

# ARMENIA: SOCIAL PROTECTION AND SOCIAL INCLUSION

COUNTRY REPORT

**European Commission**

Directorate-General for Employment, Social Affairs and Inclusion

Manuscript completed in 2011



European Commission

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**Abstract**

The report “Social Protection and Social Inclusion in Armenia” is prepared within the “Social Protection and Social Inclusion in Southern Caucasus” project initiated by the European Commission, DG Employment, Social Affairs and Equal opportunities, Directorate Social protection and Integration. The report is developed taking into consideration the objectives proposed by the EU under the Open Method of Cooperation. The report attempts to: (i) provide an up-to-date and relevant information and comprehensive analysis on current social protection and healthcare systems; (ii) highlight the key challenges, sources of risks and policy issues; (iii) outline country specific problems; and (iv) link the strategies of sustainable economic growth to social cohesion, equity and equal opportunities for all members of society by assuring adequate, accessible, financially sustainable and efficient social protection system and social inclusion policies.

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# Executive Summary

## Introduction

The report “Social Protection and Social Inclusion in Armenia” is prepared taking into consideration the objectives proposed by the EU under the Open Method of Cooperation. The report attempts to: (i) provide an up-to-date and relevant information and comprehensive analysis on current social protection and healthcare systems; (ii) highlight the key challenges, sources of risks and policy issues; (iii) outline country specific problems; and (iv) link the strategies of sustainable economic growth to social cohesion, equity and equal opportunities for all members of society by assuring adequate, accessible, financially sustainable and efficient social protection system and social inclusion policies.

Armenia’s transition from a centrally planned to a market oriented economic system (formally – starting from 1991) has not gone smoothly because Armenia experienced a series of extra floats that seriously affected the economy. However, starting from the mid 1990-s, Armenia has been one of the fastest-growing transition countries. Moderate but vigorous economic growth in the initial years of the recovery (5% on average during 1994–2001) and double-digit rates annually on average in 2002-2007 (which due to global crisis slowed down to 6.9% in 2008 and has shrunk by 14.2% in 2009) is a result of steady pursuit of the market-oriented reforms. Although the high rate of economic growth for the population means a general increase of income, employment rate and improvement of other macroeconomic indicators, and the poverty reduction during those years was significant (it decreased from 56.1% in 1999 to 34.6% in 2004 and to 28.7% in 2009<sup>1</sup>), the transition link between the growth and employment was weak. Along with the persistent unemployment, which, according to LFS data, comprises around one-fifth of the labor force - a dual labor market with large informal employment-under-employment or subsistence employment was a typical phenomena.

The social protection system of Armenia has improved essentially and plays an important role in providing social support to population and alleviating the extreme poverty. Social assistance is one of the few available tools to protect those who do not benefit from opportunities created by economic growth in the short or medium terms. However, reforms in the social assistance policy are critical in order to achieve sustainable results by establishing not only a large scale cash social assistance system but also active social assistance programs that ensure social inclusion of all. Promoting participation in labor market, for example, will enable fighting poverty and exclusion while providing satisfaction of the basic needs of vulnerable families and contribute towards the poverty reduction.

## Macroeconomic Overview

In the early 1990-s, a sharp rise in unemployment, real wage fall, tax base shrinkage, government suffering from persistent cash shortages generating large external and domestic expenditure arrears, were the factors resulting in a crucial decline in living standards and rising poverty levels that caused a large migration.

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<sup>1</sup> In 2009 the poverty assessment methodology was revised to reflect the changes in composition of minimum consumption basket since 2004 (see Annex 3.1). However, to enable comparison over several years, NSS provided estimations on selected poverty indicators for 2009 based on the previous methodology as well. According to the new methodology the poverty incidence comprised: extremely poor 3.6%, very poor 20.1% and poor 34.1%.

Reforms initiated in the second half of the 1990-s attempted to revitalize the economy. As a result, the economy rebounded at the end of century. However, it was clear that a number of imbalances still constrained the economic growth.

