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REPUBLIC OF ARMENIA

INTERIM POVERTY REDUCTION STRATEGY PAPER

March, 2001

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INTERIM POVERTY REDUCTION STRATEGY PAPER

I. INTRODUCTION

1. *Since independence from the U.S.S.R. in 1991, Armenia has faced several economic and political challenges.* First, the earthquake of 1988, which affected 40 percent of the territory of Armenia and about one-third of the population, had devastating economic consequences in succeeding years. Second, the collapse of regional trade and payments agreements with the Baltics, Russia and other countries of the former Soviet Union (BRO) and the resulting terms of trade shock dealt a severe blow to the economy. Third, serious obstacles to trade flows and economic development were caused by the conflict in Nagorno-Karabakh, which led to a crippling trade blockade by Azerbaijan and Turkey, as well as by other regional conflicts. Fourth, the task of replacing the central planning system with one based on market principles proved more difficult than anticipated. As a result of these challenges, output plummeted by some 54 percent over 1991-93 and inflation increased to over 1,200 percent during 1992, and further to over 10,000 percent in 1993¹. This resulted in a dramatic decline in per capita GDP, from US\$1,590 in 1990 to US\$173 in 1994. While households' income in nominal terms grew by 1,367 times since 1990, in real terms it decreased substantially as consumer prices grew by about 22,111 times. As a result the purchasing power of the population dropped by 16 times from 1990 to 1994.

2. *Starting in mid-1994, the Government implemented tight fiscal and monetary policies accompanied by broadly based structural reforms that were supported by concessional IMF and World Bank credits.* Those policies have resulted in significantly lower inflation, and annual real GDP growth averaged 5.4 percent during the 1994-2000 period. Per capita income grew from US\$173 in 1990 to US\$503 by 2000, paralleled with the real appreciation of dram. Nonetheless, the original collapse in output was so large that the current output is still less than 70 percent of its pre-transition level. Despite the fact that nominal household income has grown 7.3 times since 1994, compared to the increase in the price level of only 4 times, and thus resulted in an increase of real household income by some 1.8 times, the current household's purchasing power is still about 9 times lower than its recorded level in 1990, leading to wide-spread poverty. Also, economic growth during the past seven years was not accompanied by notable improvements in social conditions and poverty indicators – partly due to the skewed distribution of income, which is being reflected in significant migration from the country. A contributing factor to this is the fact that the recovery in output has not resulted in much growth in net aggregate employment.

3. *The government has recently developed a strategy to reduce poverty, which together with the policy of stimulating economic growth should alleviate major social and economic problems of Armenia.* The current Poverty Reduction Strategy Paper Program, therefore, aims at developing a national strategy of poverty reduction in Armenia. It

¹ Unless otherwise noted, all the indicators are taken from the reports *On the Socio-Economic Situation in Armenia* prepared by the National Statistical Service, and the Integrated Household Survey conducted by National Statistical Service.

attempts to identify the measures and policies that the government should implement in the next few years to alleviate poverty. To this end, the government, in accordance with its program of activities, has developed an Interim Poverty Reduction Strategy Paper (I-PRSP), which shall serve as a basis for developing the full PRSP. The interim PRSP describes the current poverty situation in Armenia, identifies priorities and actions in specific sectors for alleviating poverty. A Steering Committee on PRSP has been established with broad participation from representatives of the parliamentary committees and political parties represented in the Parliament, civil society, and the donor community. This paper is the result of joint effort of various ministries (in particular of Social Security, Health, Education and Science, Culture, Youth Affairs and Sport, Agriculture, Industry and Trade, Finance and Economy), and it has been discussed by the representatives of NGOs in Armenia and international organizations.

II. POVERTY ASSESSMENT

4. *Armenia ranks low in terms of human and social development as compared to many developing and transition economies.* Per capita GDP is lower than the average for CIS economies, and significantly lower than that for the Central and Southern European economies.
5. *Based on 1988 official figures, only one-fifth of the population was considered to be below the poverty line, defined as a minimum income per family of 78 rubles, equivalent to US\$87 using the then official exchange rate.* In the 1980s, Armenia had a relatively developed industrial infrastructure. The share of industry in GDP was very high (about 65 percent in 1985). During the Soviet period, the standard of living in Armenia was assessed based on the main types of food and non-food consumption and the availability of durable goods. The sources of household income were: wages 76 percent; pensions, stipends, and social benefits 11 percent; and proceeds from the sale of agricultural production and other income 13 percent. The average composition of household expenditure basket was as follows: food 41 percent, industrial goods 28 percent, and services 9 percent (of course the share of food was significantly higher among families with a lower income).
6. *In the early 1990s, as a result of the socio-economic crisis, significant changes occurred in the structure of income and expenditures of the population.* The share of wages decreased continuously from 54 percent in 1991 to 25 percent by 1994, while the share of other incomes (humanitarian assistance, workers' remittances, charity, etc.) increased from 15 to 56 percent during the same period. On the expenditure side, the share of food increased from 54 to 65 percent, while the share of industrial commodities declined from 27 to 21 percent. Not only that, but there was also a sharp decline in the energy value of the food consumed to 1,599 kcal in 1994, as compared to 2,181 in 1991, and 2,546 in 1985. Those trends have basically continued after 1994, despite the reversal of the trend in the economic growth: 1998/99 Integrated Household Survey suggests that the share of wage income continues to be less than 25 percent, and that food composes about 67 percent of household expenditures.
7. *Socio-economic indicators have been constantly deteriorating and poverty increased.* The survey conducted in 1996 by the Ministry of Statistics in cooperation with the World

Bank, showed that the poor² represented 55 percent of the total population, while the extremely poor³ constituted 28 percent of the total population. Though since then there has been no notable change in the share of the poor, as demonstrated by a similar study conducted for 1998/99, there has been a significant decrease in the share of the extremely poor – to 23 percent, which may be attributed to the introduction of a system of family allowances targeted at the very poor groups of the population. Another 13.5 percent of the population are subject to poverty risk as well - being above the poverty line only marginally. As a result, the share of the population requiring social protection exceeds two thirds of the general population (over 68 percent). This compares to an average poverty level of 31 percent in transition economies⁴.

8. *Poverty in Armenia is particularly prevalent among the uneducated, unemployed, disabled, and families with several children, as well as in rural areas among the landless.* Agricultural households are in a comparatively better position. The level of poverty in Armenia also varies across regions. The majority of the poor population lives in the earthquake zone (where poverty may reach about 60 percent, while in Shirak and Lory districts over two thirds of the population is below the poverty line). In terms of the gender distribution of poverty, the proportion of women is relatively higher. The latter is due to the fact that the decrease in employment during the transition has mostly affected women, which constitute about 65 percent of the unemployed. Such a situation risks the reproductive behavior of the women, thereby raising the need to address gender issues in the framework of the poverty reduction strategies as well.

9. *The increase in poverty has also been associated with an increase in inequality.* Indeed, the Gini coefficient is the highest in Armenia amongst many transition economies (Figure 1). According to the World Bank estimates, the income-based Gini coefficient was 0.27 prior to transition⁵. Since then the income-based Gini coefficient for Armenia has been increasing and it is now estimated at 0.59, compared to an average of 0.34 for all transition economies⁶. It should be noted, however, that the expenditure-based Gini coefficient in Armenia is substantially lower (-0.37) than the one based on income. Such a difference in Gini measurements is mostly attributed to the large shadow economy. Differences in the level of education do not appear to explain the increase in income inequality in Armenia (as demand for skilled and highly educated labor decreased), in contrast to other countries where education is considered as one of the major prerequisites for financial security. In addition to the gradual deterioration of the skills of the unemployed and continuing emigration, this endangers the human capital stock of the country, thus posing a risk for the economic and social development of Armenia.

² Those below the poverty line as measured by the value of the minimum consumption basket equal to 11,735 drams per month, and calculated based on the minimum food basket, taking into account the relative shares of food and non-food expenditures of an average household with monthly expenditures on food equal to the minimum food basket.

