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SIMPLIFIED BUDGET: SOCIAL PROTECTION 2014

**“ CIVIL SOCIETY PARTICIPATION IN NATIONAL POLICY
DIALOGUE IN ARMENIA”
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ECONOMIC DEVELOPMENT AND RESEARCH CENTER (EDRC)

ABOUT THE INITIATIVE

Economic Development and Research Center (EDRC) is a non-partisan think-tank aimed at analysing and monitoring of public policies and programs. Since 2001, EDRC carried out numerous projects with a special focus to budget analyses in various sectors.

Convinced of the crucial importance of direct interrelation between public programs with programmatic goals, objectives and targets as well as implementation efficiency and public satisfaction regarding these programs, EDRC strives to professionally contribute to policy development processes and discussions.

In collaboration with OXFAM GB, the “Increasing Civil Society Participation in National Policy Dialogue in Armenia” project was launched in 2014. EDRC develops simplified state budgets for Social Protection, Health and Agriculture Sectors, works to increase budget literacy and analytical capacities of Civil Society Organizations and will carry out monitoring and evaluation of budget programs and public policies.

The 2014 Simplified Social Protection Budget is an analytical publication targeting a large audience from various groups of society. It aims to increase awareness and create bases for efficient cooperation between the civil society and public sector and promote more informed discussions and decision-making.

The main source of information used for developing this publication is the RA Annual Budget Law, and also other official documents and data. The 2014 budget data (if not otherwise specified) refers to programmed/projected indicators, while previous years data are actual.

For comments and suggestions please contact EDRC office: info@edrc.am.

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GENERAL OVERVIEW

- 2014 Annual Budget Law of the Republic of Armenia was approved as follows: Revenues – AMD 1,135.9 bln, Expenditures - AMD 1,246.4 bln and budget Deficit – AMD110.5 bln which constitute respectively 24.0%, 26.4% and 2.3% of the GDP.
- 29% of total Budget Expenditures or AMD 362 bln is earmarked for expenditures in Social Protection sector which exceeds the 2013 expenditures by 21.7%. This increase is considerably higher than in the last five years.
- The main policy objective in the Social Protection sector is the considerable reduction of poverty incidence in Armenia and provision of social guarantees to certain groups of population
- In 2014, Social Protection sector budget bases on the increased salaries, social and labour pensions, one-off benefits for childbirth, as well as introduction of new models in pension reforms and employment promotion.
- Social Protection expenditures are the largest functional area of total Budget expenditures. The share of Social Protection expenditures in 2014 increased by 2.8 percentage points compared to 2008, reaching 29%; meanwhile their share in GDP increased by 1.7 percentage points during the same period, reaching 7.7%.
- Social Protection expenditures in Armenia are implemented by 8 budget sections. The largest expenditure direction is “Old age” to which 70% of total Social Protection budget is allocated.
- “Family and Children” and “Social Protection (not elsewhere covered)” sections are also quite large, constituting 15.9% and 8.1% of the total sector budget. “Sickness and Disability”, “Survivors”, “Unemployment” and “Housing” sections have small shares in the total sector budget.
- The absolute increase in Social Protection budget in 2014 equals AMD 64.7 bln and is mostly (by 50%) determined by the necessity to increase social and labour pensions, while by more than a third – by the introduction of mandatory cumulative pension scheme.
- 54.1% of Social Protection budget or AMD 195.7 bln is allocated to Labour pensions which will increase by 17% in 2014. As a consequence, the average monthly labour pension in 2014 will increase by AMD 6,212 and reach AMD 37,558.
- Other pensions will also increase in 2014: average pensions to Military officers and families thereof will grow by AMD 6,738, pensions to soldiers and families thereof – by AMD 1,022, pensions of Judges and other pensions defined by the RA legislation – by AMD 27,020.
- The gap between the real and nominal expenditures in Social Protection is growing: despite the fact that these expenditures in 2014 exceed their 2008 level by 70%, the real increase is 25%.

- Although poverty reduction is a priority for the sector, benefits paid to poor families are not planned to increase in 2014. Expenditures on Family (poverty) benefits in real are below their 2008 level by 6%.
- 2014 Budget will not allow providing more services to vulnerable groups of population than in 2013: increases in care services to single and vulnerable elderly and children, as well as social care programs do not imply any increase in service volumes or beneficiaries; they are mostly determined by increased salaries of service provider staff and increased utility tariffs.
- Starting from 2014 the policy of paying unemployment benefits was cancelled. Instead, the policy targets promoting employment through compensations to employers which hire non-competitive individuals looking for a job in the market, as well as through professional trainings, re-qualification and increased opportunities for internships.
- Allocation to provision of housing or improvement of housing conditions for earthquake-affected families and deceased and disabled military servants will decrease sharply in 2014.

BUDGET ALLOCATIONS TO SOCIAL PROTECTION IN 2014

Social Protection of population is a system of principles, social guarantees and measures defined by the state which ensures satisfaction of needs of individuals and various groups, provision of living and support to active life; it targets the potential risks in the lives of citizens, such as sickness, unemployment, old age, disability, survivors etc.

The system of the **Social Protection** of population includes **Social Security, Social Insurance and Social Assistance**. **Social Security** is a public system of assistance, support and services to the elderly, disabled, as well as destitute families and families with children. **Social Insurance** is a system of cash benefits (transfers) that the government implements based on mandatory payments. The main types of benefits or transfers are unemployment, sickness, pregnancy and childbirth, old age, disability and to survivors of a deceased person. **Social Assistance** programs are intended for more targeted and sample-based support to most vulnerable groups of population that found themselves in difficult situation in their lives.

The main goal of the Social Protection public policy is the significant reduction of poverty incidence in the country and provision of social guarantees to certain groups of population. In order to achieve that goal, large-scale government interventions are implemented in Armenia which exceed the interventions in any other sector.

Total allocations to the Social Protection in 2014 equal AMD 362 bln which is equivalent to 29% of total budget expenditures or 7.7% of GDP. Compared to the previous year, these allocations increased by AMD 64.6 bln or 21.7%.

Table 1. Public Expenditures in Social Protection Sector, 2008-2014

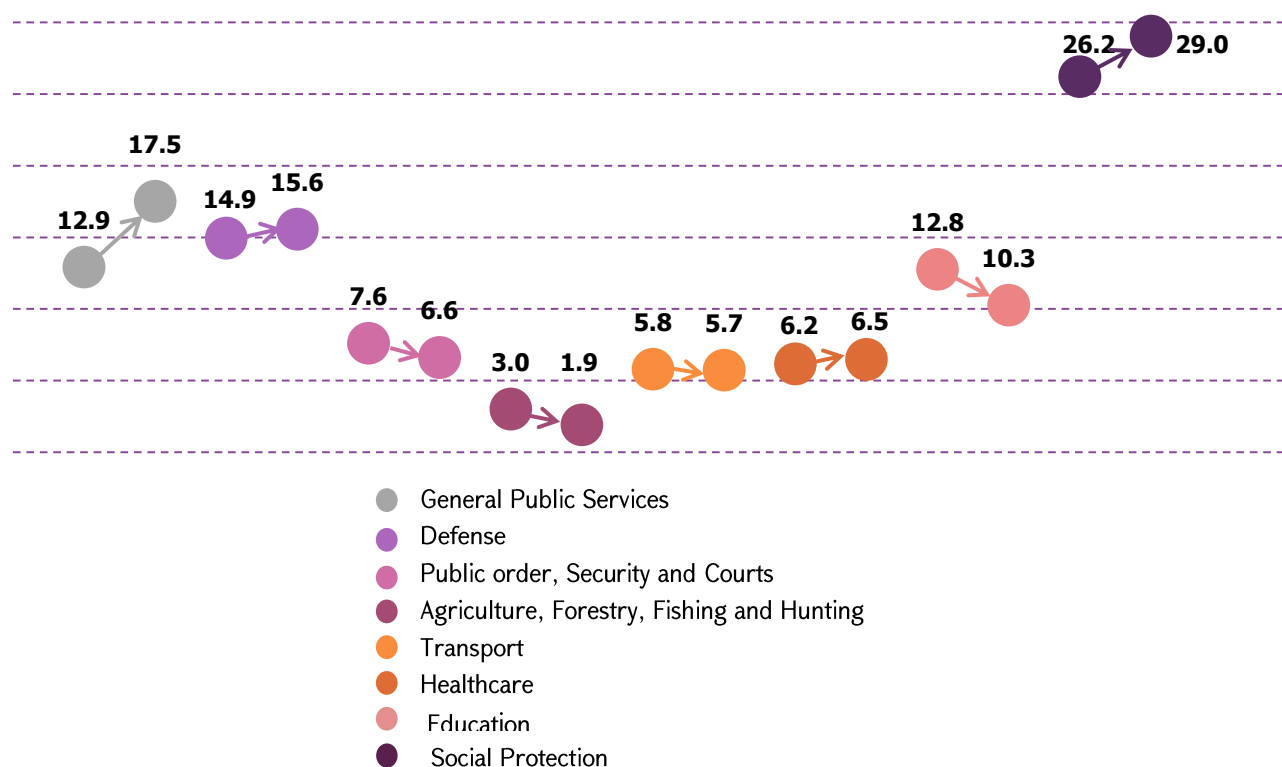
	2008	2009	2010	2011	2012	2013	2014
Increase in Social Protection Budget, %	42.2 ¹	14.6	0.2	4.9	13.9	1.9	21.7
Increase in Total Budget Expenditures, %	27.7	14.6	2.7	3.4	2.0	13.6	9.1
Social Protection Budget in GDP, %	6.0	7.8	7.1	6.8	7.3	7.0	7.7
Total Budget Expenditures in GDP, %	22.7	29.6	27.6	26.1	25.1	26.7	26.4
Social Protection Budget share in Total Budget Expenditures, %	26.2	26.2	25.6	26.0	29.0	26.0	29.0
Social Protection Budget, AMD bln	212.6	243.6	244.2	256.2	291.7	297.4	362.0
Social Protection Budget in 2008 prices, AMD bln	212.6	235.6	218.2	212.6	236.0	227.4	265.4