The start of the new century was notable for Armenia because of renewed stabilization and reform efforts. Comprehensive reforms were introduced in fiscal, banking and energy sectors and later aligned with the Poverty Reduction Strategy Program (PRSP), adopted by the Government in August 2003. As a result, the country outperformed other low-income countries and, in 2004, moved from the class of “low income” countries to the class of “middle income” countries.

This report is prepared next to the backdrop of the worst global financial crisis, which has hit Armenia particularly hard. Due to the crisis, the country’s economy has shrunk, poverty and unemployment have risen, and there is a feeling of uncertainty about what to expect and how to move ahead. This is especially because of the common misbehavior that crisis is born and went from the most developed economies with long devotion to market economy, restraints on the public sector, greater efficiency of the private sector, and strong systems of social protection.

The economic growth in Armenia has peculiarities that can be considered as sources of vulnerability of economic performance during shocks. The Armenian economy is described as: (i) narrowly based; (ii) lowly diversified by sectors; (iii) microeconomic biases with low share of small and medium-size enterprises, which would facilitate the entry of new firms and the growth of small enterprises and consequently contribute to faster job creation, employment growth and unemployment reduction; (iv) one in which remittances play an important role in economy and mitigate the impact of the transition on the welfare of households; and (v) an economy in which the share of informal sector is large – according to different analysts’ estimates the shadow economy in 2010 could be equivalent to about 35-40% of total GDP.

The impact of the economic contraction on the poor is accelerated by increasing rates of inflation, which requires continuing strengthening of social protection programs, as well as leaves room for further speeding up of the undergoing reforms in key areas of economic governance, with special focus on domestic economic competition, revenue administration, and further liberalizing trade services.

Currently the Government of RA is implementing social protection reforms; while trying to compensate for the fiscal deterioration the recent reforms promoted by the Government result in rising public debt. This in turn will feed into the view to the activities and policies of financial institutions.

Irrespective of current achievements in public finance management, the country still faces weaknesses that do not allow more efficient and transparent use of public financial resources, thus reducing the outcomes expected from the implementation of state policies. Therefore, the further and deeper reform in the fiscal sector is needed.

## **Labor Market**

Since independence labor market in Armenia have gone through a profound transition affected by a systemic crisis of the economy during early 1990-s, economic and social reforms, and continuous economic growth lasting more than a decade - since the mid 1990-s up to 2008 (before the recent

crisis caused the slowdown followed by the economy's decline). However, real unemployment has persistently remained at double-digit levels and, on average, roughly one out of four economically active people was unemployed. Moreover, about two-thirds of the employed depend on incomes from low-productivity agriculture and trade.

Demographic trends, such as reproductive behavior, migration patterns, along with the situation in labor market, influenced the economic activity rate causing an essential decline during the period of 1991-2009 from 81.4% to 52.3%<sup>2</sup>. The employment structure by sphere of economic activity has been changed significantly as well, and in such a way that it became less diversified and more vulnerable to internal and external shocks. Subsistence agriculture emerged as a key factor mitigating the shocks of transition period, as well as the absence of policies for creating non agricultural jobs. Although the ratio of employed in subsistence agriculture of total employed was still high in 2009 (45.1% or 491.6 thousand people compared to 501.6 thousand in 2004), conditioning higher level of employment in rural versus urban areas. However, those engaged in agriculture are non-registered self-employed farmers with low productivity, paired with seasonality and low pay. Although jobs in the sector are not very promising from the perspective of poverty reduction, they still remain the main source of income for the rural population since the opportunity of non agricultural activity outside of Yerevan city is limited.

Since 1990 the private sector in Armenia has expanded significantly. However, the real job creation in the sector was not sufficient. From the mid to late 1990-s the main factor behind the emergence of private sector in Armenia was privatization. Although over the past few years the private sector has been the main engine for job creation in Armenia, it was not sufficient due to a number of obstacles preventing further business establishment, growth and formal employment in Armenia.