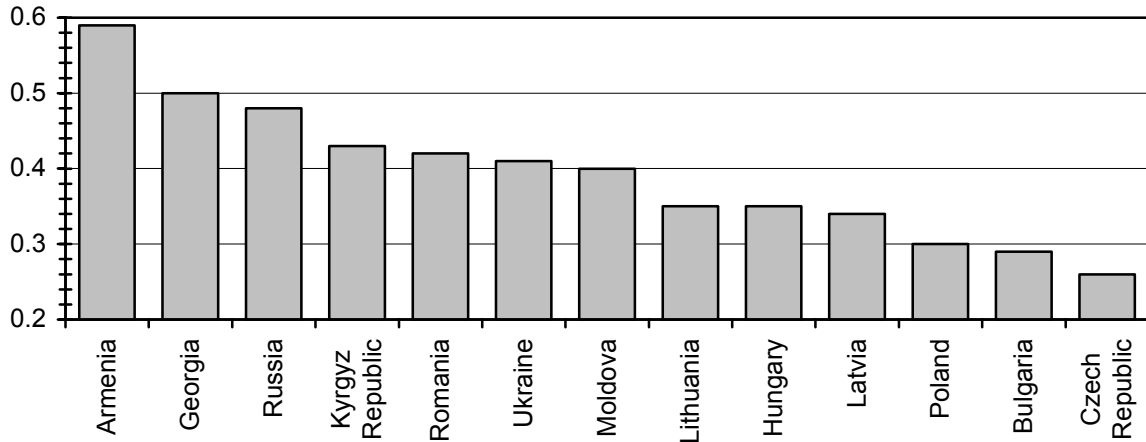
³ Those below the food line equal to minimum food basket of 7,194 drams per months

⁴ Source: World Economic Outlook, 2000

⁵ Source: World Bank, 1999 World Development *Indicators*.

⁶ Source: World Economic Outlook, 2000

Figure 1. GINI Coefficient in Several Transition Economies⁷



10. *The decline in funding for educational materials, unpaid teachers' wages, and lack of heat and maintenance for more than half of the schools contributed to the decline in the quality of schooling.* Almost 20 percent of the schools lack water supply or water is delivered only for few hours, and 60 percent of the schools do not have dispensaries. There is also a critical problem with sewage and heating due to the absence of adequate public expenditures on social sectors, mostly owing to the adjustment affecting first of all social expenditures. Government expenditures on education have decreased sharply in the past decade, and now the annual government expenditure per student is equivalent to US\$40. Also the monthly salaries of teachers range from US\$10-20, and in most cases are paid with a 2-6 months lag. This situation is adversely affecting the quality of education, as almost 60 percent of the surveyed teachers⁸ admitted that their professionalism has deteriorated. In addition, because of low salaries teachers are forced to look for other sources of income, which thus digresses from their primary responsibility and may create additional burden for students' families. Many qualified teachers are quitting their jobs in an attempt to find better opportunities in other sectors. As a result of all these developments, there has been a sharp decline in the availability of high-quality education, especially for the poor, thereby limiting the possibilities for the poor to benefit from enhanced economic opportunities.

11. *With the introduction of a paid health system, health care became unaffordable to most Armenians.* Budgetary spending on health in Armenia (1.6 percent of GDP in 2000) is one of the lowest among transition and developing economies, and since 1990 has fallen significantly in real terms as a result of the fiscal adjustment. Access to the health care services has become increasingly dependant on whether a household can afford the "informal" payments to doctors in collapsed public institutions. According to World Bank estimates, the share of patients making "informal" payments in the health sector is the highest in Armenia among CIS countries, and equals 91 percent, as compared, for

⁷ Sources: Armenian authorities, and the EBRD Transition Report, 2000.

⁸ 1996 household survey, conducted by the Ministry of Statistics in cooperation with the World Bank.

example, to 74 percent in Russian and 70 percent in Moldova. Statistics also show⁹ that since 1990 visits to health institutions declined by 2-3 times, due to unaffordability of such services for most of the population and the poor in particular. Low income and relatively high health service fees are preventing almost one-third of the patients from ambulatory health care, while only 20 percent can afford health fees. Accompanied by malnutrition and the inadequacy of public utilities, this has led to a substantial increase in the so-called “social diseases”.

12. *Declining economic activity, growing unemployment, decreasing wages and the growing informal sector of the economy have caused a near collapse of the old social insurance and safety nets mechanisms.* At the same time, the economic decline and complex social changes that have happened during the last ten years have caused numerous social problems, of which absolute poverty, malnutrition, increased abandonment of children, and unhealthy life style are but a few. In order to assist the most vulnerable families to cope with economic hardship, and to use scarce public resources most efficiently and effectively, the government, with the assistance of the World Bank, restructured the social assistance system in 1998. A variety of uncoordinated untargeted transfers in cash were consolidated into one regular targeted family poverty benefit. Currently about one fourth of the population receives this assistance, which amounts to almost 2 percent of GDP. On the other hand, paying pensions regularly to 560,000 pensioners has not been an easy task, given the sharp drop in the number of contributors and in real wages. This has caused the ratio between the employed paying contributions and the number of pensioners to fall below unity (0.9, i.e. there are more pensioners than those contributing to the system).

13. *Age groups have been greatly distorted.* The share of population over 60 years old has increased significantly, putting further pressure on the working force, and encumbering the pension system. With a compensation ratio (average pension in relation to average salary) of only 23 percent, the average pension is now inadequate and unable to satisfy basic needs. Recent research of the labor market¹⁰ showed that the actual unemployment rate is about 25 percent as compared to the officially recorded unemployment rate of 10 percent; that is, more than half of the unemployed are not registered. Even among the employed, though somewhat lower than the level of 21 percent in 1996, still 17 percent are classified as very poor because of very low salaries (average monthly salary in the public sector, including education and health, is about to US\$26).

III. MAIN PILLARS OF THE POVERTY REDUCTION STRATEGY

14. *Higher, sustainable and broad-based growth is the main instrument for reducing poverty.* There is a strong two-way correlation between economic development and poverty reduction. Strong growth is unsustainable in the absence of improvement in poverty reduction and income inequality. Economic and social policies that focus on

⁹ 1996 household survey, conducted by the Ministry of Statistics in cooperation with the World Bank.

¹⁰ 1998/99 Integrated Household Survey, Ministry of Statistics, in cooperation with the World Bank.

poverty reduction and equity in income promote investments in primary education and health to ensure wider participation of the poor in the process of economic development. Without public support, which is linked to reducing poverty, measures aimed at achieving macroeconomic stability and structural reforms would be difficult to justify or implement.

15. *Armenia's experience over the past seven years, however, confirms that economic development is a necessary but not sufficient condition for poverty reduction.* Hence, the targeting of the economic policy to poverty reduction assumes not only undertaking economic and structural reforms aimed at increasing growth and the welfare of the general population, but also in parallel implementing measures targeted at improving the poverty indicators. This requires a comprehensive assessment of the outcomes of economic and structural reforms, especially their impact on poverty, and undertaking compensating measures whenever those reforms negatively affect poverty.

16. *The establishment of an efficient governance system is crucial for poverty reduction.* Over the past, this has been one of the main impediments to poverty reduction, having resulted in extreme polarization of income. Public servants earning their living through side payments for services rendered have little interest in forgoing corrupt practices.¹¹ Having said that, the government's poverty reduction strategy will focus on: (a) developing a transparent civil service; (b) strengthening civil society participation and media oversight; (c) creating a favorable environment for a competitive and growing private sector; and (d) reforming public sector management. The government recognizes as well that sustainable development requires a sound judicial system, which is crucial for the operations of the private sector and the protection of human and property rights. Therefore, the continuation of the measures targeted to increasing the efficiency of the judicial system is crucial for sustainable and balanced economic growth and for reducing poverty.

