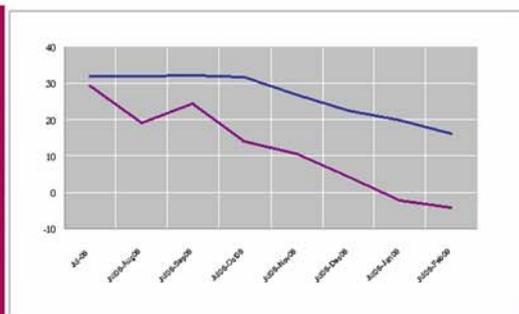


# Impact of the Global Financial Crisis

## ARMENIA case study



May 2009

# Rapid Assessment of the Impact of the Global Financial Crisis in Armenia

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May, 2009

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## ACRONYMS

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ADB	Asian Development Bank
AMD	Armenian dram
AST	Advanced Social Technologies
CBA	Central Bank of Armenia
CIS	Commonwealth of Independent States
CPI	Consumer price index
EDRC	Economic Development and Research Center
EU	European Union
FAO	UN Food and Agriculture Organization
FBP	Family Benefit Programme
FDI	Foreign direct investment
GDP	Gross domestic product
GTZ	German Technical Cooperation
IMF	International Monetary Fund
ILCS	Integrated Living Conditions Survey
ILO	International Labour Organization
IOM	International Organization for Migration
KCMCC	Kajaran Copper and Molybdenum Mining Company
HH	Household
MLSI	Ministry of Labour and Social Welfare
NGO	Non-governmental organization
NSS	National Statistical Service
RA	Republic of Armenia
OMXF	Food Security Analysis Services
SESA	State Employment Service Agency
UN	United Nations
UNDP	UN Development Programme
UNFPA	UN Population Fund
UNHCR	UN High Commissioner for Refugees
UNICEF	UN Children's Funds
UNIDO	UN Industrial Development Organization
USD	US dollar
WB	World Bank
WFP	UN World Food Programme

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## EXECUTIVE SUMMARY

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The rapid assessment in Armenia is part of a series of six case studies conducted by WFP on the effects of the global financial and economic crisis on households' food security.<sup>1</sup> The assessment was hosted by the Ministry of Labour and Social Issues (MLSI) and led by WFP in close cooperation with FAO, ILO, IOM, UNDP, UNFPA, UNICEF, UNIDO and UNHCR. It is based on a secondary data review of macro-economic indicators and a rapid qualitative food security assessment among vulnerable livelihood groups in rural and urban Armenia.

### Overview

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Armenia is a mountainous, landlocked country with 3.2 million inhabitants of which 64% are urban. After several years of hardship since its independence in 1991, Armenia successfully switched to a market economy with double digit GDP growth rates since 2000, accompanied by significant poverty reduction.

Armenia is particularly vulnerable to the global financial and economic crisis for the following reasons:

- ✓ Its economy relies heavily on European and Russian markets. The slowdown in exports and foreign capital inflows can mainly be observed in the **construction sector**, a key driving force of the past economic growth (24.7% of the GDP in 2007); **the mining sector**, affected by the steep fall in international prices of metals; and **the chemical industry**.
- ✓ **Remittances** account for 20 percent of GDP. More than one-quarter of households received remittances in 2007, contributing on average to 60% of their total income. More than 80% of Armenia's labour migrants (seasonal and long-term) are in Russia, most of them working in the construction sector that is heavily hit by the crisis.

### What is the macro-economic impact on Armenia?

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The financial crisis is affecting Armenia through reduced trade, foreign direct investments, and remittances caused by the economic slowdown in source countries. The impact of the crisis has been felt immediately with increasing unemployment, slowdown in economic growth and a sharp negative growth projection for 2009.

- ✓ **Economic growth started** slowing down in September 2008. In the first quarter in 2009, GDP decreased by 4.3% compared to the same period in 2008. Current growth projections for 2009 range from minus 5.0% to minus 10.0%.<sup>2</sup>
- ✓ There is already a reversal of the gains in poverty reduction which is still continuing. **Extreme poverty** could reach levels not seen since the early 2000s. According to the World Bank, the crisis could push 172,000 people below the poverty line in 2009-10, increasing the total number of poor to 906,000, out of which 297,000 people will be extremely poor.
- ✓ **Official remittances** dropped by one third in the first quarter 2009 compared with one year earlier. Departures to Russia and other CIS countries in March 2009 decreased by 25% compared to the previous year.
- ✓ During the first quarter, **exports** declined by 47% and **imports** by 22% compared to the previous year.
- ✓ In early March, as a measure to support the export sector, the **local currency depreciated** by 22% against the USD. This, however, also led to significant increases of the prices for some basic food commodities, medicines, fuel and transport.

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<sup>1</sup> Analysis has been undertaken in Armenia, Nicaragua, Ghana, Bangladesh, Zambia, and Ethiopia.

<sup>2</sup> According to World Bank experts, negative growth rates could reach up to 8.0 to 10.0%. In April, IMF released a growth projection of minus 5.0% in April 2009.

## **What is the impact at household level?**

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The financial crisis is undermining the **purchasing power** of the population and is hitting hardest those below and not far above the poverty line. Household income has been affected due to reduced flow of remittances, loss of employment and substantial pay-cuts in the private sector combined with increased living costs.

As most households **rely on markets** to meet their consumption needs, the crisis is affecting their ability to **access sufficient food** and cover other basic needs, in particular heating, health and education. Households mainly cope by increasing their food purchases on credit with the risk of falling into a debt trap, substituting wheat products with potatoes, and reducing consumption of meat and dairy products.

Households that are affected by the shock are:

✓ **Remittances receivers:** They have already experienced a serious drop in their income as many seasonal migrant laborers are still waiting for payments from the 2008 season. This is paired with little hope to find employment in Armenia or abroad in 2009. Also, long-term migrants find it more and more difficult to send money back. Up to 85,000 households could be affected by receiving less or no remittances in 2009. Among this group, households relying on seasonal migration with no or few other livelihood alternatives are the most severely affected. Their number is estimated at around 43,000.

✓ **Workers in the construction and industrial sector:** Many construction workers have already lost their jobs, and unemployment rates among them are likely to sky-rocket as economic activities are recessing in the country. Up to 65,000 seasonal labor migrants could remain in Armenia; this and an increased flow of returning long-term migrants will put additional pressure on the labour market in Armenia. So far, workers in the mining sector and chemical industry have been slightly more protected – mainly through government interventions. However, they already went through job-reductions and periods of forced leave at lower wages. At this point, the future of the remaining workforce is uncertain.

Households indirectly affected are:

✓ **Farmers and livestock breeders:** Households involved in agriculture are experiencing increased costs of agricultural inputs and decreased income due to lower demand. As a consequence, they will find it difficult to invest into this year's agricultural season as access to credit and remittances have also reduced. Particularly vulnerable are small-scale farmers and livestock breeders in low-production zones in high altitudes who often combine agriculture with seasonal labour migration. They are coping by selling off their few productive assets, in particular livestock, hampering their recovery potential.

✓ **Traders:** Many small businesses have already closed down due to decreased demand and tightening credit conditions from banks. Shopkeepers are increasingly selling on credit, while being aware that many customers might not be able to pack back their loans in the near future. Others have already stopped this common practice which is an important coping strategy which so far enabled many vulnerable households to cover their day-to-day basic needs. .

✓ **Social benefit receivers:** Benefit receivers mainly consist of households with many children or elderly members, former refugees and female-headed households. Though pensions and family benefits increased in 2008 and 2009 in nominal terms, this group is heavily affected by the compounding effect of the high food prices in 2008, the inflationary effect of the recent currency depreciation combined with reduced informal kin support. It is expected that the number of eligible households will increase, particularly among households that only relied on one income source before the crisis which is now at risk. About 35% of the very poor households were not covered by social transfers in 2007, exclusion error is therefore also of concern.

## **How is the situation likely to evolve?**

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According to IMF, among all the regions of the global economy, the CIS region is forecast to experience the largest economic downturn due to curtailed access to external funding, slumping demand from advanced economies, and the fall in commodity prices. Growth perspective for Russia – the main trading partner and primary source of remittances – is minus 6.0% for 2009. In 2010, the economy is expected to stagnate at around zero percent. The most likely scenario is that the situation in Armenia will worsen throughout 2009. A reversal of this trend cannot be expected before the second half of 2010 or even 2011.

✓ **Food availability:** Availability of food could be at risk during the winter season and in 2010. The level of land cultivated and agricultural productivity is expected to decline as small-scale producers may not be able to finance the required inputs and pay for the land tax. Many of the returning migrants who turn to agriculture as the only means to sustain themselves will not have the necessary inputs to start up.

✓ **Food access:** The negative economic outlook translates into a pessimistic scenario for food access. Unemployment is expected to increase throughout 2009 – though the Anti-crisis Action Plan of the government might be able to mitigate this negative trend to a certain extent. Seasonal migration to Russia will continue to drop as prospects for the Russian economy remain low. Despite the Government's intention to prioritize social spending within the current annual budget, it is not likely that the 'new poor' can be absorbed unless funds for social safety net programmes are increased which is unlikely given the current budget constraints. Food access will be particularly difficult during the winter months if households are not able to stock up their reserves in October/November in preparation of the winter season.

✓ **Food utilization and nutrition:** Though current malnutrition rates are moderate, dietary changes may translate into higher chronic malnutrition rates and worsen micronutrient deficiencies among children and other vulnerable groups such as pregnant and lactating women in the longer-term. **Decreased health and heating expenditures** will further impact on the nutritional status of vulnerable individuals and could eventually lead to increased risk of child mortality. The capacity of the government to deliver health care could be hampered by the budgetary effects of the economic crisis.

✓ **Other impacts:** If economic hardship continues over a longer period, it can be projected that households will be forced to further cut expenses on health services, medicines and education and some may change their family planning behaviour. Further the economic downturn could increase the risk for social problems and intra-household violence.

## **What are the ongoing responses?**

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✓ The government is negotiating support from international financial institutions to promote growth through infrastructure projects, support to SMEs and new business initiatives in the context of its **Anti-crisis Action Plan**.

✓ The **international community** is fully committed to concerted efforts. The World Bank recommends the expansion of a public works programme and improved targeting mechanisms. The IMF urged the Government to protect social spending and increase targeted support for the poor, despite the fall in tax revenues.

## **Needs and recommended priority actions**

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Recommendations for immediate actions to mitigate the impacts on the most vulnerable groups:

✓ **Advocate** for the protection of budgets for social safety net programmes, health and education; scale-up of public work programmes; and reintegration projects for returning migrants.

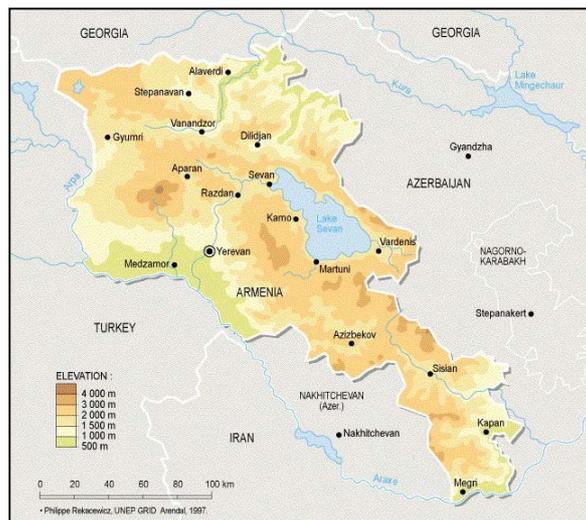
- ✓ **Support measures** that will ensure continued agricultural activities through access to inputs, agricultural assets and credit.
- ✓ Reach the **most vulnerable** groups that are excluded from the social safety net through social assistance with a focus on regional urban centres where the level of extreme poverty is the highest.
- ✓ Provide **conditional cash transfers (cash-for-work)** to the **“new poor”**, which cannot be absorbed by the overstretched social safety nets and may not benefit from the planned public-works schemes.
- ✓ **Closely monitor** the situation with emphasis on economic growth, poverty, employment, price trends and remittances at macro-level and migration patterns, income sources and expenditure, food consumption, health indicators and coping strategies at household level.

## 1. INTRODUCTION

### 1.1 Background and objectives

Armenia is a mountainous, landlocked country in the South Caucasus with a population of 3.2 million. The urban population makes up 65% of which about half live in the capital Yerevan. After the breakdown of the Soviet Union in 1991, Armenia re-established its independence and despite facing years of hardship during the transitional period exacerbated by the still unresolved conflict with Azerbaijan over Nagorno-Karabagh, the country successfully switched to a market economy with double digit GDP growth rates between 2000 and 2007.

According to IMF, the Commonwealth of Independent States (CIS)<sup>3</sup> is forecast to experience the largest reversal of economic growth over the near term because the region is simultaneously hit by three shocks: curtailed access to external funding, slumping demand from advanced economies, and the related fall in commodity prices. Armenia is particularly vulnerable due to the following factors:



- The Armenian economy relies to a large extent on the European and Russian markets for its **trade**. All main trading partners have been heavily affected by the crisis. Export slowdown has been particularly felt in the construction sector, a key driving force behind Armenia's recent economic growth; the mining sector, which has been hit by the steep fall in international prices of copper and other metals; and the chemical industry due to a slowdown in the global demand for chemical products.
- Besides being a major trading partner, Russia accounts for the bulk of foreign **remittances** from seasonal and long-term migrants. More than 80% of Armenia's labour migrants are in Russia and remittances account for 17% of GDP<sup>4</sup>. The negative impact of reduction in remittances on poverty will be significant, given the portion directly financing subsistence-level consumption.
- Recent growth was accelerated by significant **capital inflows**. Foreign direct investments make up about 8% of GDP. With a sharp slowdown in most source countries – mainly Russia and the higher costs for financing, foreign capital inflows are declining.
- The poor and vulnerable in Armenia rely heavily on **social protection programmes**, including pensions and targeted family benefits. The crisis will lead to more people in need of assistance, further straining the government's budget which is already affected by losses in tax revenues due to the general economic downturn.

In response, WFP in close collaboration with Government and UN partners decided to conduct a rapid assessment including a review of secondary data at macro-level and a rapid appraisal using qualitative tools among livelihood groups considered to be the most vulnerable in the context of the current crisis – either through direct exposure and/or low level of resilience.

The assessment aimed at eliciting how the global financial crisis is manifested in the country and how impacts are being transmitted to the household level. The findings of the assessment will assist in the establishment of a monitoring system to provide real-time evidence for timely

<sup>3</sup> CIS currently includes 12 of the 15 former Soviet Republics: Russia, Belarus, Ukraine, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Turkmenistan, Tajikistan, and Uzbekistan. In 2008, Georgia decided to leave the CIS; the decision will become effective as of August 2009.