The greatest change since this transition has been the shift, although involuntary, from stable wages and salaried jobs to casual and less-formal jobs and self-employment. Moreover, the main cause of this situation is the lack of alternative employment, especially in rural areas.

Informality is another challenge for Armenian labor market; employment in the informal sector is mostly casual and based on personal and social relations rather than on contractual arrangements. Informal employment is usually low paid, instable and creates challenges for the future as well. People engaged in the sector do not accrue any social protection rights. In the case of unemployment or sickness, any insured pension rights will depend on social pension only, therefore putting an extra burden on a budget.

Self-reported unemployment rate is significantly higher in Armenia than unemployment rates recorded at employment services. Although there has been a noticeable improvement in Armenia's labor market, there still exists a large supply and demand gap. The unemployment rate in Armenia based on LFS 2009 data (using ILO methodology of defining the unemployment) amounted to 18.7% (vs. officially registered 7.0%).

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<sup>2</sup>The indicator is calculated as share of economically active population (establishment survey and administrative data) in total number of labor resources. Source: NSS of RA, Statistical Yearbook of Armenia, 2010, page 53 section on Employment (<http://www.armstat.am/file/doc/99461553.pdf>).

Wages have fallen in Armenia in the early years of transition, and began to rebound beginning in the mid 1990-s. However, wage disparities by types of economic activity and by sectors of economy, as well as the gender pay gap, are significant.

Interventions both outside and within the labor market have significant potential to improve labor market performance in Armenia. In the early 1990-s, the employment policy in Armenia was mainly concentrated on passive measures such as provision of unemployment benefits. Starting from the early 2000-s the main priorities in socio-economic development and poverty reduction were tight with labor market issues and special importance was given to active labor market policies aimed at improving employment and reducing the rate of unemployment with specific focus on structural unemployment. Although the situation in the labor market is conditional to a range of external factors and the function of state employment services (as an agency implementing the state policy) is important (to match available jobs with job seekers), the agency has no direct influence on either labor supply or demand. Still, labor market interventions, in particular Active Labor Market Policies (ALMP), have great potential for improving labor market performance, enhancing labor supply (e.g. through training), increasing labor demand (e.g. through wage subsidies and public works), and improving the labor market mechanisms.

## **Education System**

Reforming the education system and policy issues are important for Armenia as formation of and preserving the human capital serves as an important tool for improving living conditions and escaping poverty. Changes associated with transition have presented the educational system with a number of challenges.

The decline of public resources allocated to education (from 7%-9% of GDP in the late 1980-s through the early 1990-s to 2% in the late 1990-s and 3.5% in 2009), uneven private household expenditure on education across income distribution and households jeopardize the tradition of universal access to education. In addition to inequality of access, the quality of education is becoming unequal as well. Differences in access to good quality education between richer and poorer households and between urban and rural areas are significant.

## **Migration and Remittances**

Armenia is a country with a long history of migration. Both regular and irregular emigration has been and continues to be an important phenomenon affecting the country. Since transition Armenia has experienced few migration streams due to various reasons, but the magnitude of the migration process has been difficult to assess due to lack of reliable statistics. The issue has been a subject of heavy discussions because the procedures for administrative registration of migration do not allow for assessing the accurate size of emigration. The estimates of the real size of migration vary between 800 thousand to 1 million people.

Seasonal labor migration in Armenia as a phenomenon was began in the 1960-s due to differences between socio-economic development of different administrative-territorial units of the country and involved mainly residents of some high mountainous regions that had limited demand for agricultural labor (due to unfavorable climate) and underdeveloped industrial infrastructure. During the 1990-s the migration, whether it was emigration or long-term temporary labor migration for longer periods as

“guest workers” for a few years, had a major impact on the labor supply in Armenia. On one hand it involved some emigration of better-educated, higher-skilled workers to other countries, thus influencing the occupational and professional structure of the labor force.