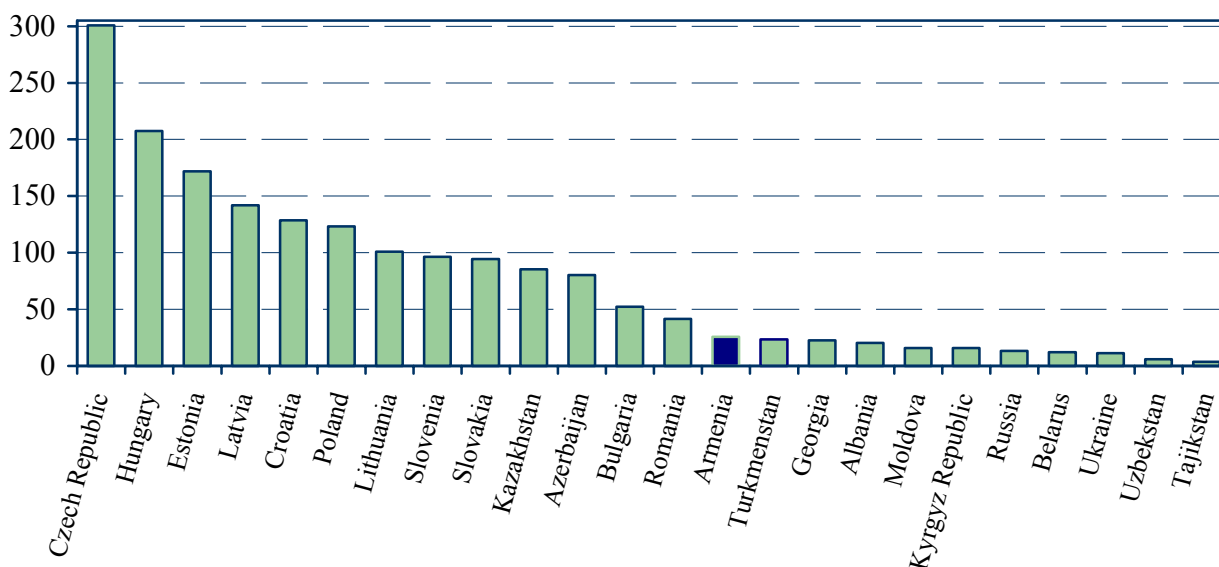
A. Sustainable and Equitable Economic Growth

17. *While maintaining a stable macroeconomic environment, the government will attempt to place the Armenian economy on a higher and sustainable growth path to reduce poverty and unemployment.* The poverty reduction strategy should therefore focus on fair distribution of the benefits of growth for the entire population. The government is of the view that to make a dent in its poverty alleviation efforts, annual growth rates should be significantly higher than over the past seven years, to help regain public confidence and, under sizeable rise in employment opportunities, slow down emigration. Institutional reform and higher investment in the economy are crucial to generate higher output growth. To this end, the government will undertake additional reform efforts and measures that would ensure a major improvement in the business and investment climate to create new jobs. The latter would include the following: transparency and consistency, stronger emphasis on institution building (the protection of property rights, upgrading the institutional capacity for the delivery of services to investors, involving the private sector in key decision making, an anti-corruption campaign and the provision of the rule of law).

¹¹ The EBRD Transition Report 1999 puts Armenia in a group of countries with high corruption levels, as the percentage of firms bribing is about 40 percent (the third highest level in the sample). Moreover, the average bribe as a percentage of annual firm revenues was one of the highest of all countries in the sample.

Given the relatively low level of foreign investment in Armenia (Figure 2), the government has recently established a high-level Business Council with the task of promoting a public-private dialogue. This would help to identify major bottlenecks and increase efficiency in implementation of policy reforms.

Figure 2. Per Capita Net FDI in Transition Economies
(average for 1995-2000, in U.S. dollars)¹²



18. *In this connection, Armenia's accession to the WTO this year is also expected to help to ensure a favorable and stable environment for investment and competition in the country.* The government, in coordination with the World Bank and the USTDA, is currently finalizing work on a number of crucial investment projects that will be presented to the international financial community in May 2001 at an Investment Conference in New-York. The government hopes that the meeting in New York will help to attract additional foreign investment, particularly from the Armenian Diaspora. Parallel to that, the government will make sure a new, simplified legislative framework for company registration and licensing is effective by the end of 2001. This would require submission to and adoption by the Parliament of the respective laws. To ensure efficient operation of market entities and most effective use of resources (including labor), the government will intensify its efforts to ensure uniform application of financial rehabilitation and bankruptcy procedures, and in this regard, the government will initiate legislative changes to overcome the existing barriers.

19. *To increase effective employment and thereby alleviate social problems, and to promote economic growth, the government will continue the privatization of public enterprises in an open and transparent manner.* To encourage owners of privatized enterprises, the government will provide them the right of ownership over the land they occupy. Introduction of efficient privatization mechanisms is of particular importance for privatization of the strategic enterprises (such as the electricity distribution companies,

¹² Source: EBRD Transition Report 2000

Armenian Airlines, mining companies, etc), successful privatization of which would be a crucial step for attracting investment in the Armenian economy.

20. *A sustainable effort will be made to create an environment of free economic competition, with the view of developing effective mechanisms of anti-monopolistic policy.* Based on the law on the support to small and medium entrepreneurship, which was adopted by the Parliament by the end of 2000, the government will develop annual programs of state support to small and medium entrepreneurship. Pursuant to the law on Protection of Economic Competition, early in 2001, the government has established a state committee on the protection of economic competition, aimed at tackling the issues of anti-monopolistic policy.

21. *With regard to fiscal policy, the government emphasizes the targeted use of privatization proceeds* in accordance with the medium-term privatization strategy. Privatization proceeds will be used to finance public investment projects, rehabilitation of the earthquake zone, and retirement of public external non-concessional debt. On the other hand, increasing the efficiency of the taxation system remains a priority for Armenia – both from policy and administrative points of views. In this connection, effective January 2001, a simpler and more reasonable taxation system has been introduced that envisages minimal tax discrimination (elimination of various tax privileges), and includes various mechanisms of protecting the taxpayers' interests.

22. *Financial sector reform is fundamental to promoting growth*, by improving the intermediation process and increasing efficiency in the allocation of financial resources. In this regard, the government will support the relevant financial authorities to implement policies that would improve the soundness of the financial and, in particular, banking system. The government will support strengthening the powers of the Central Bank of Armenia in bank bankruptcy and reorganization cases.¹³

23. *The government will pay particular attention to the agricultural sector*, which is of particular relevance to poverty reduction given the absence of employment alternatives in the rural areas. The structural imbalances in the Armenian economy have resulted in a relatively low increase in the real income in the agricultural sector. Indeed real growth in agriculture (cumulative for 1996-2000, amounting to about 14 percent) has been substantially lower than for the overall economy (over 28 percent for the same period). Also, under virtually stable prices for agricultural products and cumulative increase of about 55 percent in overall prices, nominal income in the agricultural sector has increased by less than 20 percent during 1996-2000, as compared to an increase of about 100 percent for the whole economy. To eliminate the main impediments to agricultural development, the government will take further steps to increase the proficiency of the irrigation sector, establish new lending mechanisms for the farmers, promote exports of agricultural production, and ensure affordability of agricultural machinery and fertilizers. Of particular importance in this respect would be the implementation of Irrigation Development Program (which has been basically agreed with the World Bank) and Agricultural Services

¹³ The Armenian financial system is still small. The credit culture is generally weak, and intermediation costs are high. The terms offered to potential borrowers are still relatively unattractive, and much of the lending, particularly to small and medium-enterprises, occurs through donor-supported programs, at concessional terms.

Program (which is being negotiated with the International Fund for Agricultural Development).

24. *The government has elaborated and adopted a Concept of food security to provide citizens with sufficient and high-quality food.* The Concept, adopted by the government in September 1999 was assisted by the European Commission Food Security Program. The Program since 1996 has been addressing the key budget and structural reform needs in the sectors of agriculture and land cadastre. In addition to the substantial allocation for the period between 1996 and 2000 (a total of Euro 40 million), the financial proposal for years 2001 and 2002 was also approved in spring, 2000 (Euro 10 million per annum). Starting the year 2001, this Program is targeting, inter alia, the social sector.

B. Public Administration and the Anti-Corruption Program

25. *The government will ensure adequate participatory implementation of the economic, social, and political reforms.* Such an approach implies not only mechanisms for regular reporting by government entities, but also greater transparency in the activities of the government. Efficient public administration requires transparent legal and regulatory frameworks, strong law courts, trustworthy law enforcement agencies, and better trained and adequately paid civil servants and judges. The government is also committed to undertake a comprehensive public administration reform. Fighting corruption is one of the priorities in all areas of public administration. In this connection, the government has recently established an anti-corruption commission with the responsibility to elaborate a major action plan in this area. The transparency of income, property and expenditures of senior officials are important elements of the anti-corruption campaign. As a first step in its efforts to fight corruption, the government will submit a draft law on financial disclosure of public officials to the Parliament during the first quarter of this year.