<sup>4</sup> Source: World Bank, May 2009.

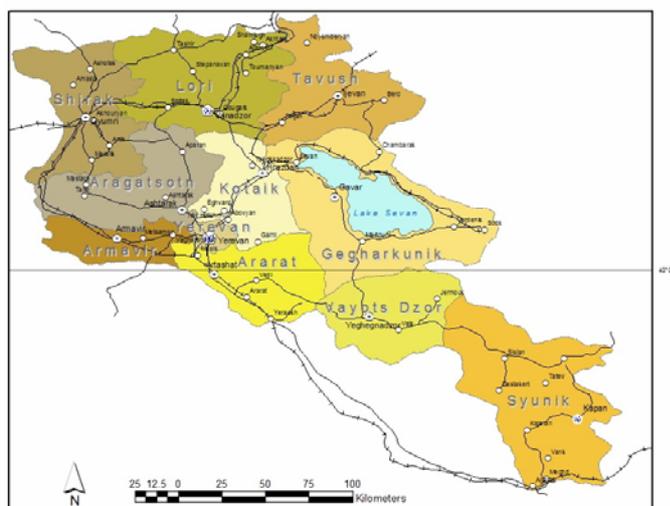
programme decision-making by WFP and partners to mitigate the impacts on the most vulnerable population groups over time.<sup>5</sup>

## 1.2 Methodology and limitations

The assessment was hosted by the Ministry of Labour and Social Issues (MLSI) and led by WFP in partnership with FAO, ILO, IOM, UNDP, UNFPA, UNICEF, UNIDO and UNHCR.

A mix of rapid appraisal tools was adopted:

- First, a **secondary data review** of macro-economic indicators and recent household surveys was conducted with the support of the Economic Development and Research Center (EDRC). All stakeholders contributed to the compilation of relevant data.
- Second, a range of **key informant interviews** were held at capital and province (“marz”) level including but not limited to the following agencies: Ministry of Economy, Ministry of Finance, Ministry of Agriculture, Ministry of Labour and Social Issues, the Migration Agency within the Ministry of Territorial Administration (MTA), Central Bank, State Employment Agency, City Administrations, IOM, IMF, UN and World Bank. These interviews were conducted by WFP and EDRC (see Annex A).
- Finally, **semi-structured focus group discussions** (FGDs) were conducted with 5 different livelihood groups which were chosen based on their potential vulnerability to the financial crisis.<sup>6</sup> Group discussions were carried out by MOSAIC, the commercial arm of the NGO Advanced Social Technologies (AST), and monitored by WFP and MLSI. In total, representatives from 120 households took part in the discussions which were conducted disaggregated by sex. In addition in each locality, three to four knowledgeable key informants were interviewed to provide relevant background information on the respective livelihood group. In each location traders were interviewed and markets across the country visited by the data collection monitoring teams to assess potential impacts of the crisis on markets and the marketing system.



### **LIVELIHOOD GROUPS**

- **Remittance receiving households** in Shirak (urban/rural)
- **Seasonal migrants** in Gegharkunik (rural)
- **Construction workers** in Yerevan (capital) and Lori (urban)
- **Employees** in the mining and industrial sectors in Syunik (rural) and Ararat (peri-urban)
- **Food producers and livestock breeders** in Ararat valley (peri-urban) and Aragatsotn (rural)
- **Social benefit receivers** in Yerevan (capital) and Kotayk (urban)

The findings of the focus group discussions cannot be generalized to the whole population or even livelihood group as the sample was small and purposely selected. The assessment was not designed to quantify the impact but to draw on respondents’ perceptions of the impact of the global economic and financial crisis on their respective livelihoods. It will inform the design of a monitoring system to assess the impact of the crisis over time, starting with a statistically representative household survey in June/July 2009.

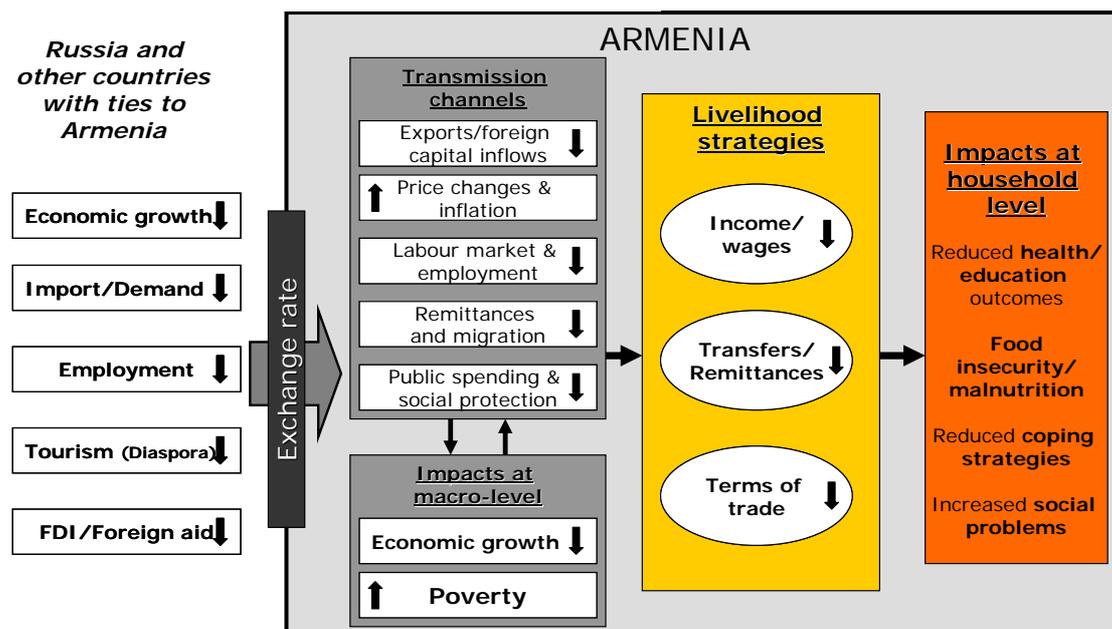
<sup>5</sup> Armenia is part of a series of several case studies within WFP on the effects of the global financial and economic crisis on households’ food security. Other countries covered include Bangladesh, Ethiopia, Ghana Nicaragua and Zambia.

<sup>6</sup> Refugee households were added as an additional group during the pilot-tests which took place in a UNHCR supported hostel in Yerevan and a community with many refugee residents in Gegharkunik.

## 2. TRANSMISSION CHANNELS

Despite a relatively small and isolated economy with limited integration, the financial crisis is affecting Armenia through reduced trade, foreign direct investments and remittances caused by the economic slowdown in source countries. This chapter describes the main **channels** through which the global crisis impacts on economic growth and poverty in Armenia (see figure 1).

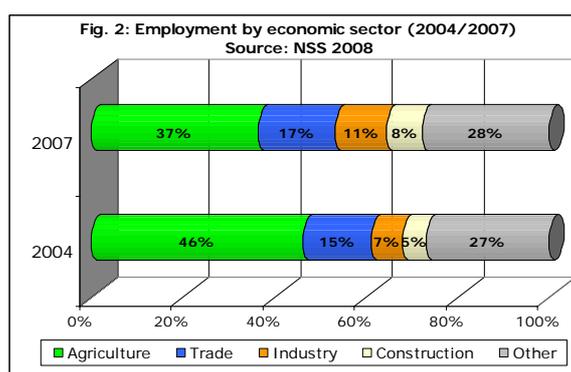
Fig. 1: Transmission channels and impacts



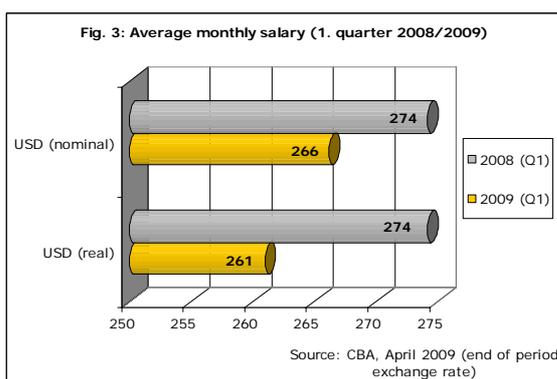
### 2.1 Labour market and employment

According to the World Bank, the number one transmission channel is the loss of income and employment opportunities inside Armenia.

Agriculture accounts for the largest share in the employment market, but its role declined between 2004 and 2007, while all other sectors were observed to have growing shares (see figure 2). During this time period, the proportion of people engaged in agriculture decreased by nearly 10 percentage points, the proportion of people employed in the industrial sector increased by 4.3 points and in the construction sector by 2.5 points. The two latter are the most severely affected by the crisis. Impacts were already visible in late 2008 in the mining and processing centres in Syunik and Lori, where companies started to cut their outputs, downsized the working force, shortened working hours and sent employees on forced leave at lower wages.



In the first two months of 2009, 6.6% of unemployment was officially registered. This is 0.3 percentage points higher than in December 2008 and 0.2 points higher than in January/February 2009. Only few persons are eligible for the employment benefit, therefore there is little incentive to register. Hence, the real employment rate is expected to be much higher than the official one.



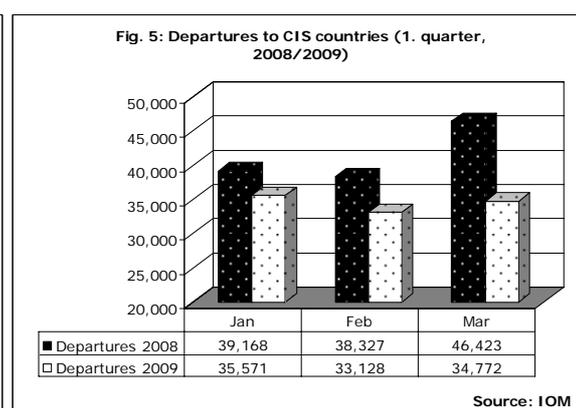
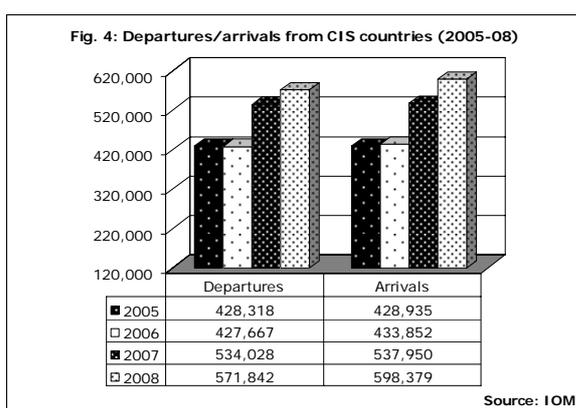
Despite increases in nominal and real wages in local currency terms, wages decreased in March 2009 in dollar terms as a consequence of the currency devaluation. Comparing the first quarter 2009 with the same period in 2008, nominal wages in AMD increased by 16.4%, real wages by 8.9%. In dollar terms, wages in fact decreased by 2.9% and in real terms even by 4.8% (see figure 3).

## 2.2 Migration and remittances

Since the 90s, Armenia experienced a significant population outflow. At the beginning most of them were permanent migrants, later there was a sharp increase in seasonal migration. According to national statistics<sup>7</sup>, in 2007, 20% of households had a migrant member aged 15 and above. External migration was more than twice as large as internal migration: 6% of households had an internal migrant and 13% had an external migrant – with every second external migrant sending remittances. For external migrants the main destination country is Russia (80%) – and most of these migrate for work related reasons (89%). Within Russia, the overwhelming majority of Armenian labour migrants work in the construction sector, which was booming in recent years.

Since there are no real-time statistics on labour migration flows, cross-border movements can serve as a proxy indicator as the majority of Armenians leave for work related reasons. Figure 4 illustrates the number of departures to and arrivals from CIS countries from 2005 to 2008.<sup>8</sup> During this period, departures increased by 34% and arrivals by 40% indicating increase in the level of population movements. Over time, net-migration became increasingly negative meaning more persons returned to Armenia from CIS countries than left. The economic boom in Armenia could have pulled many Armenians back between 2005 and 2007.

A change in the population movements started during the second half of 2008, with increasing arrival rates compared to the previous year. This trend continued in early 2009 with less people departing. In January, departures decreased by 9%, in February by 14% and in March by 25% against the same month of the previous year (see figure 5).



In recent years, remittances made a significant contribution to poverty reduction in Armenia. With remittances from abroad accounting for a significant share of the GDP and household

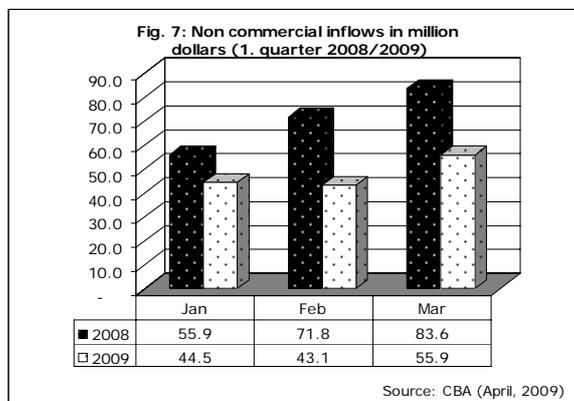
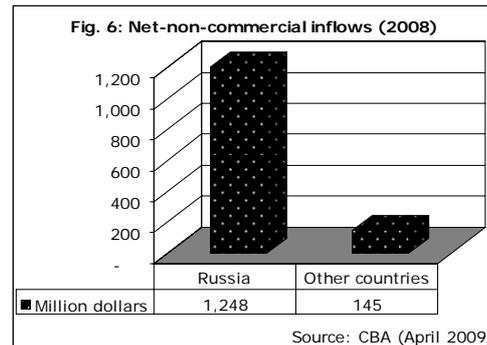
<sup>7</sup> National Statistical Service (NSS): Integrated Living Conditions Survey of Households (ILCSH), 2007.

<sup>8</sup> Source: "Armenia International Airports" Closed Joint Stock Company through IOM Mission in Armenia.

income, the effect of the financial crisis will be felt through declining Government revenue and household income. As a result of migrant labour as well as substantial transfers from the large Armenian Diaspora, remittances constituted a substantial part of household incomes before the crisis (9.2% in 2007). Even in the poorest quintile, remittances still made up 7% of their total income. More than one-quarter of Armenian households received remittances from abroad in 2007. For this group, income from remittances contributed on average to 60% of their total household income.