The direct consequence of labor migration is that remittances from abroad play an important social and economic role in Armenia. Particularly, private remittances from abroad play an essential role in reducing poverty despite the fact that they have declined in the income structure of population.

## **Demographic Trends**

Along with social and economic transition Armenia experienced a continuous decline in population. The negative demographic developments in the 1990-s are explained by natural growth decline, an increase in mortality rate and population migration, leading to a decrease in population and to a significant change in its composition by age.

The demographic trends in Armenia over the recent decades have changed the shape of the age pyramid. Due to changes in the age and sex composition of the population of the country, like many countries in the world, Armenia faces the challenges of aging.

The ethnic composition of Armenia’s population could be considered as homogenous. According to 2001 Census data (data by ethnic groups of population are obtained only through Census) 97.9% of the population are Armenians. Despite the relatively large number of communities of national minorities in Armenia, the number of persons belonging to those communities is small, and this does not enable them to have their own parliamentary representative, even from places of compact residence.

## **Territorial Disparities**

Territorial disparities became a serious obstacle to the economic and social development of Armenia. Since the beginning of the 2000s regional development disparities have been increasing in parallel to the accelerated economic growth, and are mainly reflected in the growth of the economic role and significance of the capital city, Yerevan. Harmonized regional development of Armenia became one of the main priorities as the Government of Armenia announced in its Sustainable Development Program (SDP) program for 2008-2012. The regional development scenario proposed in SDP envisages the implementation of a targeted regional development policy and is aimed at promotion of increased economic growth outside Yerevan.

## **Social Protection System**

The social protection system of Armenia plays an important role in providing social support to the population and alleviating the extreme poverty. Moreover, the social protection policy is aimed at managing social risks by the state via prevention, reduction, and regulation.

The functions of the state system of social protection are clearly defined, based on which, corresponding programs are provided for vulnerable population groups. These programs include: (i) state social assistance programs; (ii) social security programs; (iii) social protection programs; (iv) state social insurance programs; (v) employment programs; (vi) a system of allowances. In general, the social protection system in Armenia can be divided into social insurance and social assistance.

Social protection in Armenia is administered by the Ministry of Labor and Social Issues (MLSI) that is responsible for policy-making and implementation in all branches of the labor and social protection system except health care.

The social protection system up to 2008 was funded by the state budget (social assistance, social welfare services, and military retirement benefits) and by the Social Insurance Fund (labor or insured pensions, unemployment and sick leave benefits). Beginning in January 2008 the SIF was reorganized into the State Social Security Service (SSSS), and all social protection programs are financed directly from state budget, although there exist contributory and non-contributory based benefits and services. Total public spending on social protection comprised 6.0% of the GDP in 2008 and 7.9% in 2009. There exist out-of-budget international donors' participation in different social assistance programs, however it is not included in data provided in this paper. Although the total amount of expenditure on social protection from the state budget increased 4.1 times in 2009 compared to 2001, the huge share of social protection expenditure (86-87%) is allocated to finance both social and insured (labor) pension provisions and poverty family benefits. The remaining small share of public finance for social protection obviously is hardly enough to assure other efficient and qualified social protection programs. Moreover, the share of spending on pensions grew. The share of spending on pension provision has increased from 54.1% in 1999 to 72.9% in 2009. Thus, the issue of financial sustainability of the social protection system, particularly the current pension system, is the matter of great concern.

The most important and costly social insurance benefits are pensions, unemployment insurance coverage, maternity coverage, and childcare benefits for children under 2 years old. Although the amounts of these benefits have trended upwards, their average size is still low compared to EU member states and some former Soviet Union countries.

