

# Rural Credit and Finance Overview in Armenia

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## Introduction

Agricultural credit and rural finance play important role in the recovery and growth of transitional countries. Rural credit and finance problems are caused by a combination of “normal” imperfection of rural credit markets and specific transition problems such as macroeconomic instability, institutional reforms of the financial system, low profitability in agriculture, high risk and uncertainty, and general contract enforcement problems (OECD, 2001).

In general, the model of agricultural transition in Armenia is similar to that of other transition countries in the region (Cocks, 2003). Like in many transitional countries of Europe and Central Asia (ECA) a major problem in Armenia during the transition period was the breakdown of the relationships of farms with input suppliers and output markets. The result is that many farms and rural households face serious limitations in accessing essential inputs (feed, fertilizer, seeds, etc.) and selling their output (Swinnen, 2005).

After the collapse of the former state and collective farms, established food processors in Armenia and in other former soviet republics, have lost guaranteed, state directed, supplies and demand. They have had to establish their own relationships to effectively acquire agricultural raw materials. Restructuring and privatization has led to the separation of many previously horizontally and vertically integrated enterprises together with the emergence of new type of businesses (White and Gorton, 2004). This itself led to a situation of widespread financial distress, high discount rates, and a lack of contractual enforcement (Cocks, 2003) and hold up problems (Gow & Swinnen, 2001). Surveys in many transitional countries have shown that from the perspective of farm borrowers the primary issue in rural finance has been the level of interest rates on loans. Another survey in CEE countries reflects the general view that limited access is not the primary problem, rather interest rates are perceived to be simply too high (Pederson & Khitarishvili, 1997).

The aforementioned problems common in many transitional countries are still apparent in Armenia. The lack of credit inhibits the development of cash crops, which require higher input costs. Farmers are in a survival mentality (Matosyan and Harmon, 2003). Lack of financial means is a major factor that prevents farm households from using all their agricultural land.

## Armenia in Transition

Armenia is a landlocked and mountainous country covering an area of 29,800 km<sup>2</sup>. It is located in the South Caucasus bordering Turkey, Georgia, Iran and Azerbaijan. The population of Armenia is 3.238 million as of January 1, 2009 (NSS, 2009).

The average elevation of the country is about 1,650 m. The climate is continental with hot summers and cold winters and annual rainfall varying between 300mm in the Ararat Valley to about 600mm in the rest of the country. The country is divided into 9 agricultural zones. According to the Land Balance in 01.07.2007 (Statistical Yearbook of Armenia 2008), total agricultural land comprises about 2,122 thousand hectares of which 452.1 thousand hectares are arable land (21.3%), perennial grass of 29.6 thousand hectares (1.4%) hay lands of 127.5 thousand hectares (6%), and 1118.3 thousand hectares (52.7%) of pasture and about 395 thousand hectares of other land (18.6%).

During the Soviet period Armenia was an industrialized country with a large rural population. Armenia was exporting its outputs chiefly to the other “brother” republics, and in turn relying on them for key inputs.

The severe earthquake in 1988 that destroyed more than a third of the production capacity followed by the collapse of the Soviet Union left Armenia in deep political, economic and social crises and eventually,

war. The inherited governmental and legal infrastructure was seriously flawed, plagued with overwhelming levels of bureaucracy, corruption and nepotism (Kyureghian & Zohrabyan, 2005).

The market-oriented reforms introduced in 1991-92 comprised the privatization of many productive resources and organizations. Armenia was one of the former soviet republics to privatize agriculture effectively and swiftly during 1991-92: after independence followed the legislation necessary for the privatization of land, around 70% of arable land and agricultural output came into hands of individual peasant farms (Lerman & Mirzakhanian, 2001). Although by 1993 GDP declined to 47% of its 1990 level, and then gradually recovered to 68% in 2000, agricultural output did not show any significant declines during transition remaining stable during 1990-97 and increasing afterwards (Bezemer & Lerman, 2003). In recent years the share of agriculture in GDP comprised around 20-25 percent. During last three years the share of Agriculture in GDP decreased a comprised about 15% in 2008. This reduction was due to booming growth in construction, industry and services sectors.