26. *In parallel, the government intends to achieve enactment of the new civil service law.* The establishment of corresponding legal and legislative framework is underway. The government will ensure that in the course of this year the civil service law is adopted to define and regulate the structure, the operations and the management of civil service. The law will ensure protection of civil servants, regardless of the changes in political leadership, and will establish some criteria for compliance. The government intends to optimize the public governance structures to achieve increased efficiency of government institutions. Though such reforms might, in the short-run, result in the deterioration of one of the main indicators of poverty — employment — nevertheless those reforms are a precondition for economic development, and reducing corruption.

27. *Reform of the civil service should proceed in line with reforms in the structure of territorial administration.* In this respect, the government will focus on improving the coordination between the Central Government on one hand, and the local governments and territorial administration on the other. To this end, the law on Territorial Administration is expected to be adopted, with amendments being introduced to the law on Local Governance. Communities should become one of the most important elements of governance. The government is of the view that the scope of community activities should be gradually increased, covering health, education, nature protection, and other sectors.

C. Human Development

28. *Poverty reduction and sustainable human development are necessarily linked to the preparation and implementation of a comprehensive and targeted strategy in the areas of health, education and social security, which have suffered seriously during the transition as the adjustment has largely affected the fiscal expenditures for those sectors. It is important that all groups of society participate in the process of building such a strategy, and from this standpoint, the government will pay special attention to women's' full-scale participation in the social and economic life, for which a relevant program will be developed and implemented.*

C.1. Health

29. *The government program on health aims at eliminating existing shortfalls in the system to provide maximum protection as envisaged in the Constitution. This would include increasing the scope of publicly financed medical services and initiating the creation of a new health system that combines both market mechanisms and social guarantees. Public health service will be more targeted, affordable to the poor, efficient, and modern.*

30. *Priority will be given to the development of basic medical care. A system of family health care is being introduced since the last year, which will gradually replace the existing overstuffed system of polyclinics and dispensaries, and thereby contribute to rationalization of the health care system. Development of basic health care will be further facilitated by the introduction of a viable system of medical insurance, which, together with the strict regulation of formal and non-formal payment practices, will ensure adequate financing of the health sector. Another priority of the health sector is the prevention of further spread of HIV, which is a real threat to sustainable human development. In this connection, the government, with the support of the international community, will develop and implement a comprehensive HIV-prevention strategy.*

31. *To cater to the needs of the poor, several hospitals will provide medical care services on a free of charge basis. This pilot program will allow the government to establish an optimal scheme for free of charge health care services. Taking into account the peculiarities of remote regions, special medical groups will be periodically visiting those regions in order to render quality and affordable medical services. Similar visits will be paid to vulnerable families (pensioners, disabled, orphans, etc.). The government will place a special emphasis on the improvement of anti-epidemic and sanitary services, so as to ensure early detection and prevention of epidemic diseases.*

C.2. Education

32. *The government is committed to a sustained effort to improve the country's educational standard. The policy in this area aims to improve the efficiency of the educational system while maintaining fiscal sustainability. The main priorities of preschool, school, special and vocational education include maintenance and improvement of the existing system, ensuring affordability and maximum enrollment, modernization of teaching methods and curriculum, and improvement of the legislative framework. In this connection, the government is preparing a State Program on education development, which will be submitted to the approval of the National Assembly.*

33. *The government's reform efforts in the education sector will include* (i) regulating the legal status of educational institutes and improving the system of management and financing through the introduction of per-student financing; (ii) developing a differentiated approach towards schools in frontier, remote, and isolated regions to make education available to the children in those regions as well; (iii) improving the quality of education by increasing the salaries of teachers and school administrators and training the teachers; (iv) providing free of charge textbooks to first grade students, as well as to the needy students of primary schools pursuant to the Education Law. In addition to that, reforms in higher education will focus on legislative and regulatory changes. In particular, the government will submit to the National Assembly a draft law On High Graduate and Postgraduate Education, to cover issues of licensing and certification of the high education institutions.

C.3. Social Protection: Labor Market, Social Insurance and Safety Nets

34. *The government is of the view that job creation is the cornerstone for addressing social issues, which in turn would help to reduce poverty.* Given that flexible labor markets play an important role in job creation, in order to create pliable labor markets, the government will revise and, if necessary, change the legislation regulating the labor markets, as well as institutions and policies in this area. The government will rationalize public protection against unemployment and focus on policies which assist people in finding jobs, such as job search assistance and career counseling. A particular attention will be paid to the disabled: it is planned to create a training center for the rehabilitation of the disabled to work.

35. *The government will continue to pay special attention to the social assistance programs.* The poverty family benefit will continue to be a priority. The government will continue to improve targeting of the benefit, through introduction of the new formula, and careful screening of the applicants, so as to ensure that the benefit is received by the most vulnerable groups of the population. Measures to improve administration of the benefit, including development of the management information system, monitoring and evaluation mechanisms and expanded local communities' participation, will be undertaken. The government will also pay attention to the welfare of the most vulnerable groups of the population, in particular children and the disabled. In this, local communities and non-governmental organizations' initiatives for development of the social care services will be fostered and supported.

36. *The development of the social insurance system will be targeted at further parametric reform of the state social insurance system and the improvement of its administration, management and financing.* In particular, there should be an individual coding system introduced in the Republic, through which the oversight over the system will significantly improve. With the introduction of the social insurance system there will be a transition made from the social equity principle to social justice principle. We will also concentrate on regular payment of pensions as well as their increase in accordance with economic growth.

C.4. The Earthquake Zone

37. *The government is expecting to resolve most of the problems of the earthquake zone before the end of 2002.* Within the framework of the 2000 financing for the earthquake

zone, 9.7 billion dram was envisaged, of which 6.1 billion dram was financed by the budget (the actual spending has been 8.2 and 5.7 bln drams respectively). Both in the current and subsequent years the main financing for the earthquake zone will come from privatization proceeds. Financing will be provided for capital construction and repair of water supply, sewage lines, as well as capital construction and repair of other objects.

38. *In addition to residential construction, the government is planning to exercise alternative methods of providing the residents in the earthquake zone with housing.* Recently, in cooperation with the USAID, the government has successfully completed a US\$0.6 million housing certificate program, and it intends to continue with the full project of US\$15 million in 2001.

C.5. Public Utilities

39. *Reforms in this sector will be aimed at improving the quality of services provided to households, and making those services available to the population, especially to the poor.* For this purpose, the government intends to ensure delivery of high-quality drinking water, repair of the water supply and sewage systems to reduce water losses; review of water supply and sewage tariffs; and progress with further structural and organizational reforms, including attraction of a private operator for the network and a higher degree of participation in the management by local governments. In line with the objectives of the program, during implementation of these measures, the government will focus on the needs of the most vulnerable groups, in order to protect them from possible adverse impacts of the program.

40. *The Government will take steps to ensure provision of affordable district heating in compliance with the norms of environmental protection.* Necessary investments will be made in this sector, with the view to reduce supply costs and end-user expenditures for an affordable level of service. In this regard, local governments should take the responsibility for district heating, maintenance of the dwelling stock, litter removal and provision of the public utility services by using, whenever necessary, funds from local budgets, to ensure the provision of minimum utility services, to support the newly formed condominiums, and to maintain the dwelling stock.

C.6. Environmental Protection

41. *Within the context of poverty reduction strategy the government intends to work out a strategy of environmental protection.* Environmental protection is of significant relevance to poverty reduction not only because environmental degradation in Armenia is a contributing factor to poor productivity results of resources, and that the poor are disproportionately exposed to the impact of the deteriorating environmental conditions, but also because the low productivity of the resources is determined by the poverty of the rural people. Progress in this area depends on public recognition of mutual links between environmental issues, economic development, and the level of poverty.

42. *The key areas of reform in this area would be:* (i) development of sound policy for the exploration, maintenance, reproduction and use of land, forests, pastures and mineral resources; (ii) develop and enforce procedures for compensating the damage to the environment, (iii) prevent further expansion of land erosion and desertification processes in the country, (iv) control of pollution; (v) development of special programs targeted at

reduction and recycling of wastes; and (vi) reduce losses of and increase forest coverage. In the context of national action plan for environment protection, the government considers it important to implement a program of natural resource management and poverty reduction. The Government will also improve inter-sector dialogue and policy coordination, as well as public participation to avoid further deterioration of environment and natural resources, which is a prerequisite for environmentally sustainable development.

