15,000 medical students, in comparison with about 600-800 students before 1991, as there was then only one higher education medical institution in Tbilisi (OPM, 2007). Following an accreditation process from 2006 onwards, the number of

⁴² According to the SPSI country report of Azerbaijan, health care expenditure in Azerbaijan takes up the lowest share in total health expenditure among all post-Soviet and post-Communist countries.

higher education medical institutions decreased to 34 in 2006 (Chanturidze, 2009). Also in 2006, the Ministry of Education introduced unified national university entry exams. Depending on examination results, the successful candidates are granted scholarships by the state, covering all, 75% or half of the cost of study. (Chanturidze, 2009).

Medical education in Azerbaijan requires six years of undergraduate training and is provided only by the Azerbaijan Medical University. Unlicensed private medical schools which appeared from the late 1990s were closed by the Ministry of Education by 2005. Around 1020 medical students study annually in Azerbaijan (Ibrahimov, 2010).

According to the SPSI country report on Armenia, medical education is offered by both state and private universities while the absolute majority prefers the state higher education institutes. State scholarships available for the state universities are available only for a small number of students, cover mainly tuition fees and make very little payouts to students. The number of students in higher education (health care and sport) massively increased in 2006/2007 and dropped to its lowest level in 2008/2009 with 1179 students.

Regarding nurse numbers, Armenia lagged far behind Azerbaijan and Georgia as well as many former communist countries during the entire Soviet era. Similar to the over capacity of physicians, Georgia had the most nurses (more than 1000 nurses per 100000 population) till beginning of the nineties (see also Figure 5.2). It has seen a dramatic reduction in the number of nurses per capita since independence. It had 10.4 nurses per 1000 population in 1990, which was disproportionately higher than in Armenia, with 7 nurses, and Azerbaijan with 9.7 nurses per 1000 population (WHO Regional Office for Europe, 2009).

Nursing was one of the public sector areas with very low payments during the economic downturn in 1990s, resulting in a significant loss of the nursing workforce. This fact is best demonstrated in the case of Georgia, where the number of nurses fell back (from 10.4 nurses per 1000 population in 1990) to 5.0 nurses in 2000 and to 3.8 nurses in 2007. Reduction of nurses in Armenia continued until 2003 with 4.2 nurses per 1000 population and seems to be stable since then. The decrease in the number of nurses in Azerbaijan was halted in the early 2000s and is stable with 7.3 nurses to 1000 population in 2007 (WHO Regional Office for Europe, 2009).

Nurses in Armenia are trained at medical colleges; in Azerbaijan in nursing schools; and in Georgia in vocational schools. A nursing higher education school was established in 2006 at the Tbilisi State Medical University. Nurse education in Armenia takes 3 years; in Azerbaijan, depending on specialty profile, between 22 and 30 months; and in Georgia depending on the last class achieved (class 9 or 11) two or three years. Entry to nursing education is from 15/16 years of age. Refresher courses are required in all three countries depending on the specialty.

5.6 Main challenges and conclusion

Access to health services and equity

Out of pocket payments in Armenia, Azerbaijan and Georgia as the principal payment source reduce the affordability and accessibility of health care services for the majority of the population. It seems that “health care is most available to those able to pay out-of-pocket” (Tonoyan, 2004, 9). In fact, private payments are even due in the case of primary, preventive and public health services from targeted groups of the population actually entitled to free of charge health services. As a result many people, particularly the poor and chronically ill, tend to postpone seeking treatment, and often do not have the means to pay for preventive care, either. As already mentioned, due to their social and financial situation pensioners’ and IDPs’ access to health is even more limited.

This fact is reflected in low medical consultation rates. Georgia has one of the lowest annual outpatient and inpatient admission rates in the WHO European Region (see also Table 5.2

and Table 5.6). In the long run, population health in general is affected, perpetuating the cycle of poverty.

Physical access to health facilities for almost the entire population is provided in Armenia, Azerbaijan and Georgia. According to the SPSI country report Georgians have access to a health facility within 30 minutes. The Optimisation Plans of 2008 foresaw a geographical accessibility to primary care facilities with a 15-minute access time in Azerbaijan. Access to health care providers, in particular in secondary and especially tertiary care levels, is due to centralisation in the capitals and in general there is a regional disparity in all countries.

The overall number of hospitals has slightly decreased in all three countries, with a considerably decrease of the number of hospital and acute care hospital beds, mainly in Georgia and Armenia, but also in Azerbaijan (see also Table 5.6). However, it remains unclear if access to health care has been affected due to some hospitals having been closed down.