Remittances to Armenia have important peculiarities, which have important implications for Armenian households and the economy in general – especially during the times of the financial crisis (World Bank 2009):

- A significant share of foreign remittances comes from individuals outside the immediate family. The number of households receiving remittances from abroad is significantly larger than those who receive remittances from a household member who migrated abroad.
- Russia accounts for the largest share of remittance income (90%, see fig. 6). Within Russia, most labour migrants work in the construction sector – making remittances heavily dependent on the economic developments in this sector.<sup>9</sup>
- A sizable share of total remittance flows is directed towards investment – mainly in the construction sector (about 20%), and therefore likely to be pro-cyclical. This portion will not only depend on the economic situation in the sender country but will also be responsive to returns to investments in Armenia.
- The remaining 80% of remittances are spent on consumption, indicating a significant negative impact of reduction in remittances on poverty.



In July 2008, the balance of transfers reached 167 million USD, reflecting the peak in the global oil markets (at 147 USD per barrel) that had fuelled the Russian natural resource boom (see table 1). Since then official remittances constantly declined except for a small peak in December 2008, due to the usual Christmas/New Year celebrations when people tend to spend their incomes and last savings. In January 2009, net non-commercial transfers declined by 20%, in February by 40%, and in March by 33% compared to the same month in 2008. Households who are still receiving

remittances in USD or Russian Ruble may benefit from improved exchange rates due to the currency depreciation – which would partly mitigate the impact of the reduced remittances.

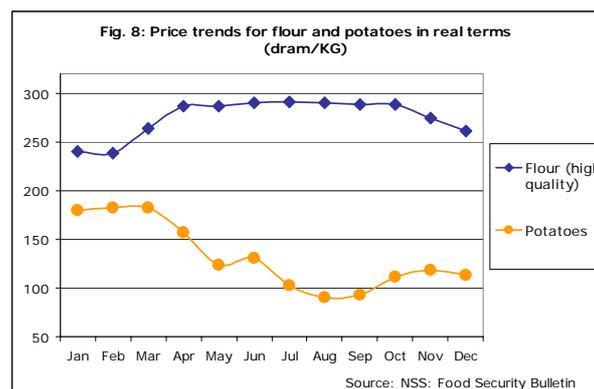
<sup>9</sup> Russia's remarkable domestic construction boom – fuelled by high energy prices – has been made possible by millions of migrant workers, most of them from countries from the former Soviet Union. However, large numbers of these workers are subjected to abuse and exploitation by employers, employment agencies and other intermediaries. Some are victims of extortion and abuse by police and other officials (see Human Rights Watch, 2009).

**Tab. 1:** Net non-commercial inflow (in million USD) by month (CBA, April 2009)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2004	16.5	21.4	23.5	31.8	34.8	42.4	47.7	53.5	49.7	38.2	49.2	64.1
2005	21.7	29.2	36.6	26.7	43.7	50.0	53.2	68.3	58.0	61.1	50.4	64.0
2006	31.1	33.2	45.3	43.2	57.7	68.3	78.8	81.2	65.5	76.4	79.2	92.7
2007	41.7	44.4	58.1	62.0	80.4	92.1	106.9	114.0	108.9	121.9	111.6	116.4
2008	55.9	71.8	83.6	106.7	112.5	125.3	167.4	159.4	147.8	137.4	102.6	122.5
2009	44.5	43.1	55.9	-	-	-	-	-	-	-	-	-

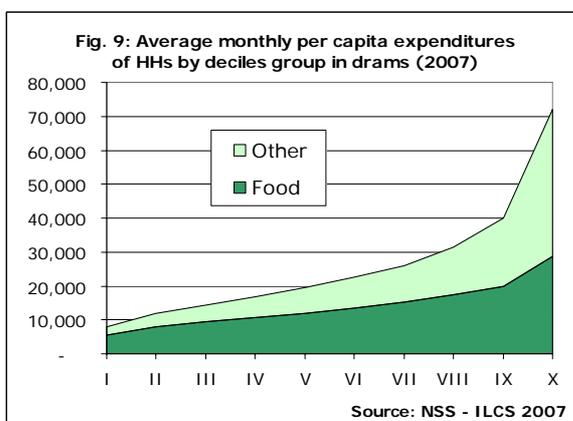
### 2.3 Price changes and inflation

During 2008, significant increases of consumer prices took place, especially with regards to food commodities. The drastic increase in prices was experienced during the second quarter of the year – attributable to the increases in global food prices and Armenia's reliance on imports of several key food commodities. Only prices for potatoes went down due to a good harvest as well as less demand from Georgia as a result of changed policies related to the import of fresh food products (see figure 8).



**Tab. 2:** Price trends of key food commodities in 2008 (NSS: Food Security Bulletin)

	Unit	2008 (drams)					% change (IQ/IVQ)	% imported (2007)
		I Q	II Q	III Q	IV Q			
Flour (high quality)	kg	288	345	339	324	13%	61%	
Potatoes	kg	211	164	111	135	-36%	0%	
Bean	kg	800	823	846	862	8%	44%	
Home-made cheese	kg	1,113	1,103	1,095	1,104	-1%	0%	
Vegetable oil	litre	887	969	941	919	4%	92%	
Beef	kg	1,536	1,607	1,603	1,584	3%	15%	
Mutton	kg	1,542	1,687	1,813	1,706	11%	0%	
Pork	kg	2,031	2,452	2,734	2,952	45%	46%	
Milk	litre	303	300	298	315	4%	4%	
Sugar	kg	239	243	242	246	3%	94%	



Simultaneously, fuel prices, especially of diesel and petrol, significantly increased between May and September 2008 but gradually reduced from October onwards. As a result of price fluctuations in 2008, the inflation reached 5.2%, while the average annual inflation reached 9.0%<sup>10</sup> (IMF data). The poor suffered disproportionately from the price hike in 2008 as they spent a large proportion of their income on food (70% in the lowest decile).

In early March, the AMD/USD exchange rate depreciated by 22% as a result of the return

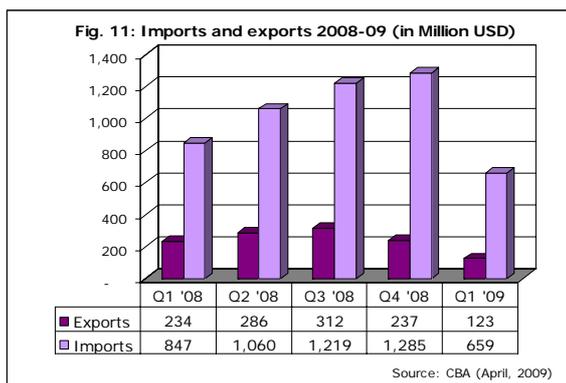
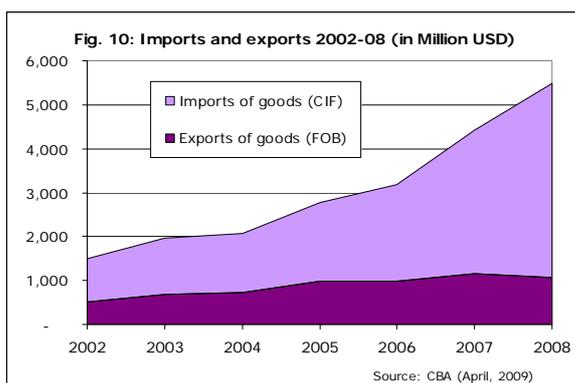
<sup>10</sup> Source: International Monetary Fund, World Economic Outlook Database, April 2009.

to a flexible exchange rate to improve economic competitiveness of the export sector and to steer the country towards economic recovery. The devaluation triggered a price hike resulting in some upheaval and panic buying by consumers during the initial period.

According to IMF experts, the import component of the CPI in Armenia makes up about 40%. Based on this figure, the depreciation could lead to an inflation of up to 8.8%. However, the actual inflation is likely to be less due to decreases in purchasing power/demand. Inflation in March 2009 was lower than expected but the prices for some basic goods increased significantly, in particular: fuel, medicine, sugar, butter and transport. The tariffs for gas and other services increased in early April 2009 which could cause a further increase in prices. Currently the inflation for 2009 is expected to be 8.0% in 2009 and 4.0% in 2010 (IMF, April 2009).

## 2.4 Trade balance and foreign capital inflows

Despite an average annual increase of 25.6%, the trade balance deteriorated between 2002 and 2007 due to growing imports, which increased on average by 46.4%. In 2008, for the first time since the base year, exports declined by 7.3% against 2007 (see figure 10). Both exports and imports decreased during the first quarter of 2009. Exports decreased in the first quarter by 47.3% and imports by 22.2% compared to the same period in 2008 (see figure 11). This trend is directly related to the economic situation of trading partners: Russia, Germany, the Netherlands, Belgium and the United States, which are all heavily affected by the global economic turmoil.



Over the past years, Armenia's economy benefited significantly from foreign capital inflows. Most private investments were channeled into construction and mining, public investment into developing and rehabilitating public infrastructure (World Bank 2009). With a sharp slowdown in most source countries and tightened credit conditions on the global market, foreign direct investments declined sharply in 2009.

The impact of the crisis can be observed on the real estate market, which developed significantly between 2000 and 2007. In 2008, the number of transactions in the real estate market increased four times compared to 2001. Along with banking services, real estate transactions made up 6.4% of GDP in 2007. Nevertheless, since August 2008, a gradual decrease in the number of real estate transactions was recorded which continued during the first two months of 2009 – the number of transactions in January-February 2009 declined by 20.2% in comparison to the same period in 2008.

## 2.5 Public spending and social safety nets

During the first two months of 2009, the negative impacts of the economic crisis on the state budget became obvious. Lower budget revenues were registered compared to the same periods in the previous year. According to anecdotal evidence, the aggregated amount of taxes and other payments to the Government dropped by one-third in early 2009. The fiscal deficit in GDP in the first quarter was 5.7% compared to 1.4% in 2008. According to the

Economy Minister, the Government has chosen the policy of “cautious spending.” Expenses that are not urgent and do not target the social sector or have no immediate impact on the level of people’s welfare have been postponed.

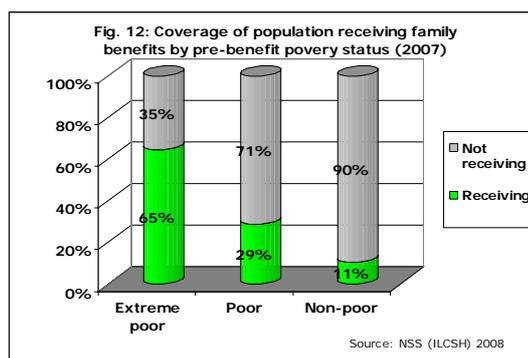
Armenia has developed a generally well-performing social safety net consisting of pensions and a family benefit programme (FBP). Pensions which are based on contributions made during the working life have played a major role in reducing poverty among the elderly and form an important part of the social safety nets. In 2007, pensions contributed 9.1% to the average household income. The proportion was higher in the lowest quintile group with 12.2%. In the same year, the family-benefit programme and other social transfers contributed 2.7% to the average household income, in the lowest quintile group 5.8%.

The FBP is mainly targeting groups with increased poverty risks. In Armenia households with many children face a higher risk: Households with three or more children have a 1.8 times higher chance to be poor than the national average. Also, the presence of an elderly member (60 and above) increases the poverty incidence: 37.3% compared to 26.6% in an average 4-person household without elderly. Female-headed households are more likely to be poor as compared to male-headed households (29.5% versus 23.4%). Poverty in these groups is chronic; hence the global economic and financial crisis will not directly affect these groups. They will, however, indirectly be impacted through potential price inflations caused by the currency depreciation and reduced informal kin support.

The system of family benefits is administered by the Ministry of Labour and Social Issues (MLSI) and constitutes a targeted social assistance programme in which poor households receive financial assistance based on a set of criteria indicative of their social-economic status. Eligibility depends on self-reporting and involves a substantial amount of paperwork. Only if the households scores sufficient points, the status will be verified by one of the 545 social workers working in 55 social centres throughout Armenia. The total amount provided to a household is calculated as the sum of the base benefit and the supplementary amount multiplied by the number of children under the age of 18. The level of the supplementary amount depends on the following criteria: high mountain area, border area or multi-children family (> 3 children).

Budget allocations to the family benefit programme more than doubled between 2002 and 2008. Between 2003 and 2008, the threshold score was reduced from 36 to 30 points increasing the coverage of the programme and the base benefit increased in nominal terms by 100% from AMD 4,000 to AMD 8,000. From 2008 to 2009, the base benefit increased again in nominal terms by 25% to AMD 10,000, in real terms taking inflation into account only by 22.5%. After the currency depreciation in March 2009, the increase was only 2.2%.

In 2007, 10.5% of non-poor households received a family benefit (see fig. 12). In terms of the inclusion error, this percentage appears to be moderate. On the other hand, only 64.6% of the extreme poor households received benefits, implying an exclusion error of 35.4%. This is an indication that despite all efforts over the past years, social transfers are not yet targeted enough.<sup>11</sup> One of the factors responsible for the exclusion error is the fact that the registration process involves a lot of paperwork – a clear obstacle for the most vulnerable among the very poor. Social stigma could be another reason for some families not to apply, which is particularly common among the so called “working poor”.



Many households which were close to the poverty line before the crisis and are now facing income losses might become eligible and decide to register. Despite the fact that Government will prioritize social spending within the current annual budget, it is unlikely that the ‘new poor’ can be absorbed unless funds directed towards social safety net programmes are increased.

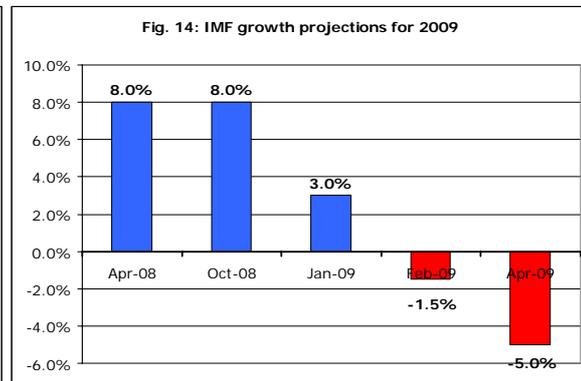
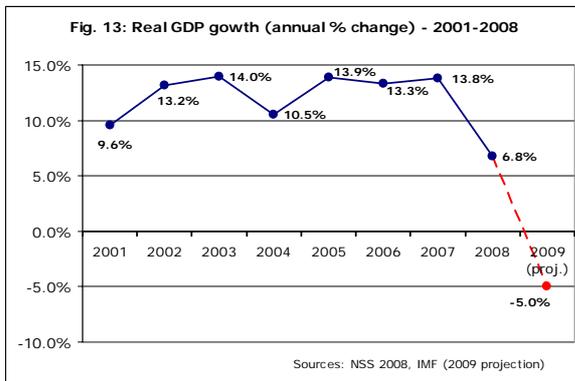
<sup>11</sup> For more information on the social safety net system in Armenia, see Gregor B.M. Meiering: Food security and the social safety net in Armenia (draft). WFP, April 2009

According to the World Bank, the FBP is the best vehicle of targeting and assistance available to the existing and new households falling below the poverty threshold due to the financial crisis; however, Armenian authorities would need to consider increasing the budget allocation to the programme. In 2007, the family benefit budget made up 0.84% of the total budget, which declined from the 2006 allocation with further declines planned for 2008 and 2009. The financial crisis should require the government to reconsider any further planned decline (World Bank, 2009).