### Agricultural Credit and Rural Finance in Armenia

Table 1 shows the credits of commercial banks operating in Armenia in agriculture and food industry for the period of 2004-2008. During the mentioned period it's obvious that total agricultural credits experienced a compound growth rate of about 43% a year. Individual annual growth rates were varying between 25%-62%. The percentage of agricultural credits in total stayed relatively stagnant, between 5.4%-6.3%. However the portion of credits having a maturity of 1 year and more decreased starting from 2004 till 6.2% of total then started to grow again and comprised about 7% of total credits (See Table 1). Another positive factor is that the proportion of agricultural credits having maturity of 1 year and more is gradually increasing. In 2005 it was roughly 64% of total agricultural credits and in 2008 it was about 78%. This clearly indicates that more long-term investments have been directed to agriculture. Table also shows that credits in food industry have significantly increased showing annual compound growth rate of about 24%. However during last two years it's noticeable a slight decrease in credits to food industry. Agricultural loan portfolio made up about 5.7% of GAO in 2008, this indicator was 1.7% in 2004. This is clearly another positive improvement.

**Table 1: The agricultural credits of the commercial banks operating in Armenia**

(in million AMDs)

	2004		2005		2006		2007		2008	
	Total	Maturity of 1 year and more	Total	Maturity of 1 year and more	Total	Maturity of 1 year and more	Total	Maturity of 1 year and more	Total	Maturity of 1 year and more
Total Credits, Leasing and Factoring to Residents	137,087	68,832	187,804	106,630	233,673	138,018	416,660	260,821	626,575	413,885
Of which										
<b>Industry Total</b>	35,593	19,340	39,099	23,522	39,264	28,336	56,267	39,676	85,858	60,307
Food Industry	14,037	8,429	15,152	11,064	19,591	14,750	24,432	19,136	32,683	25,317
% in Industry Total	39.4%	43.6%	38.8%	47.0%	49.9%	52.1%	43.4%	48.2%	38.1%	42.0%
<b>Agriculture Total</b>	8,611	5,900	11,304	7,273	14,196	8,533	22,374	16,242	36,467	28,440
<b>Percentage in Total Credits</b>	6.3%	8.6%	6.0%	6.8%	6.1%	6.2%	5.4%	6.2%	5.8%	6.9%

Source: CBA, "The Credits of Commercial Banks", 2004-2008.

The vast majority of Armenian banks refrain from financing agriculture due to the high risk of the sector. As of December 31, 2008 there were 22 commercial banks with 367 branches operating in Armenia. As it was mentioned only about 5.8% of total credit investments of these commercial banks went to agriculture. Table 2 summarizes the distribution of credit investments of these 22 banks by sectors and by banks. The only bank that is having a serious share in lending to the agricultural sector is the ACBA-Credit Agricole Bank, which according to financial statement provided to Central Bank of Armenia had about 72% of the total commercial bank portfolio in agriculture as of December 31, 2008. Its share gradually increased during last 5 years, as in 2004 ACBA's share was about 65%.

