

## *The Current Phase of Pension Reforms in Armenia*



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### **We're finally awake**

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Talks about pension reforms have been going on for years without ever turning into walks. Even when there were things being done, those activities can be described as arias from the opera “cosmetic renovations”. Everybody seems to accept this, even those responsible for the field.

Now, after 14 years of transition to new economic relations (!), some enthusiasm can be recorded. The key players involved in policy development in the corresponding field have launched a “strategizing-policy-making-campaign”. The Fund for Social Insurance empathetically voices the current perils and advocates for the consistency of reforms in the existing system. The Central Bank is for more drastic changes and has brought to the table its own vision of reforming the RA pension system. The Ministry of Labor and Social Affairs initiated a document later ratified by the Government of the RA, “Strategies for the reformation of the RA pension system”. It seems like the cart<sup>1</sup> is finally moving.

### **In the whirl of institutional interests**

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The pension system is appealing not only in the context of different administrative institutions, but also in regard with business interests. Leverages, opportunities for managing considerable sums of money, mutually conditioned development of various spheres of economy, such as mortgage, insurance, stocks and other markets... All these factors may serve for the parties involved as sufficient reasons to pull the blanket towards themselves. It seems, this can already be observed: let's scan through the approaches advocated by key players.

Objectively, the Social Insurance Fund, which is already rather weak in terms of functionality, cannot be overjoyed with the perspective of drastically changing the current system of mandatory insurance, which is based on the principle of “solidarity between generations”. To prove the contrary, one can certainly find both the corresponding sad aspects of our reality and the “international experience” of failures in those countries that have introduced individual accounts.

The Central Bank of Armenia has its own agenda. It is only natural that it should pursue the creation of any opportunities opening up for the financial system. In its vision the CB has chosen to move forward by highlighting the advantages of cumulative pension system in the light of revealing the shortcomings of the distributive financing principles (*pay as you go*). Of course, there's also the “international experience”.

Between these two extremes the Ministry of Labor and Social Affairs, which is responsible for the coordination of developing the state policy, has come up with strategic approaches, which have already been ratified by a governmental decree.

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<sup>1</sup>Reference to the famous Russian fable about the swan, the crab and the pike. Each is trying to pull the cart in his direction, so they end up without moving it even for an inch.

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## Without stepping on anybody's toes

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The new strategic approaches seem to provide a solution to quite a delicate issue: to meet and at the same time not to meet the contrasting aspirations of the involved parties to a possible extent. In a result, there is a certain approach, which briefly can be described as follows: let's grab a bit from the current pensioners and "manage" these bits for the future ones; and let's grab a little bit more from the current employees, so that the current pensioners can survive; let's take a bit from Chile, a bit from Kyrgyz Republic, add a little bit ourselves and start...

Probably given the current situation, this is the only possible option, which will allow building up the new without killing the old. However, the issue here resides in a totally different dimension: both the approaches of the parties and the common policy are positions bearing the imprint of a group of specialists and in some cases of administrative interests. Those positions do not only lack public support, they are not even understood by people.

## At least once "from people for people"

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In comparison with other reforms, the pension reforms are more long-term, visionary and "democratic"<sup>2</sup>. It has been mentioned many times that any program of reforms is destined to failure if it does not enjoy the participation and support of the people, *demos*. Now the time has matured when the issue touches everybody and may interest all without exceptions. Thus, it is possible to move forward choosing the path of ALL-representative participation.

It is not difficult to notice that there are 4-5 "pure" or "mixed" scenarios of possible development. Certainly, it is possible to summarize all these scenarios in a paragraph, develop 4 or 5 briefs framed in a language clear to all, then take these briefs from a village to a village, from a community to a community, from a district to a district; form focus groups, make non-partisan presentations of the options and start discussions. In the end, it will be possible to summarize all the discussions and state, "These are the results of "all-people" discussions. Our people are ready for this." Thus, it becomes feasible to both gain people's support and at the same time, not hurt any parties and have all of them happy.

An expensive enterprise? Well, it certainly will not be more expensive than the interest payments of other possible loans in future, which will aim at covering the costs of hiring international consultants, who will be sent on business trips to Armenia for the purpose of introducing the "international experience".

*The paper is elaborated based on the opinions passed by the participants of the discussion on "The RA Pension System: Reality and Prospects", which took place on July 7<sup>th</sup>, 2005. The roundtable discussion was attended by independent analysts, government officials, entrepreneurs, and representatives of the international organizations.*

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<sup>2</sup> Meaning: of or for the people in general