IV. INSTITUTIONAL MECHANISMS FOR THE COMPREHENSIVE PRSP

A. Institutional Arrangements

43. *The government has established a PRSP Steering Committee to oversee the design and development of the PRSP and provide policy guidance in their respect.* The committee includes policy makers, representatives of parliamentary committees, political parties represented in the Parliament, as well as NGOs and donor organizations. While finalizing the I-PRSP, several discussions have been held with all key stakeholders, which have helped to improve the document significantly to address major issues related to poverty alleviation. In ensuring continuation of the discussions of the evolving PRSP with all interested parties, the committee will coordinate its activities with international organizations, government bodies, NGOs, and different groups of population. The Working Group, established under the Steering Committee, will be responsible for daily coordination of PRSP development process, as well as monitoring its implementation. The government will also form working units in priority poverty alleviating areas. The units will be responsible for developing policy in these areas, determining priorities, and establishing monitoring mechanisms. The involvement of the civil society through its structures (i.e. NGOs) would be crucial especially in ensuring appropriate monitoring of the progress under the program.

44. *To ensure broad participation in PRSP development, the government of Armenia, in particular, intends to undertake the following steps:*

- select participants/stakeholders, based on pre-agreed criteria determined by the Steering Committee;
- arrange countrywide seminars on the PRSP, in order to create public awareness and ensure the active involvement of civil society in the design and development of the PRSP, as well as monitoring its implementation;
- launch an informational campaign, to familiarize population with the PRSP objectives and to ensure its participation in the implementation;
- conduct focus group discussions and stakeholder analysis/social assessment;
- provide the feedback from the participants to the Working Groups so that it can use that information in the preparation of the final PRSP document;
- develop a detailed action plan and monitorable targets to prepare the final PRSP for consideration and approval by the government during 2001.

B. Measures to Strengthen Public Expenditure Management

45. *The efficient implementation of the government's poverty reduction strategy requires that weaknesses in the planning and management of public expenditures be addressed.* Specific measures in this field will include prioritization of public expenditure under which expenditure decisions are explicitly linked to government policy priorities; adoption of a three year time horizon for the programming of public expenditures, thus placing the reforms of certain field budgets in a medium-term context; and the refocus of budget management towards a results-oriented rather than an inflows-oriented approach. In addition, measures will be taken in order to improve the monitoring of public expenditures and monitoring systems. With the assistance of the WB and other donor organizations, the government has begun to address these issues through the introduction of the medium-term expenditure program (MTEP), and other initiatives to strengthen budget execution.

46. *The MTEP will ensure that sectoral policies and public expenditures focus on poverty reduction and are based on realistic macroeconomic assumptions.* Currently, the work on preparing a draft 2002-2004 MTEP is underway. It is expected that the draft will be ready by September 2001 and will include expenditure strategies in health, education, transportation, civil service, and social security sectors. The strategy will be oriented at reducing poverty and will incorporate measures that are necessary for improving the process of planning budgetary expenditure. The MTEP will become the basis for the 2002 budget. Future development of PRSP and MTEP documents will be done in parallel to ensure consistency between the government's poverty reduction strategy and its expenditure plans.

V. THREE-YEAR MACROECONOMIC FRAMEWORK

47. The government has prepared two macroeconomic scenarios for 2001-2003, a baseline and optimistic scenarios. *Both scenarios assume a broad reform agenda, coupled with the maintenance of a prudent macroeconomic policy stance.* They differ on the assumption of: (i) the magnitude of foreign direct investment (FDI) and other non-debt creating inflows; (ii) the increase in tourism; (iii) progress made in peace settlement in Nagorno-Karabakh; and (iv) the scale of emigration.

48. Under the *baseline scenario* it is assumed that FDI will increase modestly, the number of tourists will almost double in 2001 (due to the 1700 celebration of Christianity); no substantial progress will be made in reaching a settlement of the regional conflict; and trend in emigration would not be reversed.

49. In contrast, under the *optimistic scenario* FDI and other inflows are assumed to be much higher, the number of tourists would triple in 2001; greater progress will be made in reaching a settlement of the regional conflict, and emigration is expected to slow down significantly as compared to recent years.

50. *Both scenarios assume a tax policy that is pro-growth and pro-poor.* It will reduce the tax burden on the poor, but at the same time enforce the law to fight tax evasion. The tax policy will also encourage investment to achieve higher growth with the view to reduce poverty and increase social protection. Strong efforts to boost tax revenue collection will

provide resources for increasing government expenditure on social sectors (including education and health).

51. *Monetary policy will be geared to keeping inflation around 3 percent.* Under the optimistic scenario, it is possible that the assumed higher FDI and other flows could lead to higher inflationary pressures than under the baseline scenario, but the government will support the Central Bank of Armenia in its attempts to keep inflation within the above bounds. In response to further reforms in the financial sector, private sector credit is assumed to grow from a very low base by an average annual rate exceeding 15 percent over the coming three years. Monetary policy will continue to be conducted in the context of the flexible exchange rate regime that has served the country well.

52. *In the baseline scenario real GDP growth after rising by 6.5 percent in 2001 will over the medium term converge to 6 percent.* Total investment could rise by about 2 percentage points to slightly over 21 percent of GDP. The fiscal deficit (on accrual basis) would narrow to slightly less than 3 percent of GDP by 2003. The external current account deficit (including official transfers) is projected to decline from 14.5 percent of GDP in 2000 to about 10.5 percent of GDP by 2003. Financing of this deficit will require continued support from foreign donors, with foreign assistance for the budget in the form of grants, as well as concessional loans. The government is committed to cooperate with the donors in obtaining and effectively using these resources. With most of the financing being provided on concessional terms and with longer maturities, the debt-service payment, and the net present value of debt to exports of goods and services are expected to decline to about 12 percent and 115 percent, respectively, by 2003. To preserve the capability of the economy to react to adverse shocks, financial policies will be geared toward keeping the foreign exchange reserves of the Central Bank of Armenia at a level of about 3.5 months of imports.

53. The government is of the view that to significantly reduce poverty and unemployment the economy should move to a higher growth path. *In the optimistic scenario real GDP would rise to 7.5 percent in 2001 and then to about 9 percent in 2003.* Nevertheless, real GDP by 2003 would still remain below 90 percent of its 1990 level (Figure 3). This would require a significant increase in investment, which is expected to rise to about 22 percent of GDP by 2003, and domestic savings would improve significantly (Table 1). While the government revenue to GDP ratio would improve more than in the baseline scenario, it will be partly offset by higher non-interest current expenditure to provide resources for additional programs for poverty alleviation. Consequently, the overall deficit, on an accrual basis, would narrow from 7.1 percent of GDP in 2000 to 2.8 percent of GDP in 2003. The external current account deficit (including official transfers) would also be reduced substantially, from 14.5 percent of GDP in 2000 to 9.6 percent of GDP in 2003, as a result of higher growth in exports and larger receipts from tourism. Most social indicators would improve significantly (Table 2).