Source: 2014 Annual Budget Law, 2008-2013 Annual Budget Implementation Reports, 2014 Annual Budget Message, NSS of RA, EDRC calculations

Social Protection is the largest functional area of budget expenditures. As compared to 2008, share of Social Protection expenditures in the total budget expenditures in 2014 increased by 2.8 percentage points, while their share in GDP – by 1.7 percentage points.

¹ Increase recorded in 2008 is calculated compared to the sum of 2007 Social sector budget expenditures and Social Insurance Fund expenditures.

Figure 1. Share of Budget Expenditure Functions in Total Budget Expenditures, 2008 and 2014, %

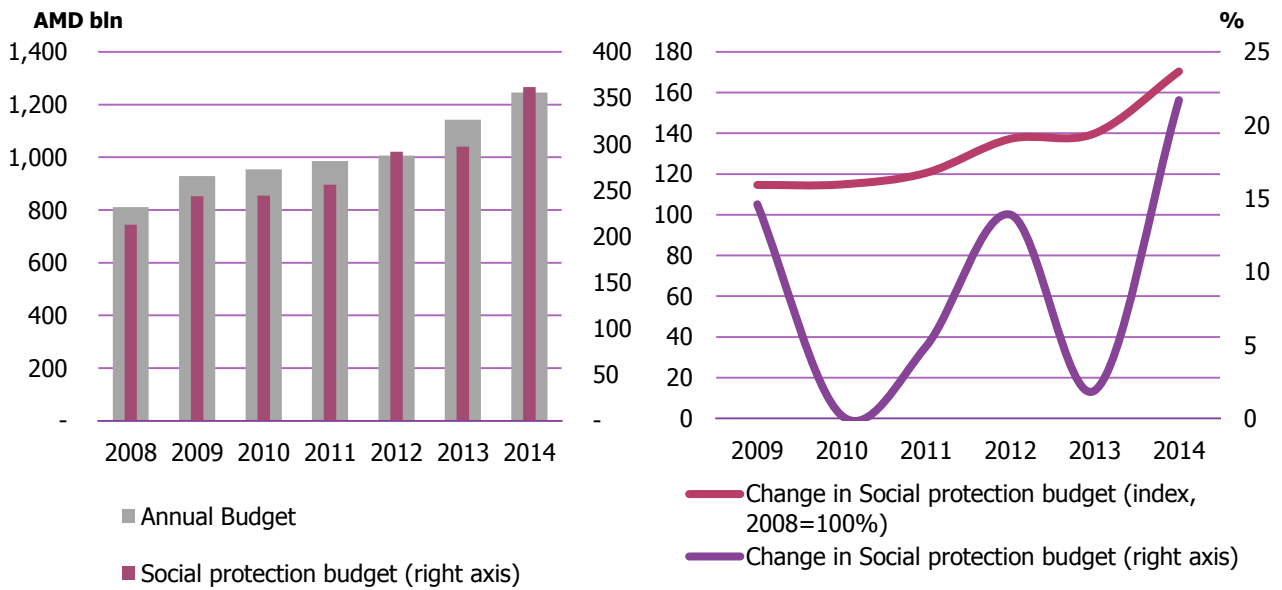


Source: 2014 Annual Budget Law, 2008 Annual Budget Implementation Report, EDRC calculations

Overall, Social Protection financing during 2008-2014 demonstrated an increasing trend, however the growth rate was unstable. 21.7% increase in 2014 was the highest during the past 5 years. The lowest increase was recorded in 2010 - 0.2%.

Figure 2 presents the absolute values and growth rates of total budget expenditures and Social Protection expenditures since 2008. Trend that can be seen is the higher growth rates of Social Protection financing over growth rate of total budget expenditures, together with instable growth rates. Interestingly, in 2009, when Armenian economy was in deep recession, Social Protection expenditures not only did not decline, but even increased. Instead, their growth was close to zero in the next year – 2010. 2013 is also prominent with very low increase in these expenditures.

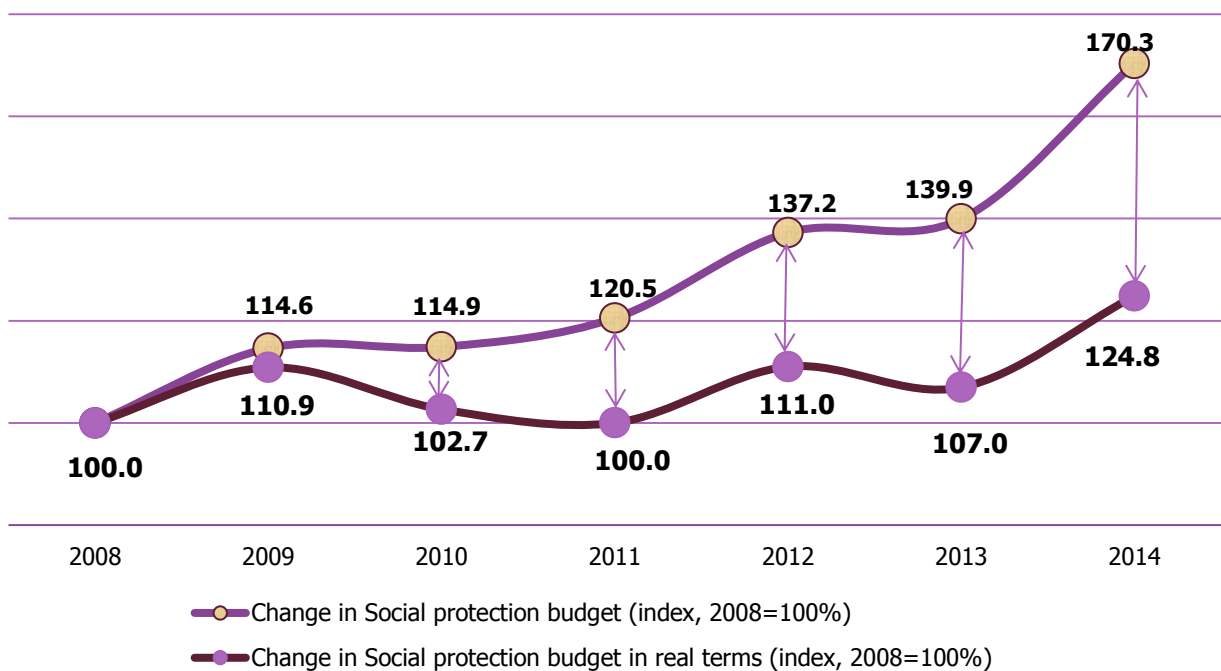
Figure 2. Social Protection Expenditures and Total Budget Expenditures, 2008-2014, AMD bln



Source: 2014 Annual Budget Law, 2008-2013 Annual Budget Implementation Reports, NSS of RA, EDRC calculations

Unlike nominal volumes of public financing of Social Protection sector, increase in real terms was more modest. If 2014 financing of the sector in nominal terms represents an increase of 70.3% over 2008 volumes, increase in real terms (2008 prices) is considerably below and equals to only 24.8%.