The system of state allowances in Armenia was established in Soviet times by introducing a law on the "Allowances for Children from Less Secure Families" and since independence has undergone many modifications. In 1997, the new procedures were established to provide monetary compensation to certain groups of the population defined by the legislation, rather than based on privileges (as it was during the Soviet times). The Family Benefit (FB) was introduced in January 1999 only, and a major shift took place from "the categorical oriented to socially deserving members of society" system to a system focusing on protecting the poor. Previously, there existed 26 small, uncoordinated categories of cash benefits, allocated on the individual level, that were replaced by the FB system based on proxy means-tested targeting mechanism. FB administration and targeting efficiency play a critical role while assessing the impact of the program. Therefore the further improvement is another matter of concern.

As for social services, they are being provided separately through state and non-state run facilities and steps are being taken to shift to providing services as a package. These services are aimed at satisfying the social needs of individuals representing separate vulnerable population groups in case of eligibility. Today, one of priorities of social assistance policies in Armenia is the transition from merely cash and non-cash aids to delivering comprehensive social services in packages. The packages of social services are supposed to be designed as social services deriving from needs of the clients and are to be based on a needs assessment (e.g. for disabled based on data of developed individual rehabilitation programs). The equity in access of social services provided, and assurance of equity in quality remains an important and high priority issue for Armenia.

## Poverty and Social Inclusion

Thanks to sustainable economic development, as well as the measures undertaken to ensure growth of public resources directed to the social policy and increase of its purposefulness, there has been a significant reduction in poverty and extreme poverty in Armenia. Between 2004 and 2008 more than 350,000 people were able to move out of poverty. The percentage of poor dropped from 34.6% in 2004 to 23.5% in 2008. Extreme poverty declined even faster - from 6.4% in 2004 to 3.1% in 2008. As for the income inequality, it, measured by Gini coefficient, has declined slightly - from 0.395 in 2004 to 0.389 in 2008 (according to 2009 methodology Gini coefficient was 0.339 for 2008 and 0.355 for 2009). In the 1990-s and early 2000-s income inequality in Armenia was among the highest for transition countries with similar per capita income levels.

However, the economic crisis seriously affected Armenia's economic growth and the poverty reduction achieved during the above mentioned period. The crisis has had a serious impact on poverty incidence – according to the new methodology it comprised 34.1% in 2009 compared to 27.6% in 2008.<sup>3</sup>

The income inequality in the late 1990-s was much higher than the consumption inequality, which was indicating that the population polarization in Armenia was deeper in income distribution as compared to consumption. The series of 2004-2008 household surveys prove that this trend was preserved: in 2009 the income inequality was at 0.355 while the consumption inequality was much lower – 0.257.

Poverty incidence varies essentially across marzes (Armenia is administratively divided into 10 regions - marzes, and Yerevan). The ILCS data proves that the impact of the economic growth on the poverty reduction in marzes has been disproportional. The poverty incidence is higher in bordering regions, in regions with unfavorable conditions for agriculture (especially with small share of irrigated agriculture land), and in marzes with predominantly urban population. However, while overall between 2004 and 2008 the poverty and the extreme poverty showed the trend of declining in all marzes and in Yerevan city, in 2009 there was registered increase in poverty in all marzes but with different speed.

From the vulnerability perspective households headed by females, larger households with 2 or more children, households headed by unemployed or with unemployed adults, as well as elderly, disabled and people without education or professional skills, are at the highest risk. Thus, education is one of the important factors along with health status determining the level of household vulnerability. Dynamics of poverty reduction shows that the poverty reduction among people 16 years and older with higher and middle vocational education was faster: between 1999 and 2008 that reduction comprised 4 times for those with higher education and 3 times –for those with middle vocational education, respectively.

Households having a sick member are more likely to perceive themselves as poorer compared to similar households with no sick members. These perceptions objectively reflect the accessibility and quality of the services actually received. Health services in Armenia are expensive and costs are mostly born by households themselves.

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<sup>3</sup> The new 2009 methodology is applied.

As the causes of poverty are linked to economic, political, and social transformations, national policies targeting the poverty reduction are concentrated on economic development with a focus on increasing the access of poor groups of the population to education, health, social protection and the labor market are the key sectors in which the level of social inclusion and inequality need to be defeated.