**Table 2. The Credit Investments' Distribution of the Commercial Banks operating in Armenia**

As of Dec. 31, 2008	Distribution of credit investments by sectors					Distribution of the agricultural credits by banks		
	Industry		Agriculture			Agriculture		
	Total	of which food Industry	Total	Plant Growing	Animal Growing	Total	Plant Growing	Animal Husbandry
Bank 1	7.7%	6%	2.1%	0.9%	1.2%	1.5%	1.9%	1.2%
Bank 2	22.5%	7%	4.0%	1.7%	2.3%	2.1%	2.9%	1.8%
Bank 3	14.7%	4%	0.8%	0.0%	0.8%	0.3%	0.0%	0.4%
Bank 4	28.2%	9%	5.0%	0.0%	5.0%	4.5%	0.0%	6.6%
Bank 5	19.7%	3%	2.0%	0.6%	1.4%	3.8%	3.5%	3.9%
Bank 6	16.4%	9%	0.1%	0.0%	0.1%	0.1%	0.0%	0.2%
Bank 7	4.4%	1%	0.7%	0.0%	0.7%	0.2%	0.0%	0.2%
Bank 8	7.3%	4%	0.7%	0.0%	0.7%	0.1%	0.0%	0.2%
Bank 9	3.7%	1%	0.1%	0.1%	0.0%	0.0%	0.1%	0.0%
Bank 10	12.9%	11%	1.8%	0.9%	0.9%	2.3%	3.6%	1.6%
Bank 11	4.9%	3%	3.2%	1.0%	2.2%	2.5%	2.4%	2.5%
Bank 12	5.9%	5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Bank 13	5.0%	3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Bank 14	12.6%	6%	0.6%	0.0%	0.6%	1.2%	0.0%	1.8%
Bank 15	5.8%	2%	32.0%	10.7%	21.3%	72.3%	75.9%	70.6%
Bank 16	11.3%	5%	4.8%	3.1%	1.7%	3.0%	6.1%	1.5%
Bank 17	4.0%	4%	2.6%	0.0%	2.6%	0.6%	0.0%	0.9%
Bank 18	11.6%	0%	0.2%	0.0%	0.2%	0.1%	0.0%	0.1%
Bank 19	13.2%	5.0%	0.5%	0.0%	0.5%	0.6%	0.0%	0.9%
Bank 20	17.0%	6.6%	2.3%	0.5%	1.9%	4.7%	3.0%	5.5%
Bank 21	28.4%	6.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Bank 22	12.6%	5.8%	0.7%	0.7%	0.1%	0.2%	0.5%	0.0%
<b>Total by Sectors</b>	<b>13.4%</b>	<b>5.1%</b>	<b>5.7%</b>	<b>1.8%</b>	<b>3.9%</b>			
Total by Banks						100.0%	100.0%	100.0%

Source: Reports of Commercial Banks submitted to CBA, 2004-2008.

From the table it's quite obvious that only 5 banks do agricultural lending to some extent. We can say that these banks divided the rural finance among themselves, although unequally. It's clear that more than 70% (ACBA-Credit Agricole) of the credits in agriculture belong to one bank; the bank in the second place has 4.7% share of the total agriculture lending.

ACBA Bank was founded in 1996 in the frames of TACIS project of European Union. Credit Agricole Consultants in cooperation with RIAS of the Netherlands and AG-Agroprogress Germany successfully implemented the feasibility study, followed by the establishment of the ACBA Bank. Long-term and mutually beneficial cooperation between ACBA Bank and the European leading French banking group

Credit Agricole led Credit Agricole bank group to become the biggest shareholder of ACBA Bank on September 15, 2006, by making a significant financial investment into the bank capital. ACBA bank was restructured, becoming a closed joint stock company and it was renamed ACBA-CREDIT AGRICOLE BANK ([www.acba.am](http://www.acba.am)). The bank has more than 30 branches which cover all regions of Armenia.

ACBA-Credit Agricole over the years became the most professional rural lender among other commercial banks offering wide range of financial products exclusively for agriculture. Although interest rates are still high for agriculture, which is being always explained with risk factor, the bank offers several loan products to agribusinesses, farmers' groups, agricultural legal entities and individual farmers. Below it is provided the diverse product catalogue of the ACBA-Credit Agricole Bank:

**Table 3. Agricultural Loan Products of ACBA-Credit Agricole Bank.**

Name	Type	Amount	Interest rates	Maturity
<b>Credit Line with Plastic Card Account</b>	Business	1,000 – 300,000 AMD	20 – 24%	1.0 - 3.0 years
For those customers who received agricultural loans, express loans for 3 times and are members of Agricultural Cooperative Regional Unions.				
<b>Agricultural Long-term Loans</b>	Business	0.0 – 150,000 USD	12 – 22%	24.0 - 60.0 months
In certain cases the loans can be provided with the period of 84 months to legal and physical persons who are engaged or planning to be engaged in agricultural production or/and processing and have at least 1 year of working experience in the field.				
<b>Agricultural Loans with simplified collateral</b>	Business	0.0 – 300,000 AMD	20 – 24%	0.0 - 18.0 months
For those customers who received agricultural loans, express loans for 3 times and are members of Agricultural Cooperative Regional Unions.				
<b>Agribusiness Loans</b>	Business	0.0 – 30,000,000 AMD	22 – 26%	0.0 - 24.0 months
Agricultural loans to legal entities and individual farmers who are engaged or planning to be engaged in agricultural production or/and processing.				
<b>Agricultural Express Credit Line</b>	Business	0.0 – 500,000 AMD	24%	0.0 - 18.0 months
These loans are provided to the customers who are members of Regional Cooperative Unions, at least 4 times received ACBA loans, have minimum of 3 years of credit history with no delayed payments and penalties.				
<b>Agricultural Long-term loan with declining interest rate</b>	Business	10,000,000 – 20,000,000 AMD	13 – 16%	3.0 - 7.0 years

Source: [www.credit.am](http://www.credit.am)

ACBA-Credit Agricole takes the following as collateral: immovable property-land, buildings, apartments, houses, fixed assets, working capital, vehicles, precious metal, livestock, electronics, furniture, etc.

Other banks that do some lending to Armenian agriculture are assisted by the international programs and donors. Table 4 shows the International Agricultural Development Programs and their credit components.

**Table 4. International Agricultural Development Programs and their Credit Components.**

Name of the Program	Amount	Interest rates	Maturity
<b>RURAL FINANCE FACILITY PROGRAMS (RFF)</b>	0 – 150,000 USD (different among banks)	10-16% (differs by banks)	1-7 years (differs by banks)
<p>The RFF has been established by the Government of Armenia jointly with the International Fund for Agriculture Development which aims at activating the economic activities of the small and medium size rural enterprises by providing them with more affordable loan products. IFAD allocated 8.9 mln USD. Later the World Bank joined to the initiative and allocated 5.2 mln USD. These are the programs under the facilitation of Rural Finance Facility Project Implementation Unit:</p> <p><b>“Economic Development of Rural Areas”</b> – financed by IFAD  <b>“Rural Enterprise and Small-Scale Commercial Agricultural Development Project (RESCAD)”</b> – financed by the World Bank  <b>“Marketing Opportunities for Farmers”</b> – financed by IFAD  <b>“Millennium Challenge Foundation - Armenia”, “Water-to-Market” credit component</b> – financed by Millennium Challenge Corporation, USA (8.5 mln USD allocated).  <b>“Promotion of SME in Rural Areas”</b> – financed by Government of Armenia.</p> <p>In the scope of these programs the following commercial banks have been selected: ArdshinvestBank, UniBank, InecoBank, ACBA-Credit Agricole Bank, ConverseBank, AreksimBank and ArmbusinessBank. In the scope of “Water-to-Market” Credit Component the following financial institutions were selected: ArmbusinessBank, ConverseBank, Farm-Credit Armenia UCO and Nor Horizon UCO.</p>			
<b>American University of Armenia Turpanjian Rural Development Program</b>	Max. 10,000,000 AMD	6%	Up to 5 years
<p>Loan guaranteed by the American University of Armenia Corporation. Loans are provided to legal entities and physical persons. The regions are limited to Tavush and Shirak as well as Nagorno Karabagh.</p>			

Source: [www.rff.am](http://www.rff.am) , [www.cba.am](http://www.cba.am).