Figure 3. Nominal and Real Growth Indices of Public Expenditures in Social Protection, 2008-2014, %



Source: 2014 Annual Budget Law, 2008-2013 Annual Budget Implementation Reports, NSS of RA, EDRC calculations

STRUCTURE OF PUBLIC EXPENDITURES IN SOCIAL PROTECTION

Social Protection sector in Armenia is financed through 8 budget groups²:

- Sickness and Disability
- Old Age
- Survivors
- Family and Children
- Unemployment
- Housing
- Social Exclusion
- Social Protection (not elsewhere covered)

The largest expenditure group in Social Protection is “**Old Age**” which makes up 70.3% of total expenditures in the sector and totals to AMD 254.7 bln.

This group includes services to the elderly: labour and social pensions and benefits, as well as care and social services to the elderly. Financing of this group will increase by 27.4% in 2014, providing for 84.6% of total sector financing increase.

Table 2. Social Protection Expenditure Groups in 2013 and 2014

	Group	Number of Programs	2013 AMD mln	2014		2014/2013, %
				AMD mln	Share in total, %	
1	Sickness and Disability	7	1,217.9	1,271.2	0.4	4.4
2	Old Age	11	199,963.2	254,675.7	70.3	27.4
3	Survivors	2	4,841.0	5,069.4	1.4	4.7
4	Family and Children	21	50,888.1	57,476.0	15.9	12.9
5	Unemployment	14	2,306.7	2,364.5	0.7	2.5
6	Housing	1	2,640.8	500.0	0.1	-81.1
7	Social Exclusion	7	9,517.1	11,222.1	3.1	17.9
8	Social Protection (n.e.c.)	27	26,004.9	29,454.0	8.1	13.3
	Total Social Protection	90	297,397.6	362,033.0	100.0	21.7

Source: 2014 Annual Budget Law, 2013 Annual Budget Implementation Report, EDRC calculations

The next two relatively large expenditure groups are “**Family and Children**” and “**Social Protection (n.e.c.)**”, funding to which increased since 2013 by 12.9% and 13.3% respectively. Their respective shares in total sector financing dropped by 1.2 and 0.6 percentage points.

“Family and Children” group covers care and social services rendered to family members, while “Social Protection (n.e.c.)” mostly covers auxiliary services to Social Protection.

The shares of “Sickness and Disability”, “Unemployment” and “Housing” are below 1% in total Social Protection budget. They increased by 4.4, 2.5 and -81.1 respectively. Public expenditures in housing provision declined sharply which is mostly explained by the

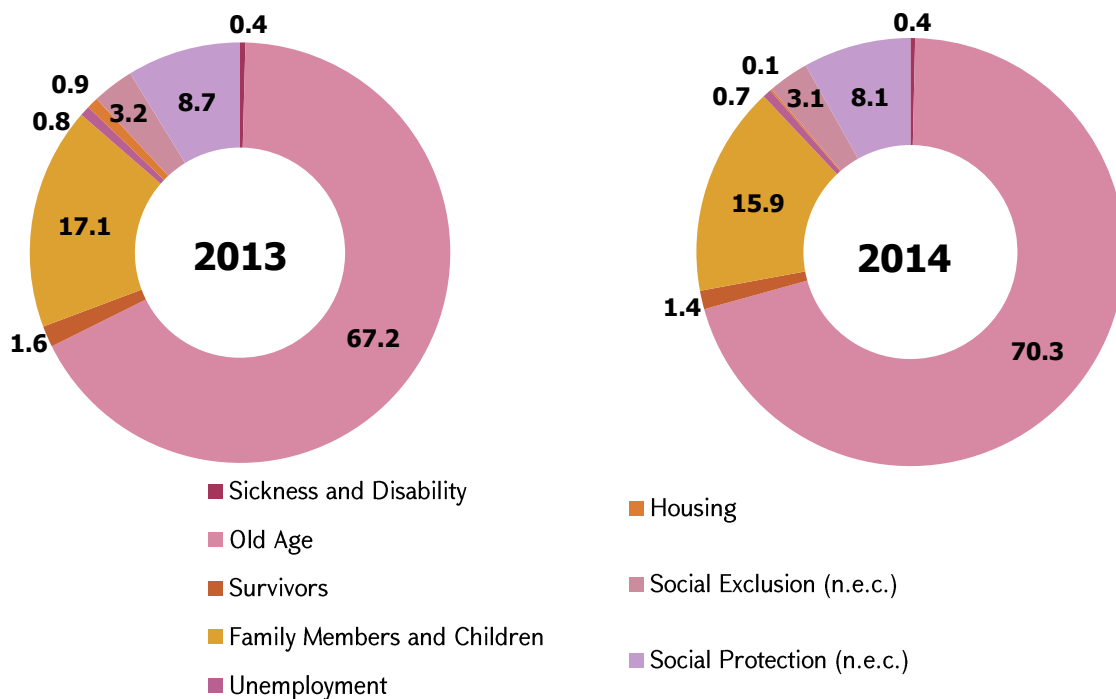
² Starting 2008, Social protection sector expenditures are classified into 8 groups instead of previous 5 groups.

termination of “Housing construction for those affected by the earthquake” budget program.

“**Sickness and Disability**” group covers programs on provision of medical and social rehabilitation, as well as provision of technical means and necessary devices of the disabled. “**Unemployment**” group includes not only provision of financial support and professional orientation and training services to the unemployed, but also compensation and support programs to employers.

“**Survivors**” group includes financial support programs to respective social groups.

Figure 4. Social Protection Budget Structure in 2013 and 2014, %

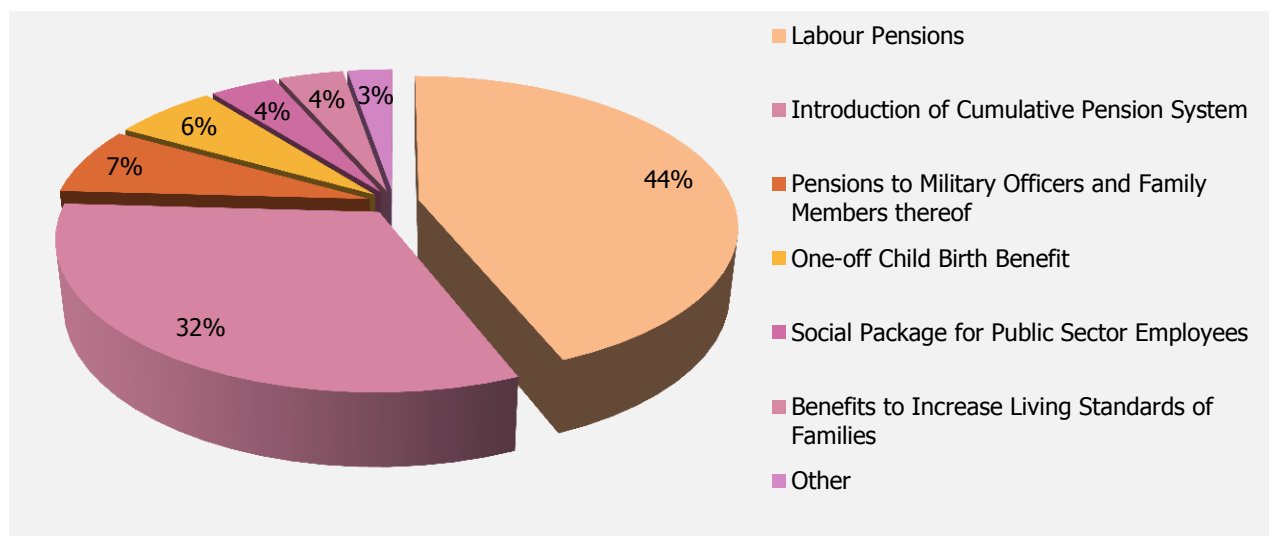


Source: 2014 Annual Budget Law, 2013 Annual Budget Implementation Report, EDRC calculations

AMD 54.7 bln out of total AMD 64.7 bln increase (84.5%) in Social Protection sector financing went to “**Old Age**”. As a consequence, the share of this group in 2014 will increase by 3.1 percentage points since 2013 and reach 70.3%. Shares of the remaining seven groups in the total sector budget will decrease compared to the previous year.