### 3. MACRO-LEVEL IMPACTS AND RESPONSES

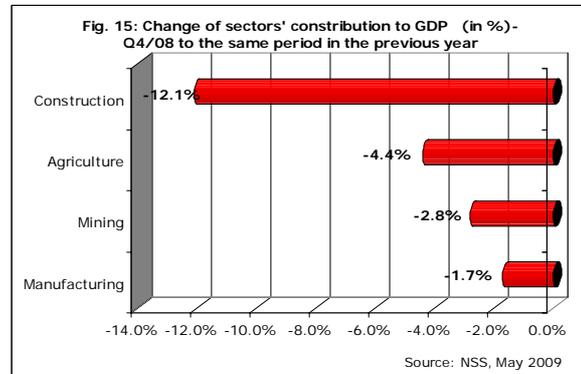
#### 3.1 Reversal in economic growth

Armenia, one of the former Soviet Union republics became independent in 1991, at a time when the country was still recovering from a disastrous earthquake in 1988. Due to the collapse of the economy and the war with Azerbaijan, Armenia experienced economic hardship throughout the nineties. At the beginning of 2000, the economy was just a fraction of its level since the beginning of the transition phase. Between 2001 and 2007, the economy started to recover and Armenia experienced double-digit growth rates. The main driving force behind this impressive economic growth was the construction sector, whose share in GDP expanded from 15.5% in 2004 to 24.7% in 2007. In 2006 and 2007, the construction sector contributed respectively 56% and 32% of the total economic growth (NSS 2008).



The global financial and economic crisis is threatening to undermine the economic growth and poverty reduction achievements of the past 8 years. In 2008, the economy only grew by 6.8% down from 13.8% in 2007 (see figure 13). While projections for 2009 used to be around 8% for 2009, they have been constantly revised as illustrated in figure 14. At the beginning of the year, a zero growth or slightly negative growth was projected for 2009. Current projections range from minus 5% to minus 8% depending on the source.<sup>12</sup>

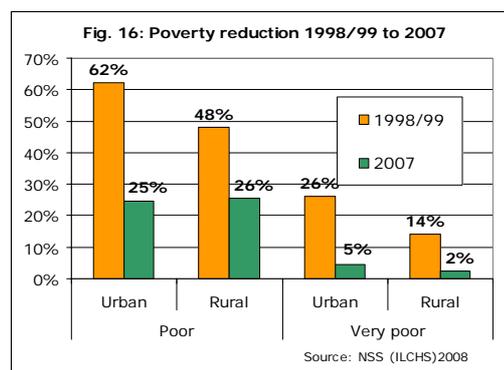
According to the Central Bank of Armenia, GDP de-facto decreased by 4.3% compared to the same period in 2008. So far most heavily hit is the construction sector, which declined by 12.1%, followed by agriculture, mining and manufacturing (see fig. 15).



<sup>12</sup> According to World Bank experts, negative growth rates could reach up to 8.0 to 10.0%. IMF's projections in April were already minus 5.0% (IMF, April 2009).

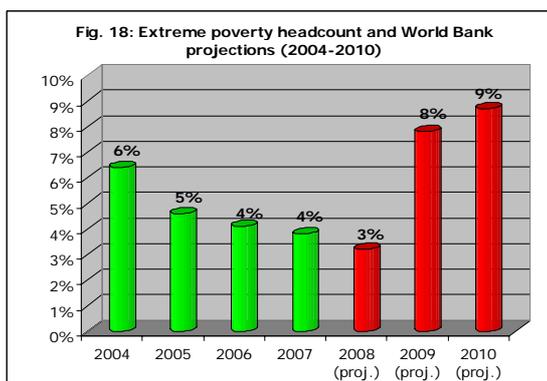
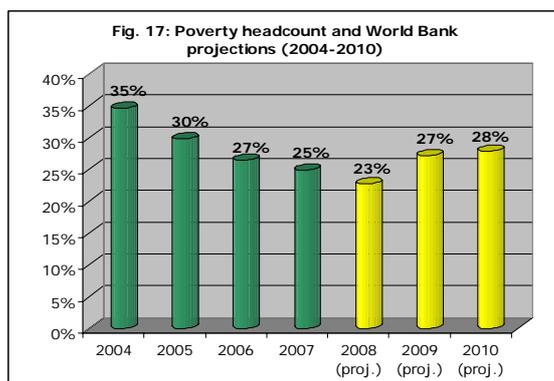
### 3.2 Impacts on poverty and extreme poverty

Economic growth was accompanied by significant poverty reduction which was driven by increases in wages, private transfers from abroad, and social transfers through a relatively well-targeted social safety net programme.<sup>13</sup> According to the Integrated Living Conditions Surveys (ILCS), poverty incidence dropped from 56.1% in 1998/99 to 25.0% in 2007, with extreme poverty decreasing from 21.0% to 3.8% during the same period.<sup>14</sup> Poverty reduction was more successful in urban compared to rural areas (see figure 16). In urban areas, poverty reduced by 60.2%, in rural areas only by 47.1%. Extreme poverty, however, remains higher in urban Armenia and is particularly prevalent in urban centres outside the capital Yerevan with 6.1%. The *marzes* with the highest poverty incidence are Shirak, Armavir and Gegharkunik with rates close to or above 30%. In terms of extreme poverty, Kotayk and Shirak have the highest incidence with 6%.



According to the World Bank, there could be a reversal of the gains in poverty reduction. The overall poverty rate is expected to increase from 22.7% in 2008 to 27.2% in 2009 (see figure 17). The negative trend is expected to continue into 2010.

Extreme poverty could increase by a substantially larger margin and reach levels not seen since the early 2000's (see figure 18). An estimated 149,000 people could fall below the extreme poverty threshold in 2009 and another 31,000 in 2010. The number of extreme poor in 2010 could outnumber that in 2004 by about 77,000 people.



### 3.3 Response strategies of government and development partners

Due to the positive economic outlook that still persisted throughout November 2008, the Government only started to recognize the crisis during the first quarter of 2009. Against the backdrop of declining Armenian exports (copper and molybdenum had lost around two-thirds of their value on the global markets), foreign reserves decreased and prompted an adjustment. In early March, the Central Bank of Armenia gave up the tight band within which the Armenian dram was traded against the dollar, which resulted in an overnight devaluation of the currency by 22%. While the measure supported the export sector, it resulted in higher costs of imported goods.

In April 2009, the Government announced an Anti-crisis Action Plan to promote economic growth through the realization of pan-Armenian projects, including the building of a new

<sup>13</sup> World Bank: Armenia: Implications of Global Financial Crisis for Poverty (draft). February 2009.

<sup>14</sup> Extreme poverty is calculated based on the food poverty line of an average estimated caloric intake of 2,232 calories per day per capita (= 15,753 AMD in 2007). The poverty line comprises the food poverty-line and a non-food allowance and equalled 23,268 AMD per capita in 2007.

nuclear power plant and an Iran-Armenia railway line, as well as the creation of a pan-Armenian bank. In addition, the Government intends to support some of the existing and emerging enterprises through State guarantees and subsidizing tools; promotion of SME development through the formation of a commission on innovational projects and the creation of two free economic zones. Social sector priorities include the full and timely implementation of social sector commitments, a sharp increase in the level of public works, and the availability of affordable housing. These projects can only be realized through the support of IMF and World Bank. Overall, the Government remains optimistic about their ability to overcome the crisis if they receive the required external support.

The international community in Armenia is very concerned about the developments and is fully committed to concerted efforts and joint actions to mitigate the impacts of the global crisis. A joint IMF/UN/World Bank conference was held on 14 April 2009 to discuss the social impacts of the crisis. The World Bank recommends the expansion of a public works programme with increased duration (currently they only last for three months) and improved targeting mechanisms (self-targeting, one household member per family). In addition, they recommend increased funding and better targeting of the family benefit and temporary expansion of the unemployment benefit (at the moment very few of the unemployed are eligible to receive unemployment benefits). They also advise to pay attention to risks of difficult-to-reverse consequences such as school attendance, health care utilization, nutrition and sale of productive assets. The IMF urged the Government to protect social spending and increase targeted support for the poor, despite the fall in tax revenues. In March, IMF approved a loan of USD 540 million to help the country to cope with the impact of the crisis.

#### 4. IMPACTS ON LIVELIHOODS AND COPING STRATEGIES

This chapter describes the impact of the global financial and economic crisis on predominant livelihood groups that are considered to be most vulnerable to the crisis. Based on the analysis, 6 groups have been identified to be particularly vulnerable to the crisis for varying reasons:

- (1) **Social benefit receivers** – who generally belong to the poorest segment of the population – are affected by the price effect of the devaluation and reduced informal support
- (2) **Seasonal migrants** are heavily affected by unemployment and increasing indebtedness caused by the purchase of air tickets and credit expenditures made earlier on this year when they still anticipated leaving for abroad.
- (3) **Construction workers** in urban areas with irregular working contract are facing unemployment and wage cuts.
- (4) **Farmers in high altitude areas** are affected by reduced cash inflows, mainly from remittances to invest into their subsistence agriculture.
- (5) **Potato and vegetable producing farmers** affected by increased costs for inputs accompanied by reduced demand partly induced by the financial crisis.
- (6) **Traders** are facing reduced demand, increased purchases on credit by their customers and are also affected by the new government tax regime.

##### 4.1 Migrants and remittance-receiving households

Households depending on remittances from seasonal migrants have already experienced a serious drop in their income as many seasonal migrant labourers are still waiting for their payments from the 2008 season. Also migrants with permanent residence abroad find it more difficult to send money to their families and friends in Armenia. Households are currently coping by increasing purchases on credit, which could lead to increased indebtedness as the

outlook for the 2009 migration season remains bleak. Based on a rough calculation, up to 43,000 households could be affected by not receiving income from labour migrants in 2009. If remittances from non-migrant sources are taken into account, this figure could double.

"Ms. Gohar Ghazaryan has started her business in the city of Gyumri through the assistance received from IOM's Micro-enterprise Development Project. She has been selling flight tickets to her constant customers - seasonal migrants who regularly travel to the Russian Federation and other CIS countries for seasonal works. The business started well and gradually expanded over time which enabled her to create several jobs.

Due to the impact of financial crisis, the number of customers has significantly reduced. As a result the business started experiencing difficulties which even led to shifting the office from the centre to a suburb of the city to save rent. Ms. Ghazaryan thinks that "people have neither money for tickets nor do they longer have job opportunities abroad".

*Source: Micro Enterprise Development Project, International Organization for Migration Mission in Armenia*

Focus group discussions were conducted with migrants or household members who depend on remittances in 4 locations across Armenia. Below, the key findings from three locations are presented covering a rural community and an urban setting in two marzes with high migration rates and Yerevan: .

##### • Seasonal migrants: Vardenik village (11,000 inhabitants) in Gegharkunik marz

The discussion was conducted with seasonal labour migrants who are currently in Armenia and the wives of migrants who head the households while their husbands are abroad. Seasonal labour migration is the predominant livelihood strategy and more than two-thirds of all households have at least one member working seasonally in Russia (usually from March to December). Seasonal migrants, who are overwhelmingly male, leave for Russia as part of a construction crew and work there without legal registration and work permits. The second most important livelihood in this community is potato and cabbage cultivation, the sandy soils are not suitable for the cultivation of other crops. Very few households



engage in livestock breeding which is partly due to the lack of male workforce. Few households engage in regular wage labour in the public sector.

#### *Impacts on income and wages*

In 2008, remittances made up the main income source for migrant households, this year it is mainly pensions and loans. Among the male participants, pensions have been rated first not because they ensure a high income, but because the income from other sources has decreased or disappeared altogether. As it is a regular income source, it at least helps them to cover some of the fixed monthly expenses. The women stated that they cover their main expenses by means of borrowing (around 80% of the incomes) hoping the husbands would finally earn money enabling them to repay their debts. Income from land cultivation is generally small compared to remittances and has decreased as well due to unfavorable terms of trade for potatoes.

#### *Impacts on transfers and remittances*

In March 2009, only half of the men left for abroad as compared to the same time in 2008. Moreover, not only the number of seasonal migrants leaving in spring has decreased, but also the number of migrants who should have returned by the end of the 2008 migration season. Some have not earned enough money and have decided to stay on to compensate for this income loss; others cannot afford the return ticket. All participating men have returned to Armenia in late 2008 and are currently not intending to go back to Russia. Only one woman still has a husband who is working in Russia, the other husbands lost their jobs and are still waiting for new opportunities.

It is also expected that the wages for those who are able to find work will be reduced due to the crisis. Almost all men participating in the discussion stated that the employers in Russia had not paid them their salaries for 2008.

An additional factor that impacted on these households was the depreciation of the Russian ruble before February 2009 against the Armenian dram. Remittances were gradually losing their value throughout last year and early 2009. The depreciation of the Armenian dram in early March, therefore, had a positive impact on the few households that are still receiving remittances.

#### *Impacts on expenditure*

The main expenditure of this group in order of priority is on (1) food, (2) heating, (3) agricultural inputs, (4) education and (5) debt reimbursement. According to the perception of participants, the share spent on food has not changed since mid-2008. Also, the share spent on heating has not changed although households have started to consume less as prices of gas and electricity have increased. Expenditure on transport has decreased as households can no longer afford traveling. Expenditures on agricultural inputs have increased due to increased prices of fertilizers. Many households cannot afford these increased prices and therefore purchase less, which could have an impact on agricultural productivity. Expenditures on education and health have also increased and some households compensate by taking additional loans. Others have cut down on their health expenditures to relocate them to food.

#### *Price trends and terms of trade*

Households suffer from unfavorable terms of trade for potatoes. Compared to March 2008, prices have dropped by 60% to 70% as a result of a surplus in the market due to a good harvest season in 2008 and reduced demand as export volumes to Georgia have decreased. On the other hand, prices for fertilizers and wheat have increased by 80% and 40% respectively. The main reason behind the increased price for fertilizers is the absence of state subsidies in 2009 and devaluation of the Armenian currency. The price increases for wheat flour are associated with the devaluation and the monopoly of wheat importers.<sup>15</sup>

#### *Coping strategies and priority actions*

In order to cope with reduced income from remittances and reduced terms of trade, people increasingly buy food on credit but also borrow cash to solve pressing problems. Households intend to become more involved in agricultural activities, in particular cattle breeding. But lack

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<sup>15</sup> In 2007, 61% of wheat was imported (NSS: Food Security Bulletin).

of access to credit remains a constraint. Though villagers have access to a bank, most of them do not meet the requirements.