**As it can be seen, rural and micro finance remains under the attention of different international organizations.**

### *Universal Credit Organizations*

As of January 1, 2009 there are 25 licensed universal credit organizations (Armenian “Law on Credit Organizations”, approved in 2002, which includes credit and savings unions, leasing and factoring companies, and universal non-bank financial institutions-NBFI) which operate in Armenia. These 25 organizations had 46 branches as of December 31, 2008. Their assets comprised about 61 billion AMD, 15% of which were directed to agricultural sectors. Only 10 out of 25 are involved in rural lending and agricultural leasing to some extent. Below is provided a complete list of those organizations and their financial products:

**Table 5. Products of Universal Credit Organizations Providing Rural Credit.**

UCO	Product	Min. size	Max. size	Term	Interest	Note
<b>Nor Horizon LLC</b>	Ag Loan	200,000 AMD	500,000 AMD	8-36 months	24%	Selected regions
<b>Eclof LLC</b>	Group Loan	-	250,000 AMD per group member	18 months	12% discount loan	Min 3 farmers in the group
<b>SEF International</b>	Ag Loan	500,000 AMD per member farmer	20,000,000 AMD per association	2 years	24%	Only to registered Ag. Associations
<b>FINCA</b>	Group loans	50,000 AMD	1,350,000 AMD	8-18 months	22%	Selected regions, 1 <sup>st</sup> phase
	Ag loan	0 AMD	380,000 AMD	12 months	24%	
<b>ACBA Leasing</b>	Ag Leasing	500,000 AMD	-	6-60 months	11-13.5%	Downpayment of 20% min.
<b>Aregak</b>	Agricultural loans	-	5,000,000 AMD	36 months	18-22%	Ararat, Armavir, Aragatsotn, Kotayk Regions of Armenia and Nagorno Karabagh
	Group Loans	60,000 AMD	1,080,000 AMD	12 months	1-1.1% per month	
<b>AgroLeasing</b>	Leasing	-	-	6-36 months	10-16%	
<b>CARD AgroCredit</b>	Group loan (3-5 farmers)	300,000 AMD per farmer	2,000,000 AMD per farmer	18 months	18-22%	Group bears subsidiary responsibility
	Farmers & Processing	1,000,000 AMD	80,000,000 AMD	18 months for farmers and 5 years for process.	16-22%	-
	Leasing (legal entities)	-	80,000,000 AMD	5 years	17-22%	Min 10% downpayment for leasing
<b>ANIV</b>	Ag loans to registered SP	-	15,000,000 AMD	3 years	18%	Only in Syunik and Vayots Dzor regions
	To individual farmers	-	2,000,000 AMD	3 years	18%	
<b>Farm Credit Armenia</b>	Agribusiness Loans	300,000 AMD	20,000,000 AMD	3-36 months	15-20%	Min. 6 months work experience. Loan disbursement commission - 1%
	Agricultural Loans	300,000 AMD	10,000,000 AMD	3-36 months	15-20%	

Source: Author's personal interviews.

It's worth mentioning that 3 of these 10 organizations, Agroleasing, CARD AgroCredit and Farm Credit Armenia, have been established with the help of USDA programs in Armenia: USDA MAP, active in Armenia 1992-2005, and USDA Caucasus Agricultural Development Initiative active from 2005 till now. So, it's obvious that international organizations are also interested in rural micro credit development and are assisting or forming spin-off organizations to facilitate their rural community development programs.

Despite the fact that agricultural credit volumes are gradually increasing (See Table 1), the recent assessment conducted by the Central Bank of Armenia shows that currently only 17% of the demand is satisfied by the commercial banks and UCOs. The assessment also showed that the preferred currency of

the agricultural loans is Armenian Dram (88% of the respondents), and the most acceptable interest rate are between 9-12%. The above mentioned information shows that the majority of financial institutions provide loans at 16-24% annual interest rates (of course, if they provide own funding, with donor's money the rate go down, but these funds are very limited). The farmers had a perception that the main barrier hindering the development of agricultural finance and credits is the "Risk" (31% of the respondents), about 28% said that the "lack of collateral is the main problem"; other responses were "high interest rates" and "bureaucracy" (CBA Survey, 2006).

One of the major problems inhibiting the development of rural finance is the unclear role of government. The Government should often intervene in agricultural credit markets, e.g. by providing guarantees to banks for loans, by setting up credit institutions special for agriculture and by subsidizing credit to agricultural producers. In Armenia the role of government in contributing to the development of the agriculture credit markets is still relatively low.

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