Indeed, there is a big inequity in access to health care in all three countries. Counteracting inequity in the health care system is therefore another main challenge. Inequity is especially visible in access to services due to differences in provision of health care between urban and rural areas. In addition to rather limited health facilities and services provided in rural areas this facilities are in most cases subject to unequal funding. However, as already mentioned, the biggest barrier in access to health care remains its private funding in form of out of pocket payment. Unequal is also coverage of only a small part of the population by national health insurance funds in the case of Georgia.

Quality in health care

Although some strict regulations to improve the quality of health care services were introduced during the last two decades in Armenia, Azerbaijan and Georgia, there is little demonstrable success. Overall quality of health care in three Caucasian countries has remained low, leaving room for discussion as to whether ensuring minimum standards or focusing on quality measures should be first prioritised.

With the introduction of fundamental changes in 2003, Georgia gave up the regulation of the health care by the state and relied on competition and the market as the motivator in the health sector. The Ministries of Health of Armenia and Azerbaijan are still responsible for development of national health standards and quality measurement, and oversight of their compliance. However, lack of performance assessment and monitoring of compliance of interventions with established standards as well as licensing of medical facilities and certification of medical personnel calls the feasibility of national standards and quality measures into question. The only measure that purchasers focus on seems to be the assessment of financial resource utilisation. It is a similarly situation in regard to quality control of pharmaceuticals available on the market. Required quality control tests were reduced consistently during the last few years.

It is obvious that the main reasons for low quality in health care provision are still insufficient medical education of health staff and poorly equipped facilities. Lack of new methods of human resources management through motivation of medical personnel to provide the best possible quality care, make creation of any approaches to quality management redundant.

As a conclusion, during the last two decades, Armenia, Azerbaijan and Georgia have undertaken steps to improve the health care systems, though the course chosen by Georgia differs significantly from the Armenian and Azerbaijani approaches.

All three countries still have to deal with severe underinvestment in secondary and tertiary health care sectors which results in accelerating decay of buildings and obsolete equipment. There is still a long way to go to achieve acceptability for the family doctor model acting as gatekeeper of further levels of care.

The big share of out-of-pocket payments as a poverty trap throws the relevant constitutional principles of universal access to health care services and equity into question. An

appropriate measure to reduce the incidence of out-of-pocket payments could be raise of salaries of health personnel on the one hand and broadening the circle of services to be provided as Basis Benefit Package and its receivers on the other hand.

In addition, assurance of quality of care goes in hand with strengthening patients' rights. Adaptation of health accreditation systems for service providers, continuous further education for health professionals and application of patients' rights in case of medical errors would ensure quality in health care.

Also demographic issues are to be addressed here: all three countries face demographic developments, particularly, population ageing. New challenges and requirements will include more expenditure on health and facilities for long term care.

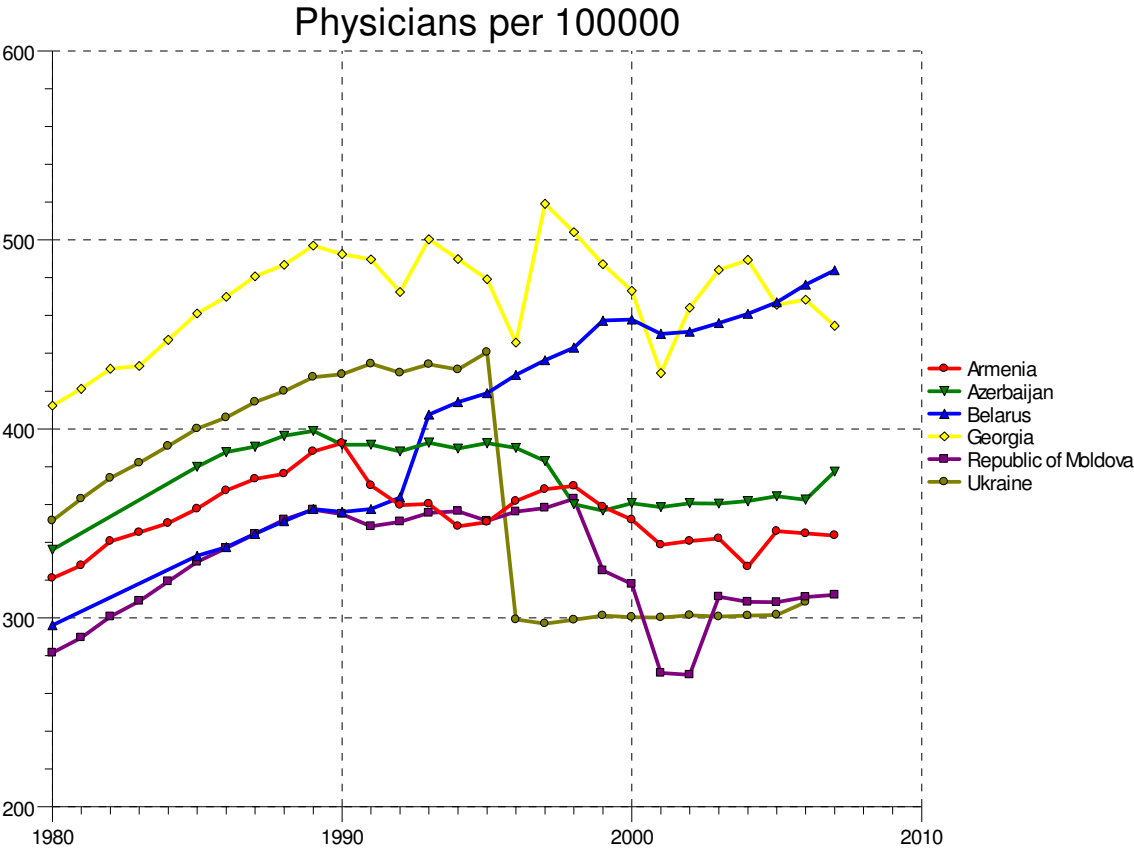
In summary, not only percentage of public health expenditure as proportion to GDP should be increased but also a systematic vision for health care systems including health promotion and public awareness approaches is required to follow reform efforts already underway.