Figure 3. Real GDP Developments

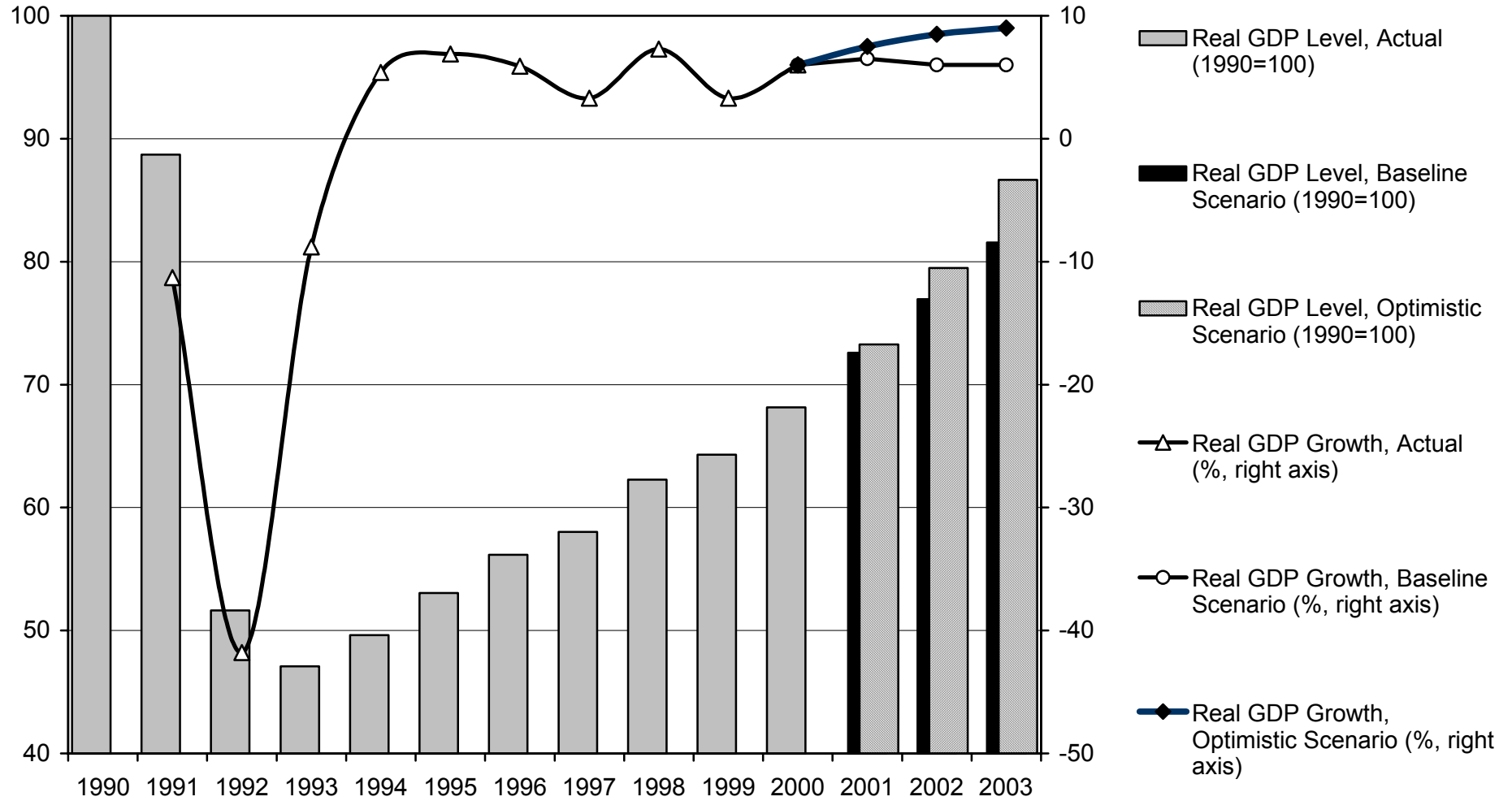


Table 1. Macroeconomic Framework, 1998-2003

				Baseline Scenario			Optimistic Scenario		
	1998	1999	2000	2001	2002	2003	2001	2002	2003
	actual		prel.	program					
Output									
Nominal GDP (in billion drams)	959	988	1,032	1,149	1,254	1,369	1,159	1,295	1,454
GDP at current prices (million US\$)	1,892	1,845	1,914	2,089	2,280	2,489	2,108	2,356	2,645
Real GDP growth (in percent)	7.3	3.3	6.0	6.5	6.0	6.0	7.5	8.5	9.0
GDP deflator (in percent)	11.2	0.1	-1.4	4.5	3.0	3.0	4.5	3.0	3.0
End of period inflation (in percent)	-1.2	2.1	0.4	3.5	3.0	3.0	3.5	3.0	3.0
Period average inflation (in percent)	8.7	0.7	-0.8	4.5	3.0	3.0	4.5	3.0	3.0
Saving-investment balance (percent of GDP)									
Government Balance	-4.8	-7.2	-7.1	-4.0	-2.6	-3.0	-3.9	-2.5	-2.8
Saving	-0.2	-2.6	-3.6	-0.1	1.4	1.2	0.0	1.5	1.6
Investment	4.7	4.6	3.5	3.9	4.0	4.2	3.9	4.0	4.4
Non-Government Balance	-16.4	-9.4	-7.4	-10.0	-9.5	-7.5	-10.0	-9.4	-7.4
Saving	-2.1	5.3	7.3	7.9	8.4	9.7	8.0	8.7	9.8
Investment	14.3	14.7	14.7	17.9	17.9	17.2	18.0	18.1	17.2
Total Investment	19.0	19.3	18.2	21.8	21.9	21.4	21.9	22.1	21.6
National saving	-2.2	2.7	3.7	7.7	9.8	10.9	8.0	10.2	11.4
State Government Budget (in percent of GDP)									
Total revenues and grants	17.1	19.3	16.3	17.2	17.6	18.0	17.3	17.9	18.3
Total expenditures	21.9	26.5	23.4	21.2	20.2	21.0	21.2	20.4	21.1
o/w: current expenditures	16.3	19.2	18.3	16.3	15.6	16.5	16.3	15.8	16.5
Overall deficit (accrual)	4.8	7.2	7.1	4.0	2.6	3.0	3.9	2.5	2.8
External sector									
Exports of goods (percent change)	-2.0	8.0	24.1	16.0	10.0	10.0	16.0	14.0	13.0
Imports of goods (percent change)	0.9	-8.6	7.8	11.0	2.7	4.1	12.0	5.5	4.5
Current account (in percent of GDP)									
Including official transfers	-21.2	-16.6	-14.5	-14.1	-12.1	-10.5	-13.5	-11.6	-9.6
Excluding official transfers	-27.1	-21.7	-19.8	-18.9	-16.5	-14.5	-17.5	-15.8	-13.6
Gross external reserves in months of imports ¹	3.9	3.8	3.5	3.6	3.6	3.5	3.6	3.7	3.8
Total external debt in US\$ millions	787	855	862	987	1,068	1,125	986	1,066	1,125
as percent of GDP	41	46	45	47	47	45	47	46	44
Memorandum item:									
External debt NPV ²	144	154	135	132	122	115	131	119	111

¹ Minimum level set for 2001-2003.

² Medium- and long-term public and publicly guaranteed debt in percent of exports of goods and services, where exports is a three-year moving average centered on the preceding year.

VI. MONITORING INDICATORS

54. The government will establish a monitoring system including the design of a database and collection of information on social indicators, on a regular and timely basis. Such a monitoring system will be implemented in cooperation with international organizations. Based on the 1998/99 Integrated Household Survey conducted by the National Statistics Service, and in cooperation with the World Bank, regular quarterly targets for household income and expenditure surveys will be designed.

55. The population census to be conducted during the second half of 2001 will provide the sampling frame for undertaking a fully representative living standard measurement. In this regard, a regular program of household income and expenditure surveys will be established. The results of all surveys will be publicized and the government is committed to consult with relevant entities on these results through appropriate channels (e.g. workshops, conferences).

56. With a view to receiving more complete information about the health care situation and food for children, the government, in coordination with the USAID and UNICEF, will conduct a large-scale survey, that include a number of demographic indicators. The results of the survey will be published by the end of 2001.

57. In order to assess progress in the areas of social and human development, the government, in cooperation with the UNDP and other international organizations, will set up a system of enhanced monitoring and prevention. Such a system will enable continuous monitoring of the development of social indicators by compilation, analysis, and publication of the results on semi-annual basis. In addition, the government will conduct a comprehensive analysis of the socio-economic programs, undertake a sustained effort to examine the existing legislative framework, and initiate amendments to tailor the socio-economic policy to the needs of the PRSP.

58. The government will publish the results of all relevant surveys that show trends of social and poverty indicators, and arrange public discussions (through seminars, media publications, consultations with public organizations, etc.). In this respect, monitoring should contribute to consolidation of society around the PRSP, and ensure broad participation in the program implementation.