Currently the biggest need in this livelihood group is cash to pay back their debts, to pay for food products and to cover agricultural expenses. As a possible solution, the participants suggested creating new financial sources to invest in agriculture and also identifying new markets for their products.

- Remittance-receiving households in Yerevan (capital)

The discussion was conducted with households who receive support from long-term migrants with permanent residences in Russia, USA and France. Remittances are generally a complimentary income for these households who also engaged in relatively well-paid wage labour or self-employment. Given the heterogeneity of the capital, it should be noted that these households may not necessarily be typical for remittance-receiving households in Yerevan.



*Impacts on income and wages*

Except one case, the income level was not affected among this group and nobody lost their job within the last 6 months. One of the participants owns a furniture manufacturing shop, which has experienced a decrease in orders.

*Impacts on transfers and remittances*

The migration pattern is very stable. Only in the case of one female participant, the husband and son are considering selling their property in Russia and returning to Armenia. For most participants, remittances have not yet declined, although they have the impression that it has become more difficult for their family members or relatives to send money. Only two female participants reported a decrease in remittances. In one case, the brother working in the construction sector in Russia was not paid and several months ago stopped sending money. In the case of the other female participant, her husband and son own a cafeteria in Russia, which is making less profit. As a result, she might not be able to pay the tuition fee of her daughter's schooling.

*Impacts on expenditure*

The main share of expenditures are on (1) food, (2) heating, (3) debt reimbursement, (4) education and (5) transport. Relatively speaking, it is one of the groups with the lowest expenditure on food and heating and highest shares on health, education and entertainment – indicating that they are better off compared to other groups. Except for utilities which increased, expenditure in terms of proportion did not change compared to mid-2008.

*Coping strategies and priority actions*

Despite the decreasing level of remittances, participants are getting by as they can rely on other regular income sources. They are diversifying their income sources or broaden the scope of their businesses.

- Remittance-receiving households in Gyumri (151,000 inhabitants) in Shirak marz

The discussion was conducted with remittance-receiving households in Gyumri, the second largest city in Armenia, which was heavily damaged by the earthquake in 1988. More than 18,000 people were killed and 80% of the population became homeless. Though construction activities have been ongoing for about two decades, 4,000 families are still living in containers, which are not providing adequate shelter – particularly during the long-lasting and severe winter months.



Shirak is the *marz* with the highest migration rate and it is estimated that over 30% of the population receive remittances from abroad. Among the focus group participants, all households had at least one household member engaging in seasonal labour migration. Three of the male participants have been labour migrants in the past.

### *Impacts on income and wages*

In Shirak region, the unemployment rate is significantly higher than the country's average (12.7%). According to key informants, the actual employment rate has tripled in Gyumri. According to the deputy head of the local Employment Agency, unemployment particularly increased among middle-aged men and youth over the last few months. About two years ago, 75% of the unemployed were women, now it is only 55% to 60%. This is not because there are fewer women unemployed but because more and more men register as unemployed, increasing the total number of unemployed. Key informants also reported that a number of shops have closed down in Gyumri during the past couple of months.

For all respondents, remittances have been the largest source of income followed by irregular labour, social benefits and pensions. Since December 2008, they have not received any money from abroad and in addition, many participants reported that they lost their jobs in Gyumri. They used to work in construction or furniture production. Being unemployed, many households are now relying on social benefits, pensions and small amounts of remittances from relatives who live permanently abroad.

Nominal wages in Gyumri have remained about the same, nevertheless participants reported a decrease in regular jobs and an increase in irregular jobs in the Gyumri labour markets. In Russia, wages have decreased significantly.

### *Impacts on transfers and remittances*

Except for one, all of the seasonal migrants are currently in Armenia and none of them is employed. Some of them are still hoping to receive "good news", and would immediately return to Russia if they received a job offer – but their expectations are very low. One husband who remained last year in Russia is still waiting for possible employment. Income from seasonal migrants has ceased totally. Households who received money from relatives reported a reduction in the frequency and amounts sent.

### *Impact on expenditures*

The highest shares are spent on (1) heating, (2) food, (3) clothes, and (4) health. The fact that households spend more on heating than on food is due to the harsh winter in this region. This group also complains about increasing food expenditures. According to this group, prices on average have increased by one third. Households have not yet reduced expenditure on education, however depending on who is sick, some households prioritize buying food rather than medicines.

### *Price trends and terms of trade*

Participants complained about the increasing prices of all goods in the market except for potatoes. The demand for potatoes has decreased as Georgians are no longer coming to buy potatoes in this region.

### *Coping strategies and priority actions*

The main shocks for these households were the unexpected reduction in remittances and sudden unemployment combined with increasing commodity prices. Men continue to explore alternative employment opportunities and hope to find employment in a public work programme that is planned to start in Gyumri in April. Women are intending to save and cut expenditure as much as possible. Also in Gyumri, traders are reporting increased purchases on credit which they only grant to persons and families that they know very well.

Proposed solutions include the development of small businesses and a more favorable tax system that supports small and medium enterprises. It is also hoped that the construction activities planned by the Government may help reduce some of the pressures in the labour market.

## 4.2 Construction workers

In 2007, the construction sector in Armenia made up 24.7% of the GDP and was a major force behind the economic growth, contributing about one-third to the growth rate of 13.8%. In comparison, the industrial sector made up 15.1% of GDP and contributed with only 3.6% to the GDP growth. Construction workers in Armenia are facing two problems, decline in

construction activities within Armenia and competition with up to around 65,000 returning labour migrants, the majority of them from Russia. As a consequence, it can be expected that unemployment rates will sky-rocket among construction workers in 2009.

Focus group discussions were conducted in two locations, where construction work is a major livelihood: in the capital Yerevan and in an urban centre in North Armenia.

- Construction workers in Yerevan (capital)

Yerevan experienced a construction boom during the years of economic growth in the country. Due to lack of funds, many of these projects are now on hold. As key informant, the director of “Kamurjshin” Construction Company was interviewed. Founded in 1971, the company used to take over major government-financed construction projects for road and railway bridges. They also were selected for a tender for the construction of a large museum complex in the centre of Yerevan funded by the American-Armenian Foundation. All construction projects have stopped and the company is facing major difficulties. The company which used to employ 300 persons started feeling the impact already in spring 2008 and now employs only 100 persons, mainly senior engineers and administrative staff – while most less skilled workers were let go off,



During the focus group discussions, households were represented by skilled and unskilled construction workers as well as those with regular and irregular employment contracts.

*Impacts on income and wages*

All selected households depend on regular or irregular wages from the construction sector. The only other income source reported was remittances. Many households have already been affected by the crisis. Workers with irregular employment have less and less opportunities. All participants are very concerned about their future. They are afraid that the current projects will be canceled and they may not find new jobs after the completion of the current projects. One participant said:

“If in 2006-2007, all new apartments were immediately sold to people from Armenia, US, and France, this year, no one is buying an apartment. Hence, new construction projects will hardly be initiated.”

Another participant contributed:

“Daily, 10-30 people are coming to the construction site to ask for jobs. They are ready to work for lower wages, even if paid only half, they just want to work.”

Particularly hard-hit will be unskilled workers with irregular contracts. Skilled workers with regular contracts are slightly more protected.

*Impacts on transfers and remittances*

Most participants knew labour migrants who had worked in Russia but were left unpaid since last year. Among the participants themselves, only one had a brother who went to Russia last year, but failed and has no money to return to Armenia. Participants were also concerned about the increasing risks of discrimination against labour migrants in Russia.

In terms of remittances, only one household received remittances from a non-household member in the United States saying that so far the amount and frequency of remittances had not changed.

*Impacts on expenditure*

The expenditure pattern is very similar to remittance-receiving households in Yerevan. Some households have increased the share spent on food due to increasing prices. Others mentioned that they are trying to reduce costs wherever they can. Most households are prioritizing health and education expenditures.

*Price trends and terms of trade*

Participants complained about increasing expenditures, while wages have been reduced by half.

### *Coping strategies and priority actions*

The selected households still received some income from construction work. They are currently trying to reduce all expenditures and save as much as possible to be able to cope with the anticipated income losses in the future. They are particularly saving on food, clothes, transport and social activities.

Priority action reported by this group would be investments in business development to create alternative employment opportunities.

- Construction workers in Vanadzor (105,000 inhabitants) in Lori marz

Vanadzor is Armenia's third largest city. Similar to Gyumri, remittances from labour migrants and some small trade and services are the most important income sources. Household members who work in the construction sector either try to find work locally or move to Russia. They work wherever they can find a job – although in recent years before the crisis – more and more opportunities were created in Vanadzor. Like Yerevan, construction activities in Vanadzor were booming in recent years but now most projects are frozen.



### *Impacts on income and wages*

All selected households depend on irregular wages from the construction sector and few receive social benefits and pensions. During the time of the discussion, only one male participant was employed in a construction project in Vanadzor, all other participants or the husbands of female participants were unemployed. Two men finished their assignments recently but were not able to find another job. A man who is still employed is skeptical about his chance to find another opportunity after the current project is completed.

All participants agreed that wages of construction workers in nominal terms have decreased significantly compared to March 2008. The crisis resulted in a halt of construction activities, and since there is no demand for construction workers, people are ready to work for lower salaries.

### *Impacts on transfers and remittances*

Households usually combine local employment opportunities with labour migration to Russia. Two male participants returned two years ago. Two others are migrating back and forth but are currently in Armenia. The wife of a construction labour migrant reported that her husband had gone to Moscow 5 months ago but returned to Armenia as he was not satisfied with the working and living conditions. Now he wants to go back but there are no more offers.

Despite the fact that some households had a labour migrant in Russia during the past year who usually send money, none of them received monetary assistance in 2008 and early 2009.

### *Impacts on expenditure*

The main expenditure are on (1) food, (2) debt reimbursement, (3) heating, (4) clothes, and (5) transport. As this group is already directly affected by the crisis with little alternatives, the share spent on food is one of the highest compared to other groups. They also reported that the share has increased due to higher food prices compared to one year ago. It is also the group with the highest expenditure on debt repayment. Households continue prioritizing health expenditures but only if it is an emergency, some households have already cut down expenditures on education.

### *Price trends and terms of trade*

The participants are facing decreased terms of trade as wages for construction work reduced while prices for basic commodities went up.

### *Coping strategies and priority actions*

With sudden unemployment caused by the construction halt, a priority action for this livelihood group is finding alternative sources of income. Some of the construction workers are again looking for job opportunities in Russia, while others are considering finding jobs in other sectors, such as trade. However, the perspectives of finding jobs in Russia are very vague

while local employment opportunities in other sectors in Vanadzor have also decreased. According to the key informants, many small trade and service outlets have already closed down. Priority actions for them are investments in agriculture, in particular poultry farming, and improvement of the climate for starting-up small and medium size businesses. They are also concerned about the fact that the family allowance may discourage people to try and find alternative sources of income, as many people prefer receiving small but secure allowances rather than taking a risk to initiate something new that could fail.

#### 4.3 Employees in mining and industrial sectors

So far, workers in the mining sector and chemical industry have been slightly more protected compared to construction workers – mainly due to Government negotiations/mediation. Despite this, they have already gone through periods of forced leave receiving lower wages and bonus cuts. They are in constant fear of losing their jobs in the near future. Two mining sites were visited, Kajaran in Syunik Marz (in the south) and Alaverdi with its copper processing factory in Lori Marz (in the north). In the latter, only key informant interviews were conducted with the city mayor and a foreman in the factory itself. As international prices for copper dropped in 2008, the factory went through several rounds of reductions in staff and salaries. The company works far below its capacity and the future of the current staff is very uncertain beyond mid-2009. A visit to the local market confirmed that the purchasing power is at its lowest point and many traders are concerned that they may have to close down their businesses.

- Mining workers in Lernadzor (544 inhabitants) in Syunik Marz, Kajaran region

Lernadzor village is situated in a mountainous area with little potential for agricultural production. The location was selected as it is close to the mining site.

Most adult men in the village work at the Kajaran Copper and Molybdenum Mining Company (KCMC), while women and elderly engage in farming or take care of livestock (mainly cattle). The main crops are beans, tomatoes and potatoes. There is a general concern that the mining factory causes ecological problems damaging the soil putting the health of the residents at risk.



The following persons participated as key informants: the Village head, an electrician, accountant, and a school employee. In addition, the city mayor of Syunik was interviewed for further background information. Due to time constraints and a funeral in the village, mobilization of focus group participants became a constraint, hence only 4 out of 5 women and 3 out of 5 men had an employed household member at KCMC.

##### *Impacts on income and wages*

Nearly all households in the village have members working at KCMC. According to the male participants, wage labour makes up around 80% of the total household income and agriculture only 10%. While female participants reported agriculture to make up some 40% compared to salaries from the mining company (30%). They argued that due to the crisis, the salaries of their family members have been cut at the factory and they therefore consider agriculture to become relatively more important. Another reason for differences could be a possible bias, as men may prioritize cash income, while women are more informed about the in-kind income from agricultural activities.

The most critical change in income sources reported by men and women was the reduction of salaries by KCMC, which happened in two forms: one-quarter of employees were forced to take leave while receiving two-thirds of their normal as idle-time payment. For the remaining workforce bonuses were removed, which made up about 50% of the income they usually take home. It is expected that agriculture remains about the same compared to last year, but it is highly volatile towards extreme weather conditions, such as drought and frost.

##### *Impacts on transfers and remittances*

Seasonal labour migration is not a common strategy in this community; 2 out of 10 focus group participants, however, are receiving remittances from abroad. In the case of a long-

term migrant who is a household member, the flow has not changed yet, though it is expected to change this year due to the financial crisis. The household that usually receives financial support from a relative, who is not a household member, receives less money now and at a lower frequency.

#### *Impacts on expenditure*

The share spent on food has increased due to higher prices; the share spent on heating has increased as they are no longer permitted to cut firewood in the surrounding forests which they have been doing since the 90's. They cope by reducing expenditures on clothes, housing and entertainment. Participants are less concerned about education, which is generally free in the community; however they fear that they are forced to pay less attention to their health.

#### *Price trends and terms of trade*

Participants reported increasing prices for all major food commodities except for potatoes and link price increases to the global financial crisis. With decreases in expenditure and increasing food prices, they are facing a reduction in their terms of trade.

#### *Coping strategies and priority actions*

Main coping strategies are increased utilization of own production, reduced expenditures and slaughtering more livestock. Households substitute cereals with cheaper potatoes and increase their purchases on credit.