References

- Chanturidze T. (2009): Georgia: Health system review. *Health Systems in Transition*; 11(8):1-116.
- Feeley R., Cashin Ch. (2003): Ensuring access to quality health care in Central Asia; Allocating Funding to the Health Sector: A Review of International Experience.
- Gamkrelidze A. (2002): Health care systems in transition: Georgia, Copenhagen: European Observatory on Health Systems and Policies.
- Gotsadze G., Zoidze A., Rukhadze N. (2009) Household catastrophic health expenditure: evidence from Georgia and its policy implications.
- Golinowskaya S., Sowa, A. (2007): Investing in Health Institutions in Transition Countries, Warsaw: CASE.
- Hakobyan T. (2006): Armenia: Health system review. *Health Systems in Transition*; 8(6): 1–180.
- Holley J. (2004): Health care systems in transition: Azerbaijan, Copenhagen: European Observatory on Health Systems and Policies.
- Hovhannissyan S. (2001): Health care systems in transition: Armenia, Copenhagen: European Observatory on Health Care Systems.
- Ibrahimov F. (2010): Azerbaijan: Health system review. *Health Systems in Transition*, 2010, 12(3):1–117.
- OPM (2007): Introduction to primary health care in Georgia. Georgia: Health Sector Reform Programme.
- Tonoyan T. (2004): Health care system in Armenia: Past, present and prospects.
- WHO Regional Office for Europe (2009): European Health for All Database (HFA-DB), Copenhagen, WHO Regional Office for Europe.