59. The government intends to localize the system of poverty monitoring, envisaging three levels of data collection and processing (community, district, republican). In general, the government considers the participation of communities in the preparation and implementation of the PRSP and its implementation crucial for the program to be realistic and efficiently implemented. In cooperation with international organizations (UNDP, USAID, World Bank, and other organizations) it will set up monitoring field offices, and district centers. Consolidation and analysis of the indicators at a district level will allow to obtain an improved picture of poverty and promote the execution of PRSP throughout the regions.

60. A monitoring and analysis unit will be established with the responsibility for specifying the list of poverty and social development indicators that will be monitored. The unit will be responsible for overseeing and coordinating the monitoring of PRSP indicators by elaborating the list of the basic indicators describing the developments in

poverty (through collection of relevant data and conducting continuous monitoring thereof), comprehensive analyses, introducing early-warning system for potential negative socio-economic developments, as well as by suggesting necessary adjustments to the policies under the PRSP. The introduction of the system of PRSP monitoring and analysis would require the cooperation of government institutions with the National Statistical Service, territorial administrations and local governments, as well as research institutes, NGOs, political parties, trade unions and all interested structures of the civil society.

Table 2. Monitoring of indicators

	1996	1997	1998	1999	2000	Baseline Scenario			Optimistic Scenario		
						2001	2002	2003	2001	2002	2003
	actual					est.	program				
<u>Poverty Reduction</u>											
Poor as percent of total population	55	-	55	-	-	53	51	48	51	48	44
Extremely poor as percent of total population	28	-	23	-	-	22	20	18	20	17	12
<u>Income Inequality</u>											
Gini-Coefficient				0.59		0.56	0.49	0.44	0.53	0.45	0.38
<u>Budgetary expenditures (Instruments)</u>											
Education as percent of GDP	1.7	1.7	1.8	1.9	2.8	2.7	2.8	2.9	2.7	2.9	3.0
Public expenditure on health (as percent of GDP)	1.4	1.2	1.4	1.4	1.6	1.6	1.7	1.8	1.6	1.9	2.1
<u>Social Indicators (Results)</u>											
Education: Gross enrollment ratio for all levels (percent)	66.3	64.8	61.8	60.2	60.0	60.5	62.0	63.3	60.5	63.4	66.0
Infant mortality rate (per 1,000 live births)	15.5	15.0	14.7	15.4	14.8	14.5	14.2	14.0	14.0	13.0	12.0
Maternal mortality rate (per 100,000 live births)	20.8	38.7	25.4	32.9	46.8	33.0	30.0	22.0	30.0	24.0	20.0

Appendix 1. Policy Matrix

Measure	Result	Objective	Implementation unit	Timing
I. Economic growth				
1. Creation of a high-level Business Council on investment promotion and business support, and approval of a program for investment climate improvement	Improvement of the investment climate	Introduction of public-private dialogue for investigation and elimination of barriers for business development	Ministry of Industry and Trade	2000
2. Organization of the international business conference on Armenia in New York	Attraction of foreign investments	Presentation of investment projects to international financial community	Ministry of Industry and Trade	2001
3. Adoption of all legal statutes necessary for accession into WTO	WTO membership	Contribution to establishing stable economic environment and favorable climate for investments	Ministry of Industry and Trade	Q1 2001
4. Adoption of a new privatization program for 2001-2003	Increase in economic efficiency	Ensuring effective economic growth	Ministry of State Property Management	Q1 2001
5. Approval of a medium-term strategy for the effective use of the privatization proceeds	Establishment of priorities for the use of privatization proceeds	Effective use of privatization proceeds	Ministry of Finance and Economy	2000
6. Adoption of a legal statute on the transfer of land to privatized enterprises	Increase in the efficiency of privatized enterprises	Ensuring appropriate conditions for operation of privatized enterprises	Ministry of State Property Management State Cadastral Committee	Q1 2001
7. Adoption of laws on Joint-stock companies, Limited liability companies, Registration of legal entities.	Business climate improvement	Consolidation of the legal economic framework	Ministry of Industry and Trade Ministry of Justice	2001

Measure	Result	Objective	Implementation unit	Timing
8. Adoption of changes in Civil Code and/or Civil Procedures Code	Full operation of bankruptcy procedures	Increased efficiency in companies' operations, financial rehabilitation	Ministry of Justice	Q2 2001
9. Implementation of Irrigation Development Schemes	Institutional restructuring of the sector, strengthen Water User Associations, conversion from pumping to gravity irrigation to increase efficiency.	Increased efficiency and financial rehabilitation of the irrigation sector	State Water Committee	starting 2001
10. Expand access of both on-farm and off-farm credits to rural population	Establishment of new lending mechanisms including micro-credits for on-farm investments, agro processing industry, and self-employment activities	Availability of micro-credits to farmers, promotion of agricultural production, affordability of agricultural machinery and fertilizers	Ministry of Agriculture Ministry of Finance and Economy	starting 2001
11. Initiating public discussions on the tax and customs reforms program	Agreed program on tax and customs reforms	Formation of more effective tax and customs system	Ministry of Finance and Economy	2000
II. State Governance and combating corruption				
12. Adoption of draft law on Civil Service	Adoption of law on Civil Service	State governance system improvement	State Commission on Governance Reforms	2001
13. Adoption of draft law on Financial disclosure for high-level public officials	Establishment of a system of financial disclosure for high level public officials	State governance system improvement	Ministry of State Revenues	2001
14. Adoption of draft law on Territorial administration and amendments to the law on Local governance	Adoption of law on Territorial administration and amendments to the law on Local governance	Clarification of state, territorial and local governance bodies' mandates and interrelationship	Ministry of Territorial administration	2001

Measure	Result	Objective	Implementation unit	Timing
15. Design of an anti-corruption program	Adoption of an anti-corruption program	Combating corruption	State Anti-corruption Commission	2001
16. Adoption of legal statutes necessary for implementing the law on Procurement	Fair competition in the field of state procurement	Regulation of the state procurement, ensuring transparency of procurements	Ministry of Finance and Economy	2000
III. Labor market and social protection				
17. Re-registration of vulnerable families, assessment of the support program for vulnerable families, adoption of a new methodology for poverty level based on information received from re-registration and survey of households, creation of database on vulnerable groups and assistance rendered to them	Improved targeting of assistance to vulnerable groups and verification of number of recipients	Increased efficiency of assistance programs	Ministry of Social Security	2001
18. Adoption of laws on State pensions and Social security identification code system	Unified regulation of state pensions Legislative regulation of introduction of identification code system	Completion of the first stage of pension reforms Introduction of identification code system	Ministry of Social Security	2001
19. Development of draft Labor Code and other related labor legislation, as well as the Law on Social Assistance Provision	Adoption of the mentioned drafts	Reduction of poverty through improvements in the legal framework and increased labor markets flexibility and employment opportunities	Ministry of Social Security	2001
20. Establishment of proportionality amongst sizes of all types of pensions	Abolition of unjustified differences amongst various types of pensions	Ensuring adequacy for various types of pensions	Ministry of Social Security State Fund of Social Insurance	2001

Measure	Result	Objective	Implementation unit	Timing
21. Establishment of differentiated family allowances based on the level of vulnerability of a family	Poverty reduction	Efficient use of state funds	Ministry of Social Security	2001
22. Increased targeting in social assistance programs towards the children (below 16 years)	Improved social conditions for the children	Efficient use of state funds	Ministry of Social Security	2001
23. Formation of proportionality amongst wages, pensions, allowances and stipends	Elimination of existing obvious difference	Reduction of social tension	Ministry of Social Security	2001-2002
24. Restructuring of State Fund for Social Insurance and increasing efficiency of funds accumulation	Timely payment of pensions	Reduction of social tension	Ministry of Social Security State Fund of Social Insurance	2001
25. Improved assessment of family vulnerability level	Assistance to the poorest	Increased targeting of social policy	Ministry of Social Security	Continuous
26. Ensuring economic and social protection of the families, and development of state programs for this purpose	Increased level of economic and social security of the families	Reduction of social tension	Ministry of Social Security	2001-2003
IV. Health				
27. Introduction of viable health insurance system	Attraction of additional funds, more efficient use of budgetary funds	Improved efficiency of financing the health care system	Ministry of Health	Starting 2001
28. Approval of a program for further reforms in health financing sphere	Decreasing need for budgetary financing, development of voluntary medical insurance	Improved efficiency of financing the health care system and targeting in the system	Ministry of Health	2001