There are very few alternative livelihood strategies in this community, the climate is not favorable for land cultivation, there is a shortage of arable land and livestock keeping is not profitable because there is no market. According to one woman, there are also no business opportunities: "the best you can do is to have a store, where you will be giving out products on credit." Some women suggested creating production outlets where women could work (for example sewing outlets). Others were less optimistic and said that they would prefer to leave the community.

- Factory workers at chemical plant in Masis (Ararat Marz, close to Yerevan)

"Nairit" factory is one of the biggest chemical companies in Armenia, which has been operating for more than 75 years. It is located in Masis town, 14 km from Yerevan, where the majority of employees come from. After the collapse of the Soviet Union, the factory was shut down in 1990 but reopened in 1994. The company is privately owned but 10% of the shares are held by the Government. The current main activity of the factory is the production of chlorine, caustic soda, acetylene, chloroprene and rubber and at present there are 2,700 workers employed. The impacts of the global crisis were felt towards the end of 2008 because of the decreased global demand. By mid-December 2008, the factory stopped its operations and 1,700 staff were forced to take leave with reduced salaries (two-third). Due to Government interventions and support, it was decided to re-launch all activities and by the time of the study some sections were already operational.



The key informants consisted of 5 employees of the factory, including the head of the Human Resource department and the deputy chairman of the labour union. All focus group discussion members worked at the company – both women and men.

#### *Impacts on income and wages*

The main source of income for the participants is the salary from the factory, which comprises 90% of the total income for the households represented by the male participants and 70% of the female participants. Some households receive remittances (5% of total income), others are engaged in small scale businesses (5-10% of total income).

The income has decreased compared to the previous year because employees were forced to take leave for three months, during which they only received 2/3 of their monthly salary. The participants are expecting to receive their full salary again once the factory starts its operations. Almost all tried to find alternative jobs while they were on forced leave but failed to meet the requirement of potential employers because of their age (most of them were middle-aged or older).

The income from remittances, business and trade has also slowed down and at least 3 other household members of focus group participants lost their jobs during the past 6 months.

#### *Impacts on transfers and remittances*

Two of the participants have received remittances from relatives living abroad during the past 12 months. Compared to the same period in 2008, remittances have reduced by half, thus having an adverse impact on households' ability to repay their loans.

#### *Impacts on expenditure*

The most important expenditures are food, heating/utilities, health, clothes, cigarettes and alcohol. The share on food and utilities has increased in relative terms due to higher costs and reduced salaries.

#### *Price trends and terms of trade*

With decreased wages, the terms of trade for Nairit employees has at least temporarily been reduced.

#### *Coping strategies and priority actions*

In order to cope with decreased wages, households are buying lower quality food and save on buying clothes. They also tried to find alternative jobs – without much success. The wives of the male participants also tried to find jobs to contribute to the household income but did not succeed.

According to the participants all their problems will be solved, once the factory is at full capacity again. The women suggested providing low-interest loans to the population and suggested putting on hold the repayment of current loans.

#### 4.4 Farmers and livestock breeders

Agriculture contributed to 18.0% of GDP and made up 18.9% of household income in 2007. It is a sector highly vulnerable to weather shocks such as drought and frost. Households relying on farming and livestock breeding suffer through second-run effects: increased costs of agricultural inputs due to currency depreciation and decreased income due to lower national demand. In addition, they will find it increasingly difficult to invest during the 2009 agricultural season as they are facing decreased income from other sources such as remittances and limited access to credit. This is also compounded by the fact that banks since 2008 provide credit in US dollars only. Due to the depreciation of the local currency, the interest rates in the local currency equivalent increased by 22% overnight. Many households are now reluctant to take the risk for taking additional credit, as they will have to bear all risks associated with the currency fluctuation.

Particularly vulnerable are small-scale farmers and livestock breeders in low-production zones in higher altitudes who often combine small-scale agriculture at subsistence level with seasonal labour migration to Russia. They are coping by selling off their few productive assets, in particular livestock, which again will hamper their recovery potential in the future.

Focus group discussions were conducted in two locations: Masis town close to Yerevan in an area which supplies the capital with agricultural products, and Areg village in the Armenian highlands. As the most vulnerable rural population live in high altitudes above 1,700m, it was decided to visit a third community.

- Farmers and livestock breeders in Areg village (985 inhabitants) in Aragatsotn Marz

Areg is situated in a valley of the highlands of Talin region. More than 70% of households keep livestock. In total, there are 1,300 sheep, 550 cows, and 230 pigs in the community.

The village also engages in the cultivation of wheat and animal fodder. In good years, they are able to produce surplus which is marketed. However, land cultivation in this area involves a high



risks due to a high frequency of frost and drought. Farming activities depend on irrigation and only 60% of the households have access to irrigation. About 20% of villagers have regular jobs, mainly in the public sector.

The village mayor, two teachers and one librarian served as key informants. All participants in the focus group discussion were farmers/livestock breeders, but three of the five participating women also engaged in regular employment as teacher, cleaning lady and nurse. Also, among the male group there was one teacher and several pensioners. Due to the selection, it cannot be excluded that a bias was introduced.

#### *Impacts on income and wages*

The main income of the population comes from livestock farming and wheat production. In 2008, the farmers experienced long dry periods and frost, which hampered the harvest. Income generated by livestock farming has decreased as compared to last year. The shortage of fodder caused by the drought and frost made them slaughter more livestock than in a normal year, resulting in reduced farm gate prices for meat.

For the focus group participants, livestock farming (60%), regular wage labour (20%) and pensions (20%) are the main income sources this year. Both salaries and pensions increased between 2008 and 2009, which enabled households to mitigate the drought impacts.

Participants were not directly impacted by the financial crisis, however, some 45 male inhabitants have lost their jobs during the past 6 months. They were mainly working in the construction sector. Many construction projects stopped, including the renovation of the culture house due to lack of public funds.

#### *Impacts on migration and remittances*

Labour migration is not a predominant livelihood in Areg, only 5% of households engage in this activity. This number further reduced because of limited job opportunities abroad. This year, nobody has left yet from the village as they are afraid of not receiving their salaries. Last year some migrants returned without being paid.

Three of the 10 participants regularly received remittances in the past: Two from relatives abroad (twice or three-times per year). This year, they are not receiving any money because the relatives are facing financial difficulties. One household depends on remittances from a seasonal migrant worker in Russia, who is currently in Armenia with uncertain plans to return to Russia.

#### *Impacts on expenditure*

The highest expenditure of this group is on agricultural inputs which can be explained by the irrigation costs that households have to cover and the high fuel prices in 2008. This is followed by health expenditures (probably caused by the high number of elderly within the male focus group), then food, heating and clothes. Due to decreasing prices of fuel, it is expected that the share on agricultural inputs will decrease this year. They are expecting an increase in the share spent on food and medicine as prices are increasing.

#### *Price trends and terms of trade*

According to key informants, the costs for wheat flour increased by 20%, while potatoes are 20% cheaper compared to last year. The main impact of the drought was an increase in the price for fodder by about 80% when comparing March 2008 and March 2009. Also, agricultural wages have increased by around 30%. The reduction in fuel prices will partly mitigate the impacts of these increases. Overall, cattle breeders are facing reduced terms of trade as the price for cattle has reduced by around one third, the price for sheep remained about the same.

#### *Coping strategies and priority actions*

The main shocks or problems for households in Areg are the droughts, which is also associated with the run-down irrigation system. The global financial crisis only affects them indirectly through price effects, lower demand for agricultural products and less access to credit. This is not necessarily typical for all rural communities as the above case study of Zovasar illustrates.

Households generally cope by slaughtering more animals than usual and buying food on credit. Both coping strategies are associated with the drought, not with the financial crisis. As solutions, participants suggested to increase the coverage of the agricultural subsidies.

Currently they are not entitled, as subsidies are targeted at high altitude communities only. In addition, they suggested introducing long-term credits with low interest rates and a kind of agricultural insurance programme, in which they receive fertilizers at the beginning of the agricultural season, which they then pay back after the harvest season.

- Farmers in Ghukasavan village (2,375 inhabitants) in Ararat Marz

Ghukasavan is situated in Ararat Valley close to Yerevan and considered to be an area of high agricultural productivity. The valley is the main supplier of vegetables for the whole country. Nearly all households engage in agricultural activities. They mainly produce potatoes and green house plants. There were three small furniture production factories employing 35-40 residents. All three closed down in January 2009 due to reduced demand.



Several members of the village council served as key informants. All focus group discussion participants are engaged in agricultural activities but 3 out of 10 also had regular employment in the public sector – possibly introducing a bias in the sample.

#### *Impacts on income and wages*

The main income activity is cultivation and sale of potatoes (around 50% of total income), followed by green house production of cucumbers, tomatoes, and flowers (around 40%). Producing several crops makes this group more resilient against agricultural risks. The income from potato production has considerably decreased this year due to overproduction and decreased demand from Georgia. At the same time, income from greenhouse production is expected to decrease this year because of reduced demand from consumers who can no longer afford these goods and the new taxation system for traders, which has already forced some shop keepers to close down.

In terms of wages, they increased for employees funded from the state budget (e.g. teachers), however, stagnated for staff paid from the community budgets (kindergarten teachers, members of village council). This can be explained by the fact that many were not able to pay their taxes as a result of the crisis. These positions are financed from taxes directly paid to the community, not from the state budget. It is likely that these wages will be cut in the near future.

#### *Impacts on migration and remittances*

International labour migration is not common in Ghukasavan. Only one participant had experience with migration. Last year he left for Russia but without any success of finding work, this year he is not planning to migrate again.

The amount of remittances sent to Ghukasavan is very small; hence the reduction of remittances has no considerable effect on the income level of the population.

#### *Impacts on expenditure*

The highest expenditure of this group is on food, followed by agricultural inputs, utilities, education and health. The share spent on food has increased compared to the previous year. Also, the shares on agricultural inputs and utilities have gone up as wages for agricultural labour and the costs for gas have increased. Households also suffer from the depreciation of the dram, they now have to pay back debt at a much higher interest rate than anticipated. In order to compensate, households are now trying to consume cheaper food, reduce expenses on medicines, and have stopped house improvement activities. One household considers postponing the education of one of their children by one year as they can no longer afford the tuition fee for the university.

#### *Price trends and terms of trade*

According to the perception of participants, their terms of trade have decreased due to the financial crisis. While the prices of food they have to buy increased, prices for the goods they produce have decreased due to the decreased demand for potatoes, which lost around 40% of the value compared to one ago.

### *Coping strategies and priority actions*

The main problem households in this livelihood group are facing is reduced consumer demand due to the financial crisis combined with limited access to credit. So far, they have been able to cope by prioritizing their expenditures and hope the demand for agricultural products will increase again in 2009; otherwise, their indebtedness will become a serious issue in the future. They hope that the Government will support the opening of new markets, either through new export routes or the setting up of a processing and canning factory.

#### **Global crisis affects food security of inhabitants in a small Armenian mountain village**

Zovasar, approximately 2,000m above sea level, is a village in Aragatsotn region in North Armenia, home to some 600 people or 110 households. Winters in the village last six months and are severe. With lacking irrigation, many villagers have been forced to abandon their agricultural lands, more than half of arable land remains uncultivated, and many households depend on labour migration to Russia.

In the past 5-6 years until 2008, around 70 percent of the households had a family member working seasonally in Russia but this year only very few have managed to find some kind of employment outside their village.

One of the many migrant labourers in the village, Karapet Ghazaryan, 47, is living with his wife, their daughter and son in a small house. Karapet has been working in St.Petersburg in the past 5 years with a group of fellow villagers but this year neither he nor the others in the group have been able to do so.

"We were the first to feel the effect of the crisis. In February, 5 people from our village and I bought tickets to fly to St. Petersburg as had been our agreement with the construction company before we left the place last November. But when we informed the manager that we were ready to go, he told us he did not need us for the time being. We felt frustrated as we knew what sitting idle in the village would mean for us and our families. Add to it that we could not receive a refund for our tickets which we had bought for a special discount with limited flexibility. Thus, the ticket cost of 82,000 drams added on top of the long list of my debts to the village grocery shopkeeper."

"Life as a labour migrant is hard. We worked for the company from 7:00 in the morning until 12:00 at night and slept in the basement of the house we were building. We were paid 500 USD per month and payments were often delayed. Although I haven't been working since December last year, I can feel that I have less strength in my body and muscles and my arms are aching, especially at night. Therefore, I do not know whether to cry or rejoice that I will not be going out to work. But when I look at my wife and children, I know I have to work to feed them, however hard it may be."

Karapet's wife is disabled and therefore cannot work. Their children have also been unemployed since they finished school some 3-4 years ago. The family is cultivating only half of their 0.3 ha land holding as they lack irrigation. Also, the entire village and its lands have become a preferred habitat for moles which destroy almost half their crops. Karapet is obliged to pay land tax for this small unprofitable land. Without the regular income from labour migration his family will find it very hard to buy agricultural inputs and ensure sufficient fodder for their livestock over the winter season.

#### 4.5 Traders

Traders across the country are already facing second-run effects and many small businesses have already been forced to close. They are mainly affected by decreased demand, tightening credit conditions from banks, and a stricter tax regime recently implemented by the Government to improve transparency and efficiency. For many small traders, these changes act as a disincentive as they are no longer able to make a profit. In addition, many small shops, particularly in rural Armenia, are faced with the problem that more and more households are forced to buy food and other basic commodities on credit. Shopkeepers are fully aware of the fact that many of their customers might not be able to repay their loans in the near future. Some shopkeepers have already decided to stop providing goods on credit, further limiting household mitigation strategies.

#### 4.6 Social benefit receivers

It is commonly acknowledged that the Government's social benefit system has contributed to poverty reduction over the past years. Households receiving this benefit are relatively protected from the impacts of the global crisis as both pensions and family benefits have increased between 2008 and 2009. Nevertheless, they are still affected by price increases attributed to the currency depreciation. Social benefit receivers in two locations were interviewed, in Yerevan and in a rural town in Kotayk marz, which shows one of the highest levels of extreme poverty in Armenia.

- Social benefit receivers in Yerevan (capital)

The discussion took place in Shengavit, which is one of the biggest districts in Yerevan with a population of 143,800 inhabitants. It is estimated that here between 10% to 15% households benefit from the family benefit programme.



Participants were a mixed group of households benefiting from the family benefit programme and pensioners. Among the female group, there were 3 women receiving a family benefit and 2 pensioners. Among the male group, there was 1 unemployed receiving a family benefit and 3 pensioners. All participants used to be beneficiaries of the WFP relief programme, which was phased out towards the end of 2008. As key informant, staff from the Shengavit office which administer the programme were interviewed.

*Impacts on income and wages*

In most cases, the family benefit or pension is the only income sources of these households. Only one of the household members had a regular job. In this case the per capita income was so low that the family still qualified for the programme. Though the base benefit increased in nominal and real terms, the increase was minimal if the March currency depreciation is taken into account.