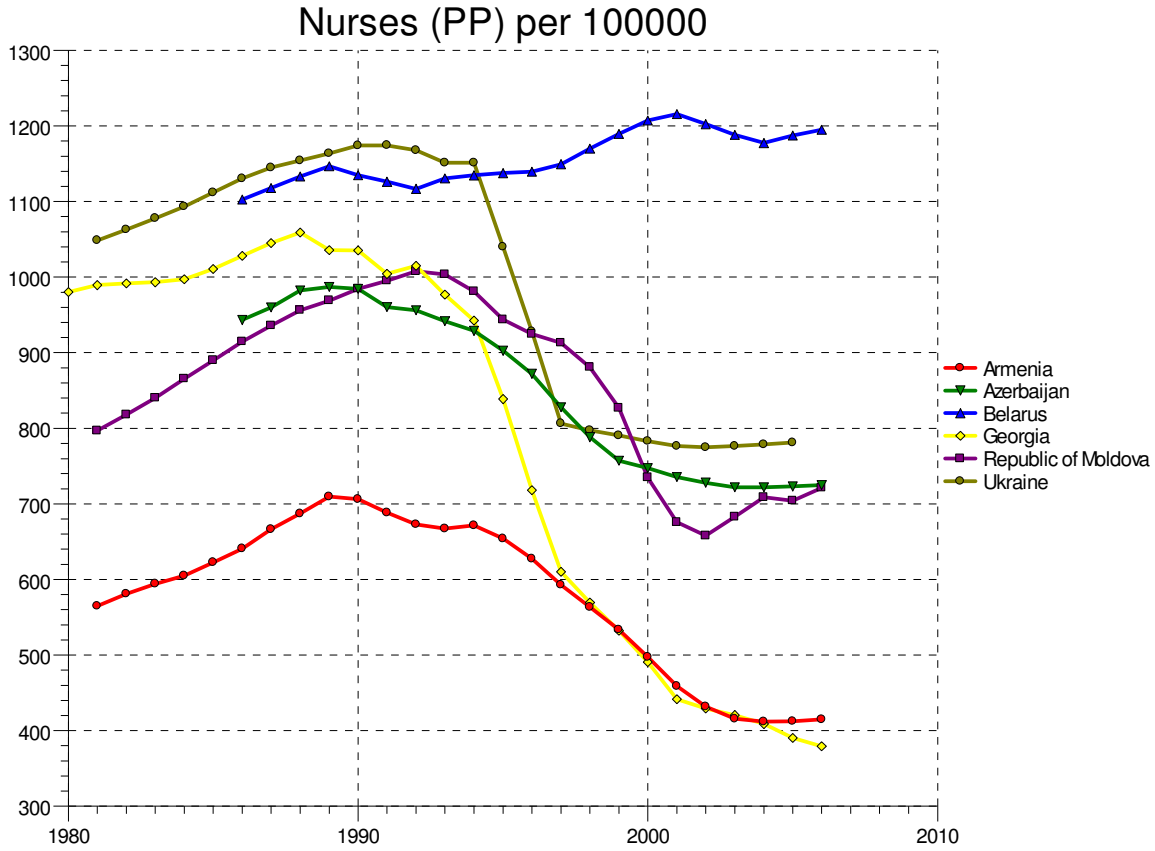
Figures and Tables

Figure 5.1 Physicians per 100000 Population



Source: WHO/Europe Health for All Database.

Figure 5.2 Nurses per 100000 Population



Source: WHO/Europe Health for All Database.

Table 5.1 Infant Mortality Rate and Maternal Mortality

Country		2000	2001	2002	2003	2004	2005	2006	2007	2008
<i>Armenia</i>	Infant Mortality Rate (per 1.000 live births)	15.75	15.5	13.4	11.8			13		10.7
	Maternal Mortality (per 100.000 live births)	72.9	21.8	18.6	22.3	37.3	26.7	32.4	15	38.8
<i>Azerbaijan</i>	Infant Mortality Rate (per 1.000 live births)	12.8	12.5	12.8	12.1	12			9.8	
	Maternal Mortality (per 100.000 live births)	37.6	25.4	19.9	25.8	28.9	34.2	34.9	26.3	
<i>Georgia</i>	Infant Mortality Rate (per 1.000 live births)	22.6	22.9	23.8	24.8	23.8	19.7			
	Maternal Mortality (per 100.000 live births)	49.2	58.7	45.1	49.8	45.3	23.4	23	20.2	14.1
<i>Moldova</i>	Infant Mortality Rate (per 1.000 live births)	18.4	16.4	14.8	14.3	12.1	12.4	11.8	11.3	12.1
	Maternal Mortality (per 100.000 live births)	27.1	43.9	30.8	21.9	23.5	21.2	16	18.4	43.6
<i>Belarus</i>	Infant Mortality Rate (per 1.000 live births)	9.3	9.2	7.8	7.7	6.9	6.3		5.2	
	Maternal Mortality (per 100.000 live births)	24.6	14.2	19.2	23.7	18	15.5	10.3	6.8	2.8
<i>Ukraine</i>	Infant Mortality Rate (per 1.000 live births)	12	11.4	10.3	9.5	9.4	10	9.6		9.9
	Maternal Mortality (per 100.000 live births)	24.7	23.9	21.8	18.9	13.3	17.6	15.2	19.9	15.5

Source: WHO/Europe Health for All Database.

Table 5.2 Outpatient Contacts and Inpatient Care Admissions

Country		2000	2001	2002	2003	2004	2005	2006	2007	2008
<i>Armenia</i>	Outpatient Contacts (per person per year)	2.1	1.8	2	2.1	2.1	2.4	2.8	3	3.2
	Inpatient Care Admissions per 100	6	5.8	6.1	6.9	7.3	7.9	8.3	8.8	9.5
<i>Azerbaijan</i>	Outpatient Contacts (per person per year)	5	5	4.5	4.6	4.8	4.6	4.6	4.7	4.6
	Inpatient Care Admissions per 100	4.8	4.9	4.9	4.9	5.4	5.5	5.9	6.2	6.3
<i>Georgia</i>	Outpatient Contacts (per person per year)	1.4	1.5	1.6	1.8	2	2.1	2.2	1.9	2.1
	Inpatient Care Admissions per 100	4.6	4.6	4.9	5	5.5	5.9	6.2	6.5	7.2

Source: WHO/Europe Health for All Database

Table 5.3 Out of pocket payment on health (2006)

Indicator	Armenia	Azerbaijan	Georgia	Moldova	Belarus	Ukraine
Out-of-pocket payment on health (% of total health expenditure)	51.5	67.6	72.1	51.9	17.1	40.1

Source: WHO/Europe Health for All Database.