## **Pension System**

The current pension system provides old age, disability and survivorship, privileged and social benefits on a Pay-As-You-Go (PAYG) basis. The pension age for both insured men and women is 63, and 65 for social pensions. The current pension formula based on length of service is not linked to wages. The contribution rate to the public social security system is 3% of wages for employees. Employers pay from 21 to 28% of payroll (or 23% on average), based on a regressive scale. The agricultural sector, formally almost half of the economically active population, is by law not required to contribute to the social insurance system.

The pension system in Armenia covers more than 20% of population. In 2009, the pensions constituted 5.6% of total state budget expenses, 12.9% of total social expenses (including those on healthcare, education, culture and others) and 72.9% of overall social protection expenses. Despite the essential increase of pensions in 2008, the average pension is still low and in 2009 amounted to 26,056 drams (52 Euro) for the all insured persons and 10,067 drams (20 Euro) for the social pensioners. The replacement rate calculated as a ratio of the national level of average gross pension to average gross wage, in 2009, amounted to 27.3% for insured pensioners and 10.5% - for social pensioners. The average insurance pension is 2/3rd of the minimal consumption basket.

The total number of contributors to the pension system is less than the number of pensioners, in 2008, which means that the effective support ratio of the pension system (the number of contributors divided by the number of pensioners) is less than 1,0. The constantly increasing number of pensioners, comparatively small number of actual contributors to the system, low level of wages, high tax evasion along with continuously worsening demographic situation due to low birth rate, working-age population outflow, and increased life expectancy are increasing fiscal pressure to the current PAYG pension system. Financial non-sustainability of the system and inadequacy of the pensions paid to retirees became crucial issues that appeared in the political agenda of Armenia.

In an effort to improve the fiscally unsound and unsustainable pension system, the Government of Armenia, since 2006, has moved to reform the pension system by exploring a number of reform programs in other countries. After much debate and deliberation, the government finally adopted a pension reform program in November 2008. By October 2009, a legislation package of five draft laws on pension reform was developed by the Pension Reform Implementation Managerial Board (PRIMB) and submitted to the National Assembly for adoption. If this package is enacted in 2010, the Government plans to launch a multi-pillar pension system in the period of 2011-2014, as outlined in the pension reform framework that includes:

- *the pillar '0' or the social pension* - for those people who have not been employed during their life or have been employed less than 10 years or have been employed but in non-formal economy;
- *the pillar '1' or the labor pension* - for employees above 40 years old upon their retirement;

- *the pillar '2' or the mandatory funded pension* - for young people up to 40 years old (40 inclusive) upon their retirement. The funding source of the funded pension is the individual income (the salary), of which 5% will be transferred on the personal pension account, and, meantime, the state will double that amount (will top up another 5%) by making an appropriate transfer from the state budget.
- *the pillar '3' or the voluntary funded pension* - for all those who want to receive supplementary pensions by participating in various funded pension schemes offered by private financial institutions (insurance companies, pension funds, etc.).

Currently, the National Assembly is in the process of a second reading of the pension reform legislation package. At the same time, the Government has adopted the program and time-schedule for implementation of public awareness, public education and civil society participation in the reforming of pension system.

## **Health and Long-Term Care**

After the collapse of the Soviet Union the former Soviet republics, including the Republic of Armenia, inherited the “Semashko model” and a centralized health system. All the Newly Independent States (NIS) had to decide how to deal with their heritage. During the challenging transition process and political and economic development, a law on reform of the health system was adopted in Armenia in 1996. The system was aimed at reducing the financial support of the state. In March 1996, the law “On medical aid and medical services for the population” was adopted by the National Assembly, which abolished the belief that everyone was entitled to free health care and which allowed private out-of-pocket payments.