*Impacts on migration and remittances*

Households with labour migrants do not qualify for the programme, hence even if they have any, it would not be openly discussed. Key informants, however, expect the number of applications to increase this year as many labour migrants are not able to send money this year, some of them cannot afford paying a return ticket.

*Impacts on expenditure*

This is the group with the highest expenditure on food, followed by utilities and health. They hardly have any expenditure on other items, which is an indication that they are indeed one of the most vulnerable groups. In theory, this group is entitled to free medical care, in practice, however, they still need to pay for medicines and sometimes unofficially have to use bribes to receive services.

The share spent on food and utilities has increased over the past 9 months due to food price and tariff increases as well as the phasing out of WFP's food assistance programme. In order to compensate, households are trying to save on health expenditures and clothing.

*Price trends and terms of trade*

Increases in pensions and family allowance have been able to at least mitigate the effects of increasing living costs. Participants in particular complained about increasing food prices and medicine.

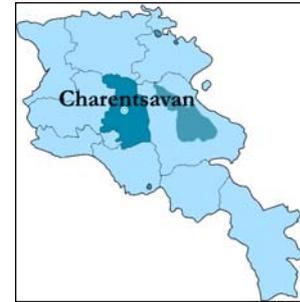
*Coping strategies and priority actions*

This group is mainly affected by the increasing food prices in 2008, the price effects of the March devaluation and closure of WFP's food assistance programme in late 2008. According to one key informant, the number of beggars has increased, people buy old bread and collect food from garbage bins. This information needs to be further validated as it is quite possible that a bias was involved. Both focus group participants and key informants used the opportunity to reinforce their interest to reopen the food assistance programme.

In terms of priority action, they suggested a further increase in social benefit allowances, provision of food assistance on a quarterly basis, guarantee of free medical check-ups and the introduction of special privileges such as reduced costs for the usage of public transport and utilities.

- Social benefit receivers in Charentsavan (25,039 inhabitants), in Kotayk marz

Charentsavan is situated 38 km from Yerevan and used to be a large industrial centre during Soviet times. After the collapse, almost all factories were shut down. Impacts can be felt until today with high unemployment and consequently high labour migration rates. It is estimated that about half of the population has migrated for employment opportunities to Russia and in recent years to Yerevan due to the construction boom. Furthermore, it is estimated that nearly 20% of households receive family allowance.



The discussion took place with long-term beneficiaries of the family benefit programme. They qualified for assistance for various reasons: long-term unemployment, large size households with many children, female-headed households. The following persons among others served as key informants: Head of the Social Service, Deputy Mayor, and a trader.

#### *Impacts on income and wages*

The town is affected by the crisis through reduced seasonal migration and local employment opportunities in the few remaining manufacturing shop (mainly steel and iron casting). In recent months, they totally closed down or reduced their capacity and staff.

Before the crisis, focus group participants were also able to receive some support from relatives who worked abroad or in Yerevan, but now they are fully dependent on the income derived from the family benefit programme only. As an additional income, some households are planning to collect edible herbs from nearby valleys for their own consumption and market.

One participant was self-employed repairing shoes during 2008 but he was forced to close his business as it was more important to him to receive a small but stable income from the family-allowance programme. This seems to be a common problem in Charentsavan. According to the key informants, some employees even accept reduced salaries in compensation for not being put on the official pay-roll. The social benefit is the preferred income as it is considered to be more stable than income from regular employment.

#### *Impacts on migration and remittances*

Similar to the Yerevan group, migration and remittances cannot be discussed openly. One woman, who used to receive remittances, has not heard from her husband or his whereabouts for more than 6 months.

#### *Impacts on expenditure*

The largest expenditures are on food and utilities. Interestingly, the third largest expenditure is on debt reimbursement which in this group refers to paying back food on credit. The share on food has increased for most households due to increasing prices and less support from relatives working in Yerevan. Similarly, the share for utilities has gone up due to increased tariffs. As a consequence, they reduced consumption of these goods and decreased expenditures on health.

#### *Price trends and terms of trade*

Households face increased costs, which are partly compensated by increased levels of the family allowances.

#### *Coping strategies and priority actions*

This group is indirectly affected by the crisis through the price effects and the fact that they receive less informal support from relatives who are directly affected by the crisis through unemployment. They mainly respond by increasing their food purchases on credit.

## 5. IMPACTS ON HOUSEHOLD FOOD SECURITY

The methodology used for the rapid assessment does not allow making quantitative statements about the impact of the crisis at household level. However, through the usage of rapid appraisal techniques, it is possible to figure out some general trends. Table 3 shows the results of a problem ranking exercise for each focus group discussion. Highlighted in yellow are those difficulties that could be attributed to the financial crisis: unemployment, loss of income, price effect and increased indebtedness.

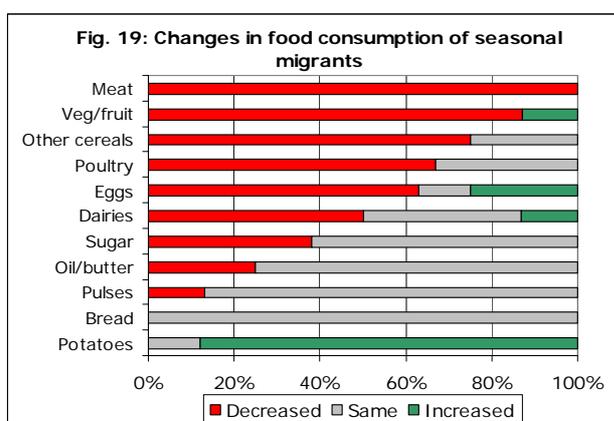
**Tab. 3:** Difficulties during the past 9 months by livelihood group

Livelihood group	Location	Sex	Difficulty 1	Difficulty 2	Difficulty 3
Seasonal migrants	Vardenik	Women	They haven't sent money, and we have a lot of debts.	There is no money for food, especially for flour	Lack of money to fund agricultural labour
		Men	No sale of crops (potatoes)	The debts have increased	There is no money (no income)
Remittance receivers (capital)	Yerevan	Women	The income from abroad has decreased		
		Men	The orders are reduced in the construction sector abroad.	Increases in utility payments	
Remittance receiving HHs (rural)	Amasia	Women	There are no jobs		
		Men	Nothing to do. There is nothing to do, because there is no money and no place to do something	There are no jobs	Everyone wants to leave this place
Remittance receiving HHs (urban)	Gyumri	Women	Increase of prices and fear	Unemployment	Increase of the transport price.
		Men	There are no jobs	Prices increases	
Construction workers (capital)	Yerevan	Women	It is difficult to take care of children and other family members with little money		
		Men	There are no jobs. We have everything – education, health, but we can't sustain our families, there is nothing worse for man	The salary is low, even if you manage to find a job it will be low-paid	The taxes are very high.
Construction workers (urban)	Vanadzor	Women	Absence of jobs. This is the main issue for both men and women.	There is a problem of marriages. We don't have money for social events	The climatic conditions are also a problem (cold winters)
		Men	The salaries have decreased by half since summer.		
Employees in mining sector (rural)	Lernadzor	Women	Water and the crop are being poisoned because of the poisonous emissions, but we eat and drink it. Quite a lot of diseases have appeared	Absence of jobs for women: mainly men are working at the factory and they don't hire new people because they hardly sustain the old ones. The reduction of salaries	The development of cattle breeding is also an issue for us, because the poisonous emissions which affect the soil cause damage to the livestock as well.
		Men	The fear of an ecological disaster and the poisonous emissions of the factory affect the health of people	Paying for food and clothes	
Employees in industrial sector (urban)	Masis	Women	There is not enough money, but prices have been increased	No other specific difficulty	
		Men	The only difficulty is the non-operation of the factory which has resulted in a reduction of our salaries for 25%. That makes our living harder.		
Farmers and livestock breeders (rural)	Areg	Women	Drought	Frost	Worsening of health problems associated with anxiety caused by income losses from drought and frost
		Men	No enough money for agricultural inputs (seeds/fertilizer)	Increase of utility tariffs (the tariff for water)	Increase in prices of fuel (in 2008)
Farmers (peri-urban)	Ghukasavan	Women	The gave the loan in drams equivalent of dollar, so now we pay back more interest and the pay off for loan will be more.	The prices for agricultural works have increased (ploughing, sowing, fertilizers, chemicals)	
		Men	The income is not enough for food.	The potato sales have decreased since summer 2008 and now there are no sales.	People of the village are not able to pay off the loans.
Social benefit receivers (Yerevan)	Shengavit	Women	Increase of food and clothes prices	Increase of medicines prices	Phase-out of food aid
		Men	Our health problems increased because of the increase in the expenses for the healthcare (prices for medicines) as we cannot apply to doctors	Increase in food prices	
Social benefit receivers (urban)	Charentsavan	Women	There is no job: all factories have been closed since December.		
		Men	Everything becomes more expensive	It is getting harder to find a job.	

Most households in Armenia will be affected by the crisis, although some households have better coping strategies than others. In order to assess the impact on food consumption, all focus group participants were requested to report on the consumption of various food items over the past 7 days within their households to provide an indication for consumption frequency and dietary diversity. Based on consumption patterns, livelihoods were grouped into poor, borderline and adequate food consumption groups.

Social benefit receivers tend to have **poor** food consumption and dietary diversity. Their consumption is heavily based on starches with little consumption of protein sources, vegetables or fruits. This could be an indication that the current level of social benefits cannot cover the costs of a minimal food basket. There is a need to further investigate this. This group is affected by chronic food insecurity caused by poverty. This situation is exacerbated by the price increases in 2008 and the price effect of the global financial crisis. In addition, the Yerevan group was affected by the phasing out of the WFP food assistance programme. When asked about how their diet has changed compared to last year, they reduced all food items including oil and sugar but increased the consumption of potatoes and bread.

Households with **borderline** food consumption are those that rely on seasonal migration, construction work in Yerevan and marketing of farm produce in the outskirts of Yerevan. These are the three groups most heavily affected by the crisis at this point in time. When assessing consumption changes, these groups mainly have reduced the consumption of protein sources and vegetables and increased the consumption of potatoes (see figure 19).



Most seasonal migrants have received no or incomplete payment during the 2008 migration season. The second livelihood strategy, the selling of potatoes, does not mitigate the impact as the market value for potatoes has shrunk over the last 9 months due to declining demand. Construction workers in Yerevan have been facing wage cuts and many of them are unemployed. Similarly, farmers in the outskirts of Yerevan are affected by a reduced demand for potatoes and the greenhouse products while they are also facing increased costs and reduced subsidies during the 2008 agricultural season.

All other groups are considered to have **adequate** food consumption with more or less well-balanced diets. Despite the fact that most households are affected by the crisis, impacts have not yet been transmitted to food consumption levels. This group consists of remittance-receiving households, employees in the mining sectors and farmers and livestock breeders in Aragatsotn Marz. Many remittance-receiving households also have other livelihood strategies which make them on average more resilient compared to households that rely on seasonal migration only. As this group is very heterogeneous, further research will be required. Even during forced leave, employees in the mining and industrial sectors were still receiving two-thirds of their normal income, hence there has not yet been an impact on food security. However, the situation could change abruptly if they were made redundant. Farmers and livestock breeders in Areg Village were actually the best off group. Although they have been impacted by drought and frost, from a food security point of view, the selected households have been able to cope with this shock. Many households in this community benefit from an old but still functioning irrigation system. Their nearby neighbours in higher altitudes, on the other hand, were heavily affected by the crisis as they do no longer have access to generating income from seasonal migration to sustain their households and livestock.

## 6. CONCLUSIONS AND RECOMMENDATIONS

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### 6.1 Outlook and expected trends

The evolution of the situation and outlook is closely linked to the trends in countries with close ties with Armenia, in particular Russia. According to the IMF's World Economic Outlook (April 2009), among all the regions of the global economy, the CIS countries are expected to experience the largest reversal of economic growth over the near term. The reason is that their economies are hampered by three shocks simultaneously: curtailed access to external funding, slumping demand from advanced economies, and the related fall in commodity prices, notably for energy in the case of Russia. Current growth perspectives for Russia are minus 6% for 2009. The trend is expected to reverse in 2010 with an expected growth rate of 0.5% while Armenia's growth rate is expected to stagnate at 0%. Based on this outlook, the most likely scenario is that the situation in Armenia will worsen throughout 2009 and 2010; therefore a reversal cannot be expected before 2011.

**Food availability:** Despite the fact that Armenia is a food-deficit country, food is available throughout the year in all regions either through production or imports. Special attention should be given to the agricultural sector for two reasons: small-scale producers will find it more and more difficult to finance the required inputs due to the slowdown in monetary flows from abroad, increased prices for fertilizers and other agricultural inputs and a drop in local demand. Some local experts expect that the level of land use and agricultural productivity will decline as a result of the crisis. Secondly, many returning migrants and seasonal migrants originating from rural villages may turn back to agriculture as the only means to sustain themselves – these groups will require substantial support to ease their start-up. If no special attention is given to the agricultural sector in 2009, availability of food could be at risk during the winter season and throughout 2010.

**Food access:** The negative economic outlook is associated with increased poverty which is directly linked to food insecurity. Inflationary pressure of the depreciation on food prices should be closely monitored. As a result of the crisis, new groups of poor people may emerge, including youth with little work experience who will find it hard to enter the employment market and adult men above 45 years of age, who will find it difficult to find alternative employment opportunities in times of high unemployment. A large proportion of the population depends on foreign remittances and insecure wage-labour to meet their basic consumption needs and access to food. Unemployment will continue to increase throughout 2009 – although the Anti-crisis Action Plan of the Government might be able to mitigate this negative trend to a certain extent. As seasonal migration usually lasts from March to December and most seasonal migrants are sending back the first amount of remittances mid year and end of the year, the impact will be mainly felt during the second half of 2009 and will continue throughout 2010 as prospects for economic recovery in Russia remain low. Food access will be particularly difficult during the winter months if households are not able to stock up their reserves in October/November in preparation of the winter season.

**Food utilization and nutrition:** Although current malnutrition rates are moderate<sup>16</sup>, dietary changes may translate into higher chronic malnutrition rates among children under 5 and worsen micronutrient deficiencies among children and other vulnerable groups such as pregnant and lactating women in the longer-term. Decreased health expenditures and cuts in expenditures on heating during the cold winter months will have further negative effects on the nutritional status of vulnerable individuals. Finally, the capacity of the Government to improve the delivery of health care will be limited by the budgetary effects of the crisis.