Measure	Result	Objective	Implementation unit	Timing
29. Introduction of family health care system	Make the first chain of health care more affordable for the public	Improve early detection and prevention of diseases	Ministry of Health	2001-2003
30. Establishment or reconstruction of rural ambulatories	Reconstructed and re-equipped rural ambulatories, higher quality and affordable first-aid	Progressive development of ambulatory-policlinic system in districts	Ministry of Health	2000-2001
31. Establishment of free of charge health care system based on several hospitals	The highest possible centralization of free of charge medical care guaranteed by the state	Increase in the affordability of medical care for most vulnerable groups of population	Ministry of Health	Starting 2000
32. Inclusion of persons in the targeted health care programs based on the vulnerability level of their families	Assistance to the poorest	Increasing in the targeting of the social policy	Ministry of Health	2002
V. Education				
33. Design of state program for the development of education	Parliament approval of the state program for the development of education	Ensuring education sphere maintenance and development through targeted budgetary financing	Ministry of Education and Science	2001
34. Modernization of teaching methods and essence of pre-school education	Organization of short-term courses for preparing for the school for children of the age of 6 years and not included in the pre-school educational institutions	Rendering assistance to families in teaching and educating children at pre-school age	Ministry of Education and Science	2001-2003

Measure	Result	Objective	Implementation unit	Timing
35. Increase in wages of public school teachers as stipulated in the law on Education	Improvement in the social conditions of teaching personnel	Increase in the efficiency of education	Ministry of Education and Science Ministry of Finance and Economy	2000-2004
36. Increase in wages of scientific workers in scientific institutions as stipulated in the law on Scientific and Scientific-Technical Activities	Improvement in the social conditions of scientific personnel	Increase in the efficiency of science	Ministry of Education and Science Ministry of Finance and Economy	2000-2004
37. Ensuring free of charge supply of textbooks to elementary level pupils	Provision of free of charge textbooks to all first grade pupils and socially vulnerable elementary level pupils	Improvement in the social conditions of children (especially those from vulnerable families)	Ministry of Education and Science	Starting 2000
38. Introduction of financing scheme based on the number of pupils	Improved mechanisms for management and financing of public education, decentralization of the management in the system and introduction of financing scheme based on the number of pupils, providing for differentiated approach to understaffed schools of frontier, remote and isolated areas	Increased efficiency in the operations of secondary education schools and opportunities for autonomy at the schools, establishment of optimal teaching and administrative vacancies ratio	Ministry of Education and Science	Starting 1998
39. Design and implementation of a program for rural schools development	Targeted preparation of wide profile teaching personnel for understaffed rural schools	Improved premises for rural schools, provision of personnel, inclusion of young specialists	Ministry of Education and Science Municipalities	2001-2003

Measure	Result	Objective	Implementation unit	Timing
40. Design and implementation of a methodology for additional compensation for long-term pedagogical experience	Introduction of an additional compensation system for long-term pedagogical experience	Ensuring social protection of educational system employees	Ministry of Education and Science Ministry of Social Security	2001-2003
41. Inclusion in the free of charge educational schemes at the state educational institutions based on the level of family vulnerability	Assistance to the poorest	Increased targeting of social policy	Ministry of Education and Science Ministry of Social Security	2003
42. Design of the special education system rationalization program	Implementation of structural reforms in common and boarding schools reforming part of institutions into two-day schools, organization of support services for children who need special teaching conditions	Improvement in the organization of education for children who need special teaching conditions	Ministry of Education and Science Municipalities	Starting 2000
43. Rationalization of secondary and higher educational institutions network in accordance with the requirements of labor market and social order	Optimization of secondary and higher educational institutions, making legal status of educational institutions consistent with existing legislation and market relationships, optimization of free of charge and paid education schemes, development of programs for staff training	Study of the need for specialists from secondary and higher educational institutions and based on this study formation of state order, introduction of contractual relationships, development and implementation of a new scheme for setting stipend levels, establishment of a unified discount system for tuition.	Ministry of Education and Science	2001-2003

Measure	Result	Objective	Implementation unit	Timing
44. Design of a state program on higher education development	Design and approval of draft law on Higher Education and other legal and procedural documents	Bringing higher education in line with existing scientific, economic and social needs, as well as international educational practices, further development of multi-level educational system.	Ministry of Education and Science	Till 2003
VI. Utilities				
45. Design and approval of a financial rehabilitation program for water and sewage system	Financial rehabilitation of the system	Final financial rehabilitation of the water and sewage system	State Water Committee Other Relevant Bodies	2001
46. Implementation of Municipal Water and Sanitation Program supported by the World Bank credit	Improvement of municipal water and sanitation services in the most needy areas	Rehabilitation of water and sewage system	State Water Committee	2001-2005
47. Design and approval of a financial rehabilitation program for the heating system for 2002-2004	Financial rehabilitation of the system	Facilitating access to affordable and clean heating services by the urban population in a fiscally sustainable manner	Ministry of Finance and Economy	2001

Measure	Result	Objective	Implementation unit	Timing
VII. Environmental protection				
<p>48. a) Improve management of land and forest resources and pastures to increase productivity of crop and livestock systems and non-timber forest products to improve household nutrition and cash surpluses;</p> <p>b) Provide rural poor with choices that enable them to use grazing, arable land, forest and waters resources in more sustainable manner;</p> <p>c) Promote environmentally friendly and ultimately sustainable agriculture practices aiming at increased productivity and conservation of landscapes</p>	<p>Sustainable development and reduced rural poverty in mountainous and forested areas through improved management of natural resource base.</p>	<p>Programs for management of natural resources through better planning and involvement of all levels stakeholders implemented in selected watersheds;</p> <p>Complex of measures oriented towards reducing pressure on forests, water, land resources implemented;</p> <p>Soil erosion from arable land reduced;</p> <p>Improved inter-sector dialogue and policy co-ordination to avoid further deterioration of natural resources.</p>	<p>Ministry of Environment Protection</p> <p>Ministry of Agriculture</p>	<p>Since 2001 and onwards</p>
<p>49. Reduce losses and improve forest cover, maintain forest resources as a source of tradable carbon</p>	<p>Improve management and conservation of forest resources</p>	<p>National Forest Program Developed and implemented (2002 and onwards);</p> <p>Reforestation of destroyed and degraded forests;</p>	<p>Ministry of Environment Protection</p>	<p>2001 and onwards</p>

Measure	Result	Objective	Implementation unit	Timing
50. Pursue conservation of biodiversity and critical habitats through integrated ecosystem management with direct involvement of local communities	Improve protected areas management and conserve globally important biodiversity	Protected area management improved; Public involvement and awareness increased; Biodiversity in forests, pastures and meadows maintained and improved.	Ministry of Environment Protection	Since 2001
51. Increase public involvement in decision making, co-operate with society groups and mass media about environment issues	Raise public awareness and release information about environment.	Environment assessment regulations improved; A system for transparent dissemination of environmental information to policy makers and general public developed and implemented.	Ministry of Environment Protection	Continuous

Measure	Result	Objective	Implementation unit	Timing
<p>52. a) Manage water resources in such a way to provide equitable access to all users. b) Secure water to meet basic human needs (drinking, sanitation, cooking, washing).</p>	<p>Improve management of water resources.</p>	<p>Elaborate policies for integrated water sector management and implement a National Strategy for Integrated Water Resources Management; Institutional and administrative framework for water resources management rationalized and optimized (2001); Water resources planning and allocation of water resources carried out in an integrated way through wide participation of stakeholders (users, planners and policy makers) at all levels and stages of planning and implementation.</p>	<p>State Water Committee</p>	<p>2001-2003 and onwards</p>
<p>VIII. Monitoring of indicators</p>				
<p>53. Design of monitoring and analysis system</p>	<p>Monitoring of social and poverty indicators, analysis of social policy and socio-economic situation.</p>	<p>Ensuring efficient design and implementation of PRSP, development of proposals in collaboration with territorial and local governance bodies and the civil society</p>	<p>Ministry of Finance and Economy</p>	<p>2001-2003</p>
<p>54. Survey of households</p>	<p>Data describing poverty and standard of living</p>	<p>Information necessary for the development of poverty reduction strategy</p>	<p>National Statistical Service</p>	<p>2001-2003</p>