90 public-funded programs will be implemented in 2014 against 88 in 2013. Only 6³ programs out of them are projected to increase by more than AMD 1 bln. The latter altogether provide for more than 97% of total Social Protection budget increase. The Figure below presents the program breakdown of Social Protection budget increases.

³ Among those, “Introduction of Cumulative Pension System” is launched in 2014 for the first time.

Figure 5. Breakdown of Increased Social Protection Allocations by Programs, 2014

Source: 2014 Annual Budget Law, EDRC calculations

As can be seen, more than half of the increase takes place due to increased expenditures on labour pensions and pensions to military officers and families thereof. More than one third of total increase is expected due to introduction of Mandatory cumulative pension system in Armenia.

Significant increase is projected for One-off benefits for childbirth, Social benefit package for public sector employees and Benefits to improve families' living standards. The latter altogether ensure more than 14% of total increase in sector budget.

It is worth noting that there are no foreign-financed projects in Social Protection sector in 2014. The World Bank Social Protection Administration project (additional financing) was completed in 2013 with total budget of AMD 1.6 bln. The project objectives were directly linked to promoting human development, as well as improvement of social security nets and main functions of public sector.

BUDGET PROGRAMS IN SOCIAL PROTECTION

• **Sickness and Disability**

7 programs aimed at satisfying the needs of the disabled are included in "Sickness and Disability" group which are categorized in relevant classes. Budget allocations to this group increased in 2014 by 4.4% and reached AMD 1.3 bln or 0.4% of Social Protection budget.

Table 3 summarizes budget expenditures volumes of "Sickness and Disability" group in 2013 and 2014, together with certain outcome indicator values.

The largest program in this group is **Provision and Repair of Prosthetic and Orthopaedic Items and Technical Means to the Disabled** with total budget of AMD

880 mln in 2014 or 69.2% of total group budget. As compared to the previous year, this program budget increased by 2.5% or AMD 22 mln. The following items are envisaged to be provided to the disabled under this program:

- prosthetic, orthopaedic and rehabilitation accessories and repair thereof,
- audio devices,
- eye prostheses,
- hearing aid certificates.

It is worth noting that this program is the only one targeting the handicapped which anticipates an increase in services as compared to the previous year. However, one should note the inconsistency between the growths of numbers of devices and budgeted figures: the previous year experience shows that actual number of provided/repaired devices totalled to 12,616 against planned 13,799, while the financial performance of the program was 99.9%.

The next largest program in terms of allocations size is **Medical and Social Rehabilitation Services**. 6.4% increase in allocations to this program is determined by the increase in per patient rehabilitation price by AMD 820, while the number of beneficiaries entitled to free-of-charge services remains unchanged – 643.

The largest increase is recorded in **Social Rehabilitation Services to the Teenagers and Youngsters with Mental Problems** – 22.6% and is fully determined by the increase in minimum salary level, as well as increased utility tariffs and maintenance expenses.

The number of beneficiaries will increase under the program of **Compensation for Physical Damages Suffered at Work, as well as Professional Illnesses and Other Damages to Health Occurred due to Performance of Work Duties** will increase from 552 in 2013 to 575 in 2014.

Analyses of budget allocations to the "Sickness and Disability" group show that, as compared to 2014, there will be no increase in the services provided to the disabled in 2014. 4.4% increase in allocations to this group is mainly determined by the increased salaries in this sector, as well as utility tariffs.

Table 3. Sickness and Disability Expenditure Programs in 2013 and 2014

Programs		2013 AMD mln	2014 AMD mln	2014 Share	2014/2013 % ⁴	Non-financial Indicators		Measure unit
						2013	2014	
Sickness		185.18	208.60	16.41	12.65	1,195	1,218	
1	Medical and social rehabilitation services	102.27	108.78	8.56	6.36	643	643	Beneficiaries
2	Compensation for physical damages suffered at work, as well as professional illnesses and other damages to health occurred due to performance of work duties	82.91	99.82	7.85	20.40	552	575	Beneficiaries
Disability		1,032.76	1,062.63	83.59	2.89	-	-	
3	Provision and repair of prosthetic-orthopaedic items and technical means to the disabled	858.25	880.08	69.23	2.54	12,616	13,495	Provision of prosthetic-orthopaedic items, technical means and repair thereof
						80	80	Audio device
						130	150	Eye prosthesis
						250	250	Hearing aid purchase certificate
4	Provision of wheelchairs and hearing aids to the disabled	81.60	81.00	6.37	-0.74	373	500	Number of people who received wheelchairs
						1246 ⁵	900	Number of people who received hearing aids
						0	400	Hearing aid inserts
5	Mental health rehabilitation services	64.59	69.23	5.45	7.19	336	336	Beneficiaries
6	Social rehabilitation services to the teenagers and youngsters with mental problems	17.79	21.81	1.72	22.58	50	50	Beneficiaries
7	Printing of special books and textbooks for blind graduates, as well as those who became blind and recording of audio-books	10.50	10.51	0.83	0.06	42,330	42,327	Braille books (no of pages)
						320	320	Braille textbooks (number of items)
						74,401	74,400	Bulletins (no of pages)
						1,600	1,600	Audio-books (hours)
8	Provision of computers and accessories to the disabled with sight problems	0.02	-	-	-100.00	-	-	
Total		1,217.94	1,271.23	100.00	4.38	-	-	

Source: 2014 Annual Budget Law, 2008-2013 Annual Budget Implementation Reports, EDRC calculations

⁴ While calculating annual growth the indicators are not rounded.

⁵ More than 10% was provided from the outstanding balance of the previous year (2012).

- **Old Age**

Old age is the leading group in the Social Protection budget in 2014: AMD 254.7 bln is allocated to that group. 70.3% of total sector allocations to this group will finance the implementation of 12 programs. Total group budget increased by 27.4% since last year or by AMD 54.7 bln.

Table 4. Old Age Expenditure Programs in 2013 and 2014

Programs		2013 AMD mln	2014		2014/2013 %
			AMD mln	Share	
Pensions and Benefits		198,261.47	252,607.07	99.19	27.41
1	Labour pensions	167,310.02	195,668.62	76.83	16.95
2	Pensions for military officers and their families	19,117.88	23,815.55	9.35	24.57
3	Introduction of cumulative pension system	-	20,683.00	8.12	100.00
4	Social benefits for old age, disability and survivors	-	10,937.91	4.29	100.00
5	Social pensions	10,371.23	-	-	-100.00
6	Pensions to soldiers and their families	1,095.88	1,099.89	0.43	0.37
7	Pensions assigned by the RA Laws	366.46	402.10	0.16	9.72
Care and Social Services		1,701.68	2,068.59	0.81	21.56
8	Round-the-clock care services for elderly	1,417.11	1,733.41	0.68	22.32
9	Social services to single elderlies and disabled at home and at daycare centres in marzes of Armenia	159.64	172.40	0.07	7.99
10	Social services at home to single elderly	97.90	122.990	0.05	25.62
11	Round-the-clock care and social services to the elderly at Vanadzor elderly house	14.52	20.36	0.01	40.24
12	Daycare services to mentally disabled	12.50	19.44	0.01	55.50
Total		199,963.15	254,675.67	100.00	27.36

Source: 2014 Annual Budget Law, 2013 Annual Budget Implementation Report, EDRC calculations

In terms of budget classification, this group is not broken down into classes; however, for the purposes of our analysis, we classified programs under this group into the following two sub-groups:

- **Pensions and Benefits**
- **Care and Social Services.**

Allocations to Pensions and Benefits subgroup constitute 99.2% of total group allocations or AMD 252.6 bln, while AMD 2.1 bln is allocated to Care and Social Services to the elderly.