There was a deterioration of economic and living standards during the transition accompanied by a declining health status of the Armenian population. The general state of health of the Armenian population provides reason for concern. Tuberculosis has remained a widespread disease and the infant mortality rate remains high. The most common causes of death are cardiovascular diseases, cancer, tumor, accidents, and gastro-intestinal diseases. Armenia belongs to the countries with the most incident cases of multidrug-resistant tuberculosis (MDR-TB) (55 new cases per 100 000 per year in 2006). Circulatory diseases are the leading cause of death in Armenia and account for 47% and 53% of all deaths in men and women, correspondingly. Regarding HIV transmission in Armenia, from the beginning of the epidemic 205 death cases have been registered among HIV/AIDS patients (including 35 women and 4 children).

Although maternal and child health in Armenia has improved in recent years, there is a discrepancy between the nationally-reported data, WHO estimated data, and data from various surveys.

The Ministry of Health usually conducts the public regulation. However, the role of the local/municipal (regional) government is becoming constantly more important. Between the mid-1990s and 1998 there took place a shift of financial responsibility for the provision of statutory health services from the central Government to regional governments. Regional/local authorities attained a certain degree of independence from the central Government (e.g. negotiating contracts with regional/local health care providers, monitoring quality and amending regional/local budgets). Since 1996, the responsibility for the provision of primary and secondary care has been transferred to regional and local governments. The Ministry of Health remained responsible for tertiary-level institutions, while most hospitals and

polyclinics are under the responsibility of governments at regional (marz) level. In 1998, the responsibility for some rural outpatient clinics was transferred to governments at the community (village) level.

Health care in Armenia is still largely funded by general tax revenues. The Armenian Government has tried to satisfy needs for medical services and raised the health care budget from 1.0% in 2000 to 1.3% of GDP in December 2009, and is planning a further substantial increase with the objective of reaching 2.2% of the GDP in 2012. However, in comparison to other public expenditures, the level of expenditures for health care remain low.

The insurance industry is not yet well developed in Armenia, so the market itself does not succeed in providing adequate private health insurance. Voluntary private insurance has a limited role and has a supplementary character, which already has a reasonably comprehensive coverage. In Armenia, officially there are five thousand work places in the market of drugs. One of the biggest concerns in the medicine market is their illegal import from abroad.

Unfortunately, the available information on international help for health care is less yielding than other data. It has to be pointed out that international help for medical facilities and private households is of great importance not only because of its financial contribution but also because of its structural implications. Financing of the health care system through use of donors' money is becoming more and more widespread. According to the World Health Statistics, external resources are becoming a major source of health funding in low-income countries as some low-income countries have two thirds of their total health expenditure funded by external resources. This makes predictability of aid an important concern.

One further important problem is the intolerable burden on ecology. In Armenia, there are no means for processing of unused medical supplies. It has been decided to create an enterprise for their processing.

The output and quality of the health care system is highly dependent on the human resources and skills of the personnel working in the health care sector. At first sight it does not seem to be a problem connected with nursing and midwifery personnel in Armenia, but when comparing with other transition countries Armenia lags behind the European average and many former communist countries. By the number of physicians per capita Armenia occupies a place above the average when comparing with the CIS countries. Furthermore, Armenia's indicator is higher by 15% than the average level of WHO European Region. Nevertheless, it should be outlined that medical professionals are overwhelmingly concentrated in the capital city of Yerevan.

The health care provision is designed to allow access for all citizens of Armenia, without any financial, geographic or other barriers to access. However, the apparent disparity in access to health care between the capital Yerevan and other regions remains one of the major problems. Patients living in Yerevan have more opportunities to access the necessary medical care as 68.4% of all physicians work in Yerevan. Health care utilization is low, especially among the poor and those living in rural settlements of Armenia. That is why the national policy prioritizes the increased access to and quality of healthcare services, with an emphasis on increasing such access to basic services across the regions of the country and mitigating the disparities in the rate of utilization of healthcare services across population groups with different income levels.