Table 5.4 Public Health Expenditure as % of GDP

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008
<i>Armenia</i>	1.1	1.6	1.4	1.5	1.9	1.8	1.9	2.1	1.6
<i>Azerbaijan</i>	0.9	0.8	0.8	0.8	1	0.9	0.9	1	0.9
<i>Georgia</i>	1.2	1.4	1.4	1.3	1.3	1.7	1.8	1.5	1.8
<i>Moldova</i>	2.9	3	3.3	3.5	4.2	4.2	4.4	5.2	5.4
<i>Belarus</i>	4.9	5	4.7	4.8	4.6	5	4.8	4.9	4.9
<i>Ukraine</i>	2.9	3.1	3.5	4	3.9	3.8	3.9	4	3.8

Source: WHO/Europe Health for All Database.

Table 5.5 Total Health Expenditure as % of Gross Domestic Product (GDP), WHO Estimates

Country		2000	2001	2002	2003	2004	2005	2006	2007	2008
<i>Armenia</i>	Total Health Expenditure as % of GDP	6.4	6.7	5.6	5.8	5.8	5.4	4.7	4.4	3.8
	Public Health Expenditure as % of Total Health Exp.	17.7	23.7	24.4	26.2	31.6	32.9	41.2	47.3	43.7
<i>Azerbaijan</i>	Total Health Expenditure as % of GDP	4.8	4.6	4.7	4.2	4.1	4.3	3.9	3.7	3.6
	Public Health Expenditure as % of Total Health Exp.	18.1	18.6	16.9	19.9	24.8	20.6	22.4	26.8	24
<i>Georgia</i>	Total Health Expenditure as % of GDP	7.4	7.8	8.7	8.5	8.5	8.6	8.4	8.2	8.7
	Public Health Expenditure as % of Total Health Exp.	16.7	17.9	16.3	15	15.4	19.5	21.6	18.4	20.7
<i>Moldova</i>	Total Health Expenditure as % of GDP	5.9	6.1	6.4	6.8	7.8	8.4	9.4	10.3	10.7
	Public Health Expenditure as % of Total Health Exp.	50.3	48.7	51.8	51	54.3	49.9	46.9	50.8	50.5
<i>Belarus</i>	Total Health Expenditure as % of GDP	6.4	6.9	6.6	6.5	6.2	6.6	6.4	6.5	6.5
	Public Health Expenditure as % of Total Health Exp.	76.6	72.6	71.1	73.7	73.4	75.8	75.3	74.9	75.3
<i>Ukraine</i>	Total Health Expenditure as % of GDP	5.9	6.1	6.4	6.8	7.8	8.4	9.4	10.3	10.7
	Public Health Expenditure as % of Total Health Exp.	48.9	54.5	56.3	58.2	58.4	55.2	56.8	57.6	56.1

Source: WHO/Europe Health for All Database.

Table 5.6 Dynamics of Change in the Number of Hospital Beds

YRS	Hospital beds per 100000					Acute care hospital beds per 100000				
	Armenia	Azerbaijan	Georgia	EU (average)	CIS (average)	Armenia	Azerbaijan	Georgia	EU (average)	CIS (average)
1980	839.5	973.9	1017.08	896.16	1243.05	717.5		879.9	602,58	1022.56
1985	869.9	989.7	997.34	862.07	1260.89	770.3		865.6	571.55	1032.18
1990	909.5	1009.9	979.75	808.84	1278.29	825.3		857.5	543.33	1052.18
1995	880.6	1001.8	766.15	693.72	1129.89	797.8	905.7	679.7	484.97	951.99
2000	644.4	868.5	477.1	626.2	939.12	574.8	801.9	434.2	437.61	809.51
2005	446.1	821.1	391.96	572.2	856.01	387.4	752.8	384.3	399.12	723.7
2006	442	805.6	374.15	565.25	850.56	384.4	738.2	343.6	395.28	799.58
2007	406.8	793.3	331.9	564.81	844.82	349.7	725.9	291.5		797.06

Source: WHO European health for all Database (HFA-DB)