Labour Pensions are the largest program implemented both in the group and Social Protection sector: AMD 195.7 bln is allocated to this program. As compared to the previous year, allocations to this program increased by 17% which is determined by the

increased number of pensioners, as well as increased average amount of labour pensions. Average pension in 2014 will reach AMD 37,558 against AMD 31,346 in 2013. Meanwhile, pensions will be paid to 452,200 pensioners against 429,945 in 2013.

Pensions to Military Officers and Their Families are allocated around AMD 24 bln which exceeds the 2013 allocation by 24.6%. This increase is again determined by the increases in beneficiary numbers and average monthly size of pensions: 37,200 will be covered under this program in 2014 against 34,454 in 2013, while the average monthly pension will equal AMD 51,660 in 2014 against AMD 44,922 in 2013.

The third largest program is **Introduction of Cumulative Pension System** to which AMD 20.7 bln is allocated. The program was launched in 2014 and assumes additional payments from the Government to the participants of the mandatory cumulative pension system born after January 1, 1974. It is worth noting that the RA Law on Cumulative Pensions was amended on June 21, 2014: according to the amendment, it is supposed that the number of beneficiaries under this program will decrease by more than 60%, therefore, the actual expenditures will be much lower than initially projected.

AMD 10.9 bln is allocated to **Social Benefits for Old Age, Disability, Survivors** in 2014. These benefits are paid to the disabled upon 65 years of age, as well as to the children disabled and survivors. Number of beneficiaries in 2014 is projected to be 53,200 against 51,560 in 2013. Notably, these benefits were included in Social Pensions program in 2013.

AMD 1.1 bln is allocated to **Pensions to Soldiers and Their Families** which is only AMD 4 mln higher than in the previous year. Number of beneficiaries of such pensions in 2014 is 5,300 against 5,142 in the previous year, while the average monthly pension will increase by AMD 1,022 and total to AMD 17,379.

Pensions assigned by the RA Laws include pensions for the two former Presidents of Armenia, survivors⁶ and judges. These pensions on average will equal to AMD 459,019 in 2014 (increased by AMD 27,020 from the 2013 average pension). The number of beneficiaries will increase by 6 and reach 73.

Allocations to Care and Social Services will increase by AMD 367 mln or 21.6% in 2014, 86% of which is allocated to **Round-the-Clock Care Services for Elderly**. The program includes round-the-clock care for the elderly in elderly houses, protection of rights and interests of individuals under care, as well as provision of social, psychological and medical care. Number of beneficiaries under this program is estimated 1,090 old and disabled in 2014 for which per day expenditures on food are projected at AMD 1,300 remaining unchanged from 2013.

⁶ Pensions assigned to families of MPs killed at their official duty or in relation thereof (GOA Decree N 854-N dated June 10, 2011).

Allocations to the daycare centre services and at-home services for single elderly and for disabled will increase by about AMD 38 mln. Again, no increase is projected in the number of program beneficiaries: the number of single elderly and handicapped to be provided at-home services in Marzes of Armenia and in daycare centres is 4,200, while the number of single elderly to be provided social services at home is 1,500.

Thus, despite the fact that total allocations to "Old Age" are projected to increase by 27.4%, while allocations to Care and Social Services – by 21.6%, neither increase in the number of services, nor in the number of beneficiaries is projected for single and vulnerable elderly in 2014. Increased allocations are entirely determined by increased salaries in the sector, as well as increased utility prices.

• Survivors

Survivors group contains 2 programs with total budget of AMD 5.1 bln. Allocations to this group increased by 4.7% compared to the previous year.

Table 5. Expenditure Programs for Survivors in 2013 and 2014

	Programs	2013	2014		2014/2013
		AMD mln	AMD mln	Share	%
1	Transfers for funeral in cases of pensioners; old-aged, disabled or survivor social beneficiaries' death	4,706.00	4,914.60	96.95	4.43
2	Honorary payments to families of killed after-death National Heroes of Armenia and those with Military Cross Order	131.43	154.80	3.05	17.78
3	Benefits payable under RA Law on Population Employment and Social Protection in case of Unemployment (HO-2006-N dated 25.05.2005), Article 36	3.62	-	-	-100.00
	Total	4,841.05	5,069.40	100.00	4.72

Source: 2014 Annual Budget Law, 2013 Annual Budget Implementation Report, EDRC calculations

Transfers for funeral in Cases of Pensioners, Old-aged, Disabled or Survivor Social Beneficiaries' death constitute 97% of total allocations to this group: total program budget is AMD 4.9 bln which exceeds the previous year's budget by 4.4%. The program implies payment of funerals benefits for 24,600 cases instead of 23,530 cases in 2013, while keeping the size of the benefit unchanged - AMD 200,000.

Allocations to the next program in this group - **Honorary Payments to Families of Killed After-death National Heroes of Armenia and those with Military Cross Order** increased by 17.8% reaching AMD 155 mln. The program envisaged paying AMD 250,000 monthly to families of 9 National Heroes of Armenia, as well as AMD 150,000 – to families of 35 First degree Military Cross Order holders and AMD 100,000 – to families of 54 Second degree Military Cross Order holders.

Starting from January 1, 2014, the RA Law on Employment became effective which replaced the RA Law on Population Employment and Social Protection in case of Unemployment: according to the new Law, payment of benefits for funerals of an unemployed with at least 1 year of insured employment record is terminated.

• Family and Children

AMD 57.5 bln is allocated to “Family and Children” in 2014 which is higher than 2013 allocations by about 13% or AMD 7.5 bln. This group contains 21 programs that can be categorized into the following two sub-groups:

- **Social Transfers and Other Support,**
- **Care and Social Services.**

13 programs belong to the sub-group of social transfers and other support with total allocation of AMD 53.8 bln (93.6% of the total group budget).

The largest program in the group is **Benefits to Increase living Standards of Families** with total allocation of more than AMD 37 bln. 104,685 families will be paid benefits in 2014 against 101,187 families in 2013. Notably, no increase in the amount of benefits is envisaged in 2014: the average benefit size per beneficiary family is projected at AMD 29,538 in 2014 against AMD 28,477 in 2013.

As can be seen from Figure 6, although allocations to Family benefits increased by 29% compared to 2008, real volumes are lower than 2008 level by 6%.

Figure 6. Benefits to Increase Living Standards of Families: Allocations and Number of Beneficiaries in 2008-2014



Source: 2014 Annual Budget Law, 2008-2013 Annual Budget Implementation Reports, Government Decree on Measures Ensuring Implementation of 2014 Annual Budget Law, EDRC calculations

The next largest expenditure program is **One-off Child Benefit**⁷ with total allocation of AMD 8.6 bln which exceeded the last year’s allocation about 1.9 times. The latter is

⁷ Prior to 2008, childbirth promotion programs were implemented through Family Benefits program. Since 2009, One-off benefit size for a child was determined: AMD 50,000 for the first and second child, while for third and each next child – AMD 430,000.

explained by the increased amount of one-off benefit per child.⁸ The size of the benefit for the first and second child is set at AMD 50,000 in 2014, for the third and fourth – AMD 1 mln, while for the fifth child and more – AMD 1.5 mln. For comparison, the benefit size from the third child and more was AMD 430,000 in 2013. Interestingly, 7.9 percentage points out of total 12.9% increase in total allocations to “Family and Children” group is determined by the increased allocation to this program.

Unlike the above mentioned programs, allocations to **Benefits for Childcare Under the Age of 2 years** and **Pregnancy and Childbirth Benefits** decreased by 20% and 7% respectively. The size of the Childcare benefit (under 2 years) is set at AMD 18,000 and remained unchanged from the previous year, while the reason for the decreased allocation is the projected decrease in the number of beneficiaries: 10,868 beneficiaries are projected to be covered under this program. Decreased allocations to Pregnancy and Childbirth benefit is again explained by the decrease in the number of beneficiaries.

There are 8 programs targeting care after children, allocations to which equal to 6.4% of total group allocations or about AMD 3.7 bln. The largest programs under this sub-group are Round-the-Clock Care Services for children (AMD 2.3 bln) and Boarding School Services and Protection of Children (AMD 1.0 bln).

Allocations to **Round-the-Clock Childcare Services** in 2014 increased by 14.7% which is mostly explained by increased salaries and tariffs for natural gas and electricity supply. The number of beneficiaries increased compared to the previous year. 747 children are included in this program in 2014 against 719 in 2013.

13.6% increase in allocations to **Boarding School Services and Protection of Children** is again explained by increased salaries and tariffs for natural gas and electricity supply. Total number of beneficiary children is 800 in 8 boarding schools with per capita per day expenditures on food remaining unchanged from previous year – AMD 1,300.

Table 6. Family and Children Group Expenditure Programs in 2013 and 2014

Programs		2013 AMD mln	2014		2014/ 2013 %
			AMD mln	Share	
Social transfers and Other Support		47,652.5	53,781.5	93.57	12.86
1	Benefits to increase living standards of families	34,578.22	37,105.78	64.56	7.31
2	One-off child benefits	4,538.79	8,564.65	14.90	88.70
3	Pregnancy and childbirth benefits	5,041.21	4,682.51	8.15	-7.12
4	Benefits for childcare under the age of 2 years	3,021.64	2,419.20	4.21	-19.94
5	One-off social insurance payments to families of military and rescue servants killed (deceased) or handicapped during their service	83.47	603.77	1.05	623.37
6	Compensation for funeral and other relevant expenses (tombs, gravestones preparation and installation) for those deceased (killed) during military or rescue trainings and service	364.65	370.00	0.64	1.47

⁸ The RA Government Decree N-275-N (6 March 2014) on determination of One-off Child benefit size, destination and payment of One-off Child benefit.

7	Provision of monetary assistance for children transferred to biological families	9.70	16.40	0.03	69.06
8	Provision of monetary assistance to school-age children in orphan houses of Armenia	4.98	6.30	0.01	26.53
9	One-off monetary assistance and education fellowships to orphan house graduates	1.28	2.80	0.005	118.75
10	Compensation of losses due to decisions of Court of Appeal on civil affairs	5.33	6.30	0.01	18.20
11	Compensation of losses due to decision of Court of Appeal on civil affairs on case 07-3832, dated 03.11.2007 (Survivors)	2.16	2.32	0.004	7.36
12	Compensation of losses due to decision of Court of Appeal on civil affairs on case 05-1680, dated 15.07.2005 (Survivors)	1.10	1.10	0.002	0.00
13	Compensation of losses due to decision of First Instance Court of Kentron and Nork-Marash districts of Yerevan on case N EDK /1247/02/10/, dated 08.06.2012 (Survivors)	-	0.37	0.00	100.00
Care and Social Services		3,235.5	3,694.5	6.43	14.19
14	Round-the-clock childcare services	1,964.93	2,253.31	3.92	14.68
15	Boarding school services and protection of children	916.23	1,041.24	1.81	13.64
16	Social care services to children under risky circumstances	205.61	224.46	0.39	9.17
17	Social care services to children at daycare centres appeared in difficult situations	51.84	63.33	0.11	22.18
18	Provision of temporary shelter to homeless children	35.56	37.65	0.07	5.89
19	Introduction of foster families in RA	22.83	36.07	0.06	58.02
20	Services to return children in round-the-clock care and protection institutions to their families (reducing the load of orphanages)	11.51	22.15	0.04	92.46
21	Support and counselling to graduates of orphan houses	27.05	16.33	0.03	-39.63
Total		50,888.07	57,476.04	100.00	12.95

Source: 2014 Annual Budget Law, 2013 Annual Budget Implementation Report, EDRC calculations

• Unemployment

Allocation to Unemployment group in 2014 will increase by 2.5% compared to the previous year, thus, reaching AMD 2.4 bln or 0.7% of total Social Protection budget. One third of total allocations to this group will finance new initiatives launched in 2014, such as:

- Support to Agriculture through promotion of seasonal employment,
- Compensations of visit costs to employers for appropriate employment,
- Support for the use of services of non-governmental (private) employment agencies.

AMD 630 mln is allocated to **Support to Agriculture by Promoting Seasonal Employment** which is the second largest program in this group after **Unemployment Benefits**. The beneficiaries under this program are non-competitive land users, **both hired and employers**. Around 1,800 agricultural projects will be implemented under the said program: around AMD 4,000 is projected to be paid to each land user per day.

At the same time, each employer land user will be paid compensation for each hired worker in amount of AMD 2,000 per one working day.

Other two programs target those who are looking for a job: to compensate for visiting employers and using services of non-public HR agencies.

Table 7. Unemployment Group Expenditure Programs in 2013 and 2014

Program	2013 AMD mln	2014		2014/20 13 %
		AMD mln	Share	
Ongoing programs	2,298.26	1,600.25	67.68	-30.37
1 Unemployment benefits	1,945.72	709.56	30.01	-63.53
2 Organization of professional trainings	118.05	270.30	11.43	128.97
3 Partial compensation of salaries to employers	92.81	188.05	7.96	102.67
4 One-off compensation to employers for hiring a non-competitive employee	9.80	153.50	6.49	1,465.48
5 Organization of internships for those who do not have working experience in their specialization area	66.62	106.95	4.52	60.55
6 Support to small enterprises to promote self-employment	0.66	75.00	3.17	11,280.88
7 Support to employment in other places	13.66	39.41	1.67	188.45
8 Professional orientation, methodological and training services	22.18	27.08	1.15	22.11
9 Rehabilitation services to the disabled looking for a job, professional training and consulting services	16.06	17.65	0.75	9.92
10 Organization of job fairs	7.70	7.70	0.33	0.00
11 Organization of labour market studies	5.00	5.00	0.21	0.00
New programs	-	764.25	32.32	100.00
12 Support to agriculture by promoting seasonal employment	-	630.00	26.64	100.00
13 Compensation to employers for visits to seek better employment	-	124.25	5.25	100.00
14 Support to non-public employment agencies for provided services	-	10.00	0.42	100.00
Completed programs	8.43	-	-	-100.00
15 Adaptation of workplaces for the disabled in enterprises/organizations	7.72	-	-	-100.00
16 Re-training of individuals who receive pensions for long-term service and privileged pensions that are looking for a job	0.71	-	-	-100.00
Total	2,306.69	2,364.50	100.00	2.51

Source: 2014 Annual Budget Law, 2013 Annual Budget Implementation Report, EDRC calculations

Unemployment Benefits are the largest program in the group and totals to AMD 710 mln. Notably, allocations to this program decreased by 63.5% compared to the previous year due to the reduction of unemployed beneficiaries more than 3 times. From actual 10,090 beneficiaries in 2013, only 3,285 beneficiaries will be covered under this program in 2014. Such a reduction in the number of beneficiaries is determined by the Amendment to the RA Law on Employment (effective January 1, 2014). According to the Amendment, no unemployment benefits will be paid to the unemployed starting January 1, 2014. However, allocations to this program contain only the continuation of payments of liabilities to beneficiaries registered as of December 31, 2013.

As compared to the previous year, significant increases were allocated to a number of programs. E.g., Budget for **Organization of Professional Trainings** is AMD 270.3 mln which exceeds the previous year's budget more than 2.3 times. The latter is explained by the increased number of beneficiaries to be included: from 1,500 last year to 1,590 in 2014. The beneficiaries of the program are unemployed, as well as people who are at risk of being fired, disabled who are seeking for a job and agricultural land-owners.

The budget for **Partial Compensation of Salaries to Employers** is projected to increase twice in 2014. The latter is determined both by the increased minimum salary level and increased number of beneficiaries. In particular, 330 beneficiaries will be covered by this program in 2014 against 247 in 2013. The program implies compensation to employers for hiring program beneficiaries (non-competitive employees in the market) for six months.

Support to Small Enterprises to Promote Self-employment program allocations increased from AMD 659 thousands in 2013 to AMD 75 mln in 2014. The latter is explained by the adjustment of program structure which aims at ensuring stable employment though supporting small enterprises. Program beneficiaries (75 disabled and non-competitive individuals looking for a job) will be provided assistance in amount of up to AMD 1 mln for the promotion of small enterprise operation and self-employment.

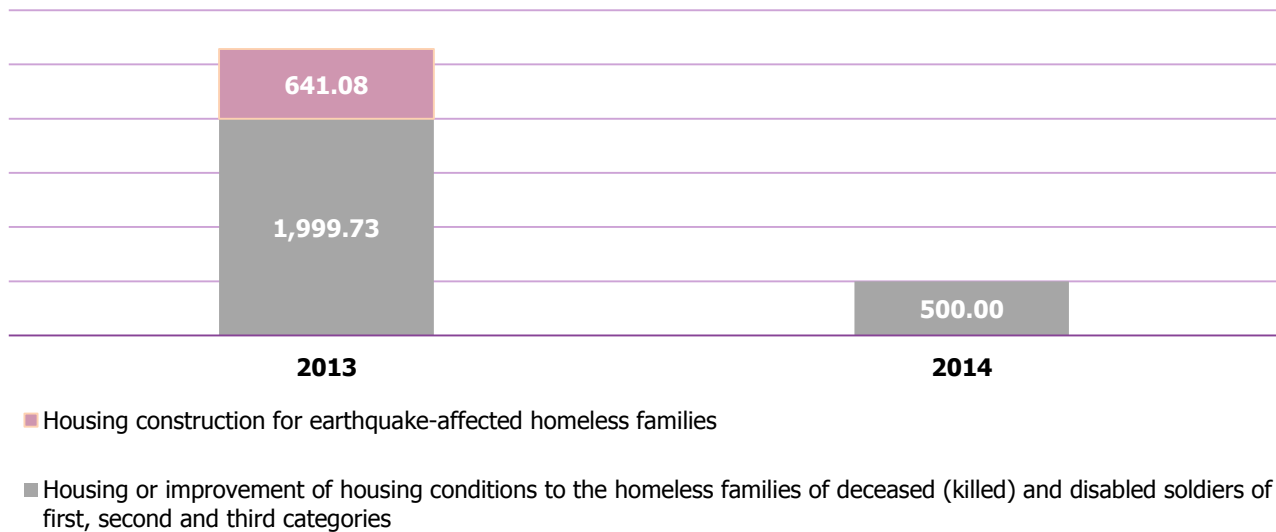
AMD 153.5 mln is allocated to **One-off Compensation to Employers for Hiring a Non-competitive Employee** in 2014: this represents an increase of 15.7 times compared to the previous year. This program was formed in 2013 through merging 3 programs and contains the following components.

- One-off compensation to employers for working capacity training of non-competitive employees,
- One-off compensation to employers for adaptation of workplace for disabled non-competitive (unemployed) employees,
- One-off compensation to employers for working capacity training and adaptation of workplace for disabled non-competitive (unemployed) employees.

Thus, Social Protection policy changes sharply its previous approaches to supporting the unemployed. Starting from 2014, the policy will target employment promotion and support through compensations of employers for hiring non-competitive employees looking for a job, as well as through professional trainings and increased internship opportunities.

- **Housing**

Housing group budget for 2014 decreased more than 5 times since 2013, reaching AMD 0.5 bln. Notably, the decrease is explained not only by the reduction in **Housing and Housing Conditions Improvement to the Homeless Families of Deceased (killed) and Disabled Soldiers of first, second and third categories** 4 times, but also by the termination of **Housing Construction for Earthquake-affected Homeless families**.

Figure 7. Housing Group Expenditure Programs in 2013 and 2014, AMD mln

Source: 2014 Annual Budget Law, 2013 Annual Budget Implementation Report, EDRC calculations

• Social Exclusion

Allocations to “Social Exclusion (not elsewhere covered)” group increased by 17.9% in 2014 and reached AMD 11.2 bln. Notably, allocations to all programs in this group increased except for **Veterans Honorary Payments** which decreased by 3.4% due to the decrease in beneficiaries by 490, while keeping the monthly payment amount unchanged - AMD 25,000.

Transfers to Veterans of the GPW, Families of Military Servants killed in the GPW or in Military Actions in other Countries, as well as transfers determined by the Article 34.1, p.1 of RA Law HO-258 dated 25.11.1998 constitute 81% of allocations to this group. Total allocations to this program are projected at AMD 9.1 bln which increased by 9.4% since 2013. The increase in allocations is explained by the increased number of beneficiaries (34,739 beneficiaries from 31,371 in 2013) together with increases in payments to certain categories of beneficiaries. The average monthly amount of payments will total to AMD 21,800 against AMD 22,500 in 2013.

The next largest program in this group is **Compensation for the Deposits in VTB-Armenia as Deposits with the USSR Savings Bank Deposited Prior to June 10, 1993** with total allocations constituting 13.2% of group budget. The program allocations increased 2.6 times in 2014 totalling to AMD 1.5 bln. In 2014, compensation will be paid to deposit holders born prior to or on December 31, 1929 registered in the social vulnerability scoring system. It is worth noting that AMD 1.7 bln was allocated to this program in 2013, however, actual performance reached 35.4%.

Significant increase (by 41% or by AMD 16.3 mln) is envisaged in allocations to programs of **Measures to Resolve Social and Housing/Shelter Problems of Refugees**. Allocations to **Maintenance of Social Housing** increased by more than 40%.

Allocations to **Provision of Temporary Shelter to the Homeless**, as well as the number of beneficiaries under the said program will increase from 60 in 2013 to 100 in 2014.

Table 8. Social Exclusion Expenditure Programs in 2013 and 2014

Programs	2013 AMD mln	2014		2014/2013 %
		AMD mln	Share	
1 Transfers to veterans of the GPW, families of military servants killed in the GPW or in military actions in other countries, as well as transfers determined by the Article 34.1, p.1 of RA Law HO-258 dated 25.11.1998	8,296.09	9,078.42	80.90	9.43
2 Compensation for the deposits in VTB-Armenia as deposits with the USSR Savings Bank deposited prior to June 10, 1993	577.52	1,485.15	13.23	157.16
3 Honorary payments to veterans	523.19	505.50	4.50	-3.38
4 Provision of temporary shelter to the homeless	51.37	56.05	0.50	9.11
5 Maintenance of Social Housing	29.24	41.01	0.37	40.23
6 Measures to resolve social problems of refugees	20.97	32.55	0.29	55.20
7 Measures to resolve housing/shelter problems of refugees	18.67	23.46	0.21	25.64
Total	9,517.06	11,222.13	100.00	17.92

Source: 2014 RA Annual Budget Law, 2013 RA Annual Budget Implementation Report, EDRC calculations

• Social Protection (not elsewhere covered)

Allocations to Social Protection (n.e.c.) group increased by 13.3% in 2014. 27 programs are included in this group with total budget of AMD 29.5 bln.

Notably, programs under this group are mostly auxiliary (not elsewhere covered) services to the Social Protection sector, as well as national and local executive authorities' expenditures.

Social Package for Public Sector Employees is also among auxiliary services to Social Protection: its share is the largest in this group – 70%. Total program budget for 2014 is AMD 17.6 bln against AMD 15.0 bln in 2013. It is worth noting, that AMD 20.2 bln were allocated to the provision of social package to public sector employees in 2013 and only AMD 15.0 bln was actually spent. This is explained by lower actual use of earmarked resources.

13% reduction in the planned allocation in 2014 took place because of reduced number of beneficiaries from military servants and their families, as well as rescue servants and their families. For these groups of beneficiaries a new program is launched: **Provision of Medical Services to Military and Rescue Servants and their Family Members** with total budget of AMD 2.7 bln.

Table 9. Social Protection (n.e.c.) Expenditure Programs in 2013 and 2014

Programs		2013 AMD mln	2014		2014/ 2013 %
			AMD mln	Share	
Social Protection (n.e.c.)		3,390.85	4,386.51	14.89	29.36
1	National and local executive and governance bodies: administration and operation (Ministry staff)	1,563.27	2,099.30	7.13	34.29
2	National and local executive and governance bodies: administration and operation	1,553.67	1,873.67	6.36	20.60
3	Financing for the delegated authorities from national level to local government heads in Social support services	273.91	413.54	1.40	50.98
Auxiliary services to Social protection sector		22,614.0	25,067.5	85.12	10.85
4	Social package for public sector employees	14,971.59	17,559.83	59.62	17.29
5	Benefits for temporary disability	3,423.70	3,749.15	12.73	9.51
6	Benefit payment expenses for pensions, old age, disability, survivors, honorary payments and other programs	1,470.78	2,465.22	8.37	67.61
7	Payment fees and expenses under various Social security programs	538.78	603.01	2.05	11.92
8	Social protection sector IT system service (improvement), operation and information provision services	267.18	355.40	1.21	33.02
9	Elaboration of methodological manuals, conducting studies and trainings for Social security system staff	85.90	89.38	0.30	4.05
10	Compilation of information on refugees and their family members	47.54	60.45	0.21	27.15
11	Pensioners registration IT system support and maintenance services	24.00	42.00	0.14	75.00
12	Public awareness measures	23.70	26.06	0.09	9.95
13	Printing of temporary disability leaflets	11.02	21.60	0.07	96.08
14	Administration of benefits to increase living standards of families	16.38	19.00	0.06	15.96
15	Maintenance of an internal portal for State Social Security Service	-	18.24	0.06	100.00
16	Social and psychological rehabilitation services to victims of trafficking	6.62	17.18	0.06	159.35
17	Printing of LASS forms	7.87	13.85	0.05	75.96
18	Ensuring implementation of Support to agriculture through promotion of seasonal employment	-	9.45	0.03	100.00
19	Implementation, operation, maintenance of military pensioners IT system and information provision services	6.95	7.00	0.02	0.72
20	Assessment of education needs of children from vulnerable families and provision of social services adequate to their needs	0.70	4.56	0.02	552.88
21	Printing of MSE (Medical and Social Expertise) forms	3.26	4.12	0.01	26.42
22	Printing of forms for pension assignment and payment	0.67	2.00	0.01	200.03
23	Additional financing for WB Social Protection sector management project	1,632.91	-	-	- 100.00
24	<i>Parnas</i> Individual (personalized) registration IT system maintenance and service	36.00	-	-	- 100.00
25	Support to improving awareness on pensions and financial literacy	19.95	-	-	- 100.00
26	Financial assistance provide under Sub-agreements signed between the State Migration Service under the Ministry of Territorial Administration and UN HCR Armenia office	10.87	-	-	- 100.00
27	Improvement of services to victims of domestic violence	7.64	-	-	- 100.00
Total		26,004.9	29,454.0	100.0	13.26

Source: 2014 RA Annual Budget Law, 2013 RA Annual Budget Implementation Report, EDRC calculations

The next largest program is **Benefits for Temporary Disability**. Allocations to this program increased by 9.5% from previous year and totalled to AMD 3,7 bln. Increase in expenditures is determined by the increased per day benefit by AMD 1,086.9 (it will total to AMD 4,310 in against AMD 3,223.1 in 2013).

Around AMD 4 bln is allocated to expenditures of Executive organs and their staff which exceeds the last year's allocations by 27.5%. It is worth noting that this program does not include expenditures of the Minister of Labour and Social Affairs Staff: these total to AMD 78.9 mln in 2014, exceeding the previous year's expenditures by AMD 33.2 mln or 72.7%. The latter are included in **General Public Services**.

AMD 603.0 mln is allocated to **Payment Fees and Expenses under various Social Security Programs** against AMD 539 mln in 2013. Payment fees under the following programs are included in the above mentioned programs:

- Benefits to improve living standards of families,
- One-off childbirth benefits,
- Benefits for childcare under the age of 2 years,
- Compensation for deposits with VTB-Armenia bank,
- Unemployment benefit,
- Honorary payments to families of killed National heroes of Armenia and those holding Military Cross Order.

BREAKDOWN OF SOCIAL PROTECTION BUDGET ALLOCATIONS PER AGENCIES

Social Protection sector expenditures will be implemented by 6 ministries and agencies in 2014. 74.1% of total sector allocations, AMD 268.1 bln will be implemented by the State Social Security Service of the RA Ministry of Labour and Social Affairs⁹ through 22 budget programs. However, the largest number of programs will be carried out by the RA Ministry of Labour and Social Affairs – 56 programs (with total allocation of AMD 54 bln) (see Table 10).

Table 10. Social Protection Sector Allocations by Ministries/Agencies

Ministries/Agencies	Number of Programs	2013 Budget, AMD mln	2014 Budget		Change from 2013	
			AMD mln	share	AMD mln	%
Government of RA	1	14,971.59	17,559.83	4.85	2,588.25	17.29
Ministry of Labour and Social Affairs	56	49,507.68	53,981.96	14.91	4,474.28	9.04
State Social Security Service of the MLSA	21	221,979.42	266,334.23	73.57	44,354.80	19.98
Ministry of Finance	6	6,623.07	21,660.55	5.98	15,037.49	227.05
Ministry of Defence	2	2,005.06	506.30	0.14	-1,498.76	-74.75
State Migration Service of the Ministry of Territorial Administration	3	98.06	116.46	0.03	18.39	18.76
State Social Security Service of the MLSA and State Migration Service of the Ministry of Territorial Administration	1	1,553.67	1,873.67	0.52	320.00	20.60
Ministry of Urban Development	-	641.08	-	-	-641.08	-100.00
Total	90	297.38	362.03	100.0	64,653.36	21.74

Source: 2014 Annual Budget Law, 2013 Annual Budget Implementation Report, EDRC calculations

⁹ The legal successor of State Social Insurance Fund since December 24, 2007.

It is worth noting that, under 5 programs implemented by the RA Ministry of Labour and Social Affairs, service providers are Prkutyun , Mission Armenia, Bridge of Hope, Hans Christian Cofoed and UMCOR NGOs (see Table 11).

The staff of RA Government carries out Provision of social benefit package to public sector employees with total budget of AMD 17.6 bln which is higher than in 2013 by 17.3%.

Allocations to programs implemented by the RA Ministry of Defence decreased by about 75% compared to the previous year due to the decline in provision of **Housing or Improvement of Housing Conditions to the Homeless Families of Deceased (killed) and Disabled Soldiers of First, Second and Third Categories** 4 times: allocation to this program fell from about AMD 2 bln to AMD 0.5 bln. Total allocations to programs implemented by the Ministry of Finance increased more than 3 times due to the launch of the Cumulative pension system implementation.

State Migration Service of the RA Ministry of Territorial Administration carries out 4 programs with total allocations of AMD 0.2 bln. Among those programs, National and local executive governments operation is carried out together with the State Social Security Service of the RA MLSA : 6.2% of the total AMD 1.9 bln budget of this program is allocated to the State Migration Service.

In 2013, ministry of Urban development carried out Housing construction for earthquake-affected houses without home with total budget of AMD 641 mln which was completed in 2013.

Table 11. Expenditure Programs in Social Protection Implemented by NGOs in 2013 and 2014

Programs	Service provider NGOs	2013 AMD mln	2014 AMD mln	2014/2013 %	Number of Beneficiaries
Social rehabilitation services to the teenagers and youngsters with mental problems	Prkutyun	17.79	21.81	22.58	50
Social services at home to single elderlies, to disabled and elderlies at daycare centres in Marzes of Armenia	Mission Armenia	159.64	172.39	7.99	4,200
Social care services to children at daycare centres appeared in difficult situations	Bridge of Hope	51.83	63.33	22.18	250
Provision of temporary shelter to the homeless	Hans Christian Cofoed	51.37	56.05	9.11	100
Social and psychological rehabilitation services to victims of trafficking	UMCOR international	6.62	17.18	159.35	8

Source: 2014 Annual Budget Law, 2013 Annual Budget Implementation Report, 2014 Annual Budget Message, EDRC calculations

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ABBREVIATIONS

AMD	Armenian Dram
bln	billion
EDRC	Economic Development and Research Center
ENPI	European Neighborhood and Partnership Instrument
EU	European Union
GB	Great Britain
GDP	Gross Domestic Product
GPW	The Great Patriotic War
HR	Human resources
IT	Information Technology
LASS	Local Agencies for Social Services
mln	million
MLSA	Ministry of Labour and Social Affairs
MSE	Medical and Social Expertise
n.e.c	not elsewhere covered
NGO	Non-governmental organization
NSS	National Statistical Service
RA	Republic of Armenia
UN	United Nations
UMCOR	United Methodist Committee on Relief
UNHCR	The UN Refugee Agency
WB	World Bank