**Other impacts:** Despite the fact that education generally has a high value in Armenia, households may be forced to cut their expenses on educational costs. This will primarily affect tertiary education as parents are no longer able to afford university fees and hostel rents. The financial and economic crisis may also have an impact on gender roles in Armenia, where women generally play a relatively strong role in day-to-day decision-making. This might be altered by the fact that many men are no longer migrating abroad for 9 months of the year. Economic hardship could lead to increased gender violence and increased use of negative

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<sup>16</sup> The most recent countrywide nutrition survey conducted in 2005 indicated that 13% of children were stunted and 5% wasted (Demographic and Health Survey, 2005).

coping strategies such as child labour and human trafficking. There are also concerns of increased insecurity and violence due to high unemployment, especially among the youth in urban areas. Finally, the crisis may alter the demography as many young persons are already postponing their marriage plans and young families are planning to have fewer children.<sup>17</sup>

## 6.2 Recommendations for policy-makers

The global economic crisis has serious implications for poverty and could reverse the progress made since the 2000s. Based on the analysis, key informant interviews and outcomes of several roundtable discussions that took place in April, the following recommendations are made to address the crisis at the macro-level:

- Despite budgetary constraints, prioritize spending on **social protection programmes** and expand its coverage to include the “new poor” by increasing the budget allocation to the family benefit programme and increase efficiency through improved targeting.
- Protect the budget for the **health and education sectors** to avoid risks with difficult-to-reverse consequences and long-term implications for future human capital development after the economy recovers.
- Support measures that will ensure continued **agricultural activities** through training, access to financial capital, high quality inputs and agricultural assets.
- Scale up the **public works programmes** and improve the impact on vulnerable population groups by increasing the duration of the project time for beneficiaries, ensuring that poor communities are also covered, setting wages of public work programmes lower than the market wage to avoid drawing labour away from productive sectors and adjusting eligibility criteria (one person per family) to enhance coverage.
- As many seasonal labour migrants will remain in Armenia and long-term migrants may decide to return, strengthen **reintegration projects** for returned migrants including training, small-business development, assistance in agricultural activities, public works, etc.

## 6.3 Priority needs for mitigating impacts on vulnerable groups

Based on the positive economic trends since 2000, WFP was originally planning to phase down its operation in Armenia in December 2008 and just to remain with a small presence to provide technical assistance in the area of food fortification and monitor market prices. In late 2008, this closure was put on hold.

Based on the current outlook, it is recommended for WFP and its partners to continue providing assistance throughout 2009 and 2010 to mitigate the impacts of the crisis on the most vulnerable and the “new” vulnerable groups which currently cannot be assisted by the Government. This should be accompanied by a clear hand-over strategy. A reassessment of the situation should take place in early 2010.

In terms of programming responses, it is recommended to:

1. Reach the **most vulnerable** groups that are excluded from the social safety net through social assistance programmes with a focus on regional urban centres where the level of extreme poverty tends to be the highest. For example, based on a rough calculation, 32,000 people fall into the category of extremely poor in urban centers outside Yerevan, which are currently excluded from social benefits schemes. This activity could be implemented through NGOs, including soup kitchens, possibly with a take-home-ration component to avoid social stigma. Food rations should be provided on a 7-day basis (not 5 days as currently implemented by Mission Armenia).
2. Provide **conditional cash transfers (cash-for-work)** to households that are considered to be the “new poor”, which cannot be absorbed by the overstretched Government social

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<sup>17</sup> Average population growth rate 2005-10 is -0.2% (UNFPA, 2008).

safety net and may not benefit from the planned public works scheme. At this point, cash or voucher is the recommended response option for the following reasons:

- Food availability is not a constraint and markets would be able to respond to increased demand;
- The banking system is established and accessible throughout the country;
- The risk of intra-household diversion is mitigated by the fact that in most households women actively participate in the decision-making of day-to-day expenditures; and finally
- The majority of potential beneficiaries prefer cash over food.

One risk factor, however, is the increased indebtedness with the consequence that cash might be used to repay loans rather than investing in current basic needs. To avoid this risk, a voucher system might be the preferred alternative. It is recommended to conduct a detailed operational analysis for establishing a cash or voucher system.

Without the presence of a comprehensive food consumption survey, the following are the **proposed targeting criteria**: (extreme) poverty by region, provinces (*marzes*) with high seasonal labour migration rates, high altitude areas (generally the most vulnerable who highly rely on remittances to invest in small scale subsistence level agriculture), and areas with increased rates of unemployment, if the situation deteriorates (centres of mining and industrial industry). It is recommended to fine-tune these criteria through the implementation of a **household level survey**, which will also allow the monitoring of impacts on food insecurity over time.

#### 6.4 Monitoring the impacts over time

It is recommended that **monitoring activities** should entail a reporting of macro-level indicators on a monthly or quarterly basis and the collection of impact indicators at household level twice a year throughout 2009 and 10. The baseline should be implemented in July/August to provide a benchmark to assess how different livelihood groups will be impacted by the crisis over time. Follow-up surveys should take place in January/February 2010, June/July 2010 and January/February 2011.

**Tab. 4:** Indicators to be monitored

INDICATOR	FREQUENCY	SOURCE
<b>Macro-level</b>		
Departures/arrivals to CIS countries	Monthly	Migration Agency, IOM
Remittances (net non-commercial inflows)	Monthly	CBA
Newly registered unemployed	Monthly	SESA
Unemployment rate	Quarterly	NSS
Wage rate	Quarterly	NSS
Price of key food commodities	Quarterly	NSS (Food Security Bulletin)
Inflation	Monthly	CBA
Trade balance: exports/imports	Quarterly	CBA
Quarterly economic growth rate by sector	Quarterly	CBA
Economic growth projections (Armenia, Russia)	Quarterly	MOE, CBA, IMF, World Bank
<b>Household level</b>		
Poverty and extreme poverty	Annual	NSS (ILCS)
Share of food expenditure	Annual	NSS (ILCS)
Population movements (seasonal/long-term/return)	Bi-annual	Joint UN household survey
Change in income sources	Bi-annual	Joint UN household survey
Amount and frequency of remittances	Bi-annual	Joint UN household survey
Expenditure on food, health and education	Bi-annual	Joint UN household survey
Utilization of health services and morbidity	Bi-annual	Joint UN household survey
Food consumption and dietary diversity	Bi-annual	Joint UN household survey
Shocks and coping strategies	Bi-annual	Joint UN household survey

**Annex A: List of key informants in Yerevan and at sub-national level**

<b>Agency/Marz</b>	<b>Name</b>	<b>Title</b>
<b>YEREVAN</b>		
Central Bank of Armenia	Mr. Artur Nakhshikyan	Head of Financial Department
Ministry of Agriculture	Mr. Hrachyan Tspnetsyan	Planning of Agriculture and Social Development in Rural Areas Department
Ministry of Economy	Mr. Mushegh Tumasyan	Deputy Minister of Economy of RA
Ministry of Economy	Mr. Artak Bagdasaryan	Head of Department of Economic Policy and Strategy Development
Ministry of Finance	Mr. Hayk Ghalumyan	Head of the Budget Expense Financial Planning Department
Ministry of Labour and Social Issues	Ms. Astghik Minasyan	Head of Social Assistance Department
Ministry of Territorial Administration of Armenia	Mr. Gagik Yeganyan	Head of Migration Agency
National Statistical Service	Ms. Anahit Avetisyan	Head of Food Security Division
National Statistical Service	Ms. Hasmik Yeghiazaryan	Leading Specialist, International Statistical Cooperation Division
National Statistical Service	Ms. Lusine Kalantaryan	Head of Labour and Employment Division
National Statistical Service	Ms. Diana Martirosova	Head of Household Survey Division
State Employment Service Agency	Ms. Sona Harutyunyan	Head of SESA
UN	Ms. Consuela Vidal	UN Resident Representative, Armenia
FAO	Ms. Gayane Nasoyan	FAO Focal Point
ILO	Mr. Nver S. Sargyan	Programme Officer
IMF	Ms. Nienke Oomes	IMF Representative, Armenia
IOM	Ms. Ilona Ter-Minasyan	Head of Office, Armenia
UNDP	Ms. Marina Solakhyan	Anti-trafficking Project Coordinator
UNFPA	Ms. Aida Ghazaryan	National Programme Officer
UNHCR	Ms. Bushra Halepota	UNHCR Representative, Armenia
UNICEF	Ms. Laylee Moshiri,	UNICEF Representative, Armenia
UNIDO	Ms. Anahit Simonyan	Head of UNIDO, Armenia
WFP	Ms. Lola Castro	WFP Representative Georgia/Armenia
World Bank	Mr. Agassi Mkrtchayn	Economist
World Bank	Ms. Susanna Hayrapetyan	Sr. Health Specialist
Armenian Caritas	Ms. Tigranuhi Tarakhchyan	Reintegration Programme Officer
Eurasia Foundation	Ms. Heghine Manasyan	Director of the Caucasus Research Resource Centre
Mission Armenia	Ms. Hripsime Kirakosyan	Chairperson
GTZ	Mr. James Macbeth Forbes	Country Director
USAID	Ms. Ann Hirschey	Director, Social Reform Office
USAID	Mr. Tatshat Stepanyan	Project Management Specialist
USAID	Ms. Jane Daly	Employment Services Expert
<b>MARZ-LEVEL</b>		
Ararat	Mr. Arayik Vardanyan	Village Head of Ghazaryan Village
Lori	Mr. Arthur Nalbandyan,	Mayor of Alaverdi
Lori	Mr. Vahan Arakelyan	Head of Spitak Farmers' Association (Spitak)
Shirak	Mr. Edik Baghranyan	Head of Social Services, Gyumri Town
Shirak	Ms. Amalya Adamyanyan	State Employment Agency, Gyumri Town
Syunik	Mr. Razmik Ghazaryan	Chief of Staff, Governor's Office of Syunik
Syunik	Mr. Ashot Tsatryan	Head of Social Services Department, Governor's Office of Syunik
Tavush	Mr. Levon Sarkisyan	Deputy Mayor of Tavush
Tavush	Mr. Arthur Hovhannisyan	Village Head of Tovuz Village
Tavush	Mr. Andranik Veranyan	Community Union Head of Noyemberyan Region
Tavush	Mr. Andranik Aydinyan	Village Head of Aigepar Village
Vayots Dzor	Mr. Aram Bakunts	Senior Specialist, Agro and Community Development Division, Governor's Office

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- ADB (November 2007): A Study on International Migrants' Remittances in Central Asia and South Caucasus Country Report on Remittances of International Migrants and Poverty in Armenia. Draft for Discussion at the Country Seminar. Yerevan, Armenia
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- World Bank (February 2009): "Armenia: Implications of the Global Economic Crisis for Poverty" (draft), Human Development Sector Unit of Europe and Central Asia Region.
- World Bank (May 2009): Country Partnership Strategy for the Republic of Armenia, 2009-2012.

***Websites and data bases***

Central Bank of Armenia (CBA): <http://www.cba.am>

IMF: <http://www.imf.org>

Migration Agency of the Ministry of the Territorial Administration of the RA:  
<http://www.dmr.am>, <http://backtoarmenia.am>

National Statistic Services (NSS): <http://www.armstat.am>

Government of Republic of Armenia: <http://www.gov.am>

**Annex C: Overview on macro-economic performance indicators\***

	2006	2007Q1	2007Q2	2007Q3	2007Q4	2007	2008Q1	2008Q2	2008Q3	2008Q4	2008	2009Q1
<b><i>Real sector indicators</i></b>												
GDP (bln. Drams) <sup>13</sup>	<b>2,656.2</b>	422.2	682.5	1,028.9	1,015.7	<b>3,149.3</b>	486.6	823.1	1,295.1	1,041.3	<b>3,646.1</b>	465.5
Real growth of GDP(cumulative) <sup>1,13</sup>	<b>113.2</b>	112.1	110.9	113.2	113.7	<b>113.7</b>	109.2	110.2	110.6	106.8	<b>106.8</b>	93.9
GDP deflator (cumulative) <sup>1,13</sup>	<b>104.6</b>	105.4	105.2	104.4	104.2	<b>104.2</b>	105.6	107.6	110.4	108.4	<b>108.4</b>	101.9
Unemployment rate(cumulative, %)	<b>7.4</b>	7.4	7.3	7.2	7.1	<b>7.1</b>	6.4	6.3	6.3	6.3	<b>6.3</b>	6.6
Population (thous. people) <sup>2</sup>	<b>3,222.7</b>	3,222.9	3,223.7	3,226.7	3,230.1	<b>3,230.1</b>	3,230.7	3,231.9	3,235.0	3,238.4	<b>3,238.4</b>	
Average monthly salary, dram (cumulative) <sup>10</sup>	<b>64,278.0</b>	69,127.0	71,789.0	73,713.0	77,469.0	<b>77,469.0</b>	84,093.0	86,379.0	87,811.0	91,331.0	<b>91,331.0</b>	97,899.0
CPI (cumulative) <sup>1</sup>	<b>102.9</b>	104.8	104.5	103.8	104.4	<b>104.4</b>	107.9	109.0	109.7	109.0	<b>109.0</b>	102.0
CPI (with respect to December of the previous year) <sup>2</sup>	<b>105.2</b>	102.0	103.9	99.8	106.6	<b>106.6</b>	104.8	106.8	104.2	105.2	<b>105.2</b>	100.7
Price index of industry (cumulative) <sup>1</sup>	<b>100.9</b>	102.2	101.1	100.3	100.6	<b>100.6</b>	104.4	105.2	106.0	102.2	<b>102.2</b>	92.6
<b><i>Monetary indicators</i></b>												
Money base <sup>2,12</sup>	<b>41.1</b>	-6.4	8.5	15.9	28.3	<b>50.9</b>	-10.8	8.4	6.2	2.6	<b>5.3</b>	-12.9
Net foreign assets (banking system) <sup>2,12</sup>	<b>70.7</b>	-2.7	15.7	1.2	18.3	<b>35.1</b>	-9.3	-1.1	-15.0	-24.2	<b>-42.2</b>	-64.4
Net domestic assets (banking system) <sup>2,12</sup>	<b>-33.8</b>	4.1	-6.8	36.5	19.7	<b>58.1</b>	6.0	9.4	22.4	3.8	<b>47.3</b>	28.4
including: loans to economy <sup>2,12</sup>	<b>28.1</b>	12.5	12.8	21.2	15.8	<b>78.0</b>	12.9	13.3	12.1	3.6	<b>48.7</b>	3.6
Broad money <sup>2,12</sup>	<b>32.9</b>	-0.6	8.3	11.3	18.8	<b>42.3</b>	-1.8	4.5	6.0	-6.1	<b>2.3</b>	-9.9
<b><i>Financial market interest rates</i></b>												
Interbank rate (%) <sup>3</sup>	<b>5.0</b>	4.5	3.7	4.5	5.7	<b>5.7</b>	6.0	6.3	7.3	8.5	<b>8.5</b>	9.0
Lending rate (%) <sup>4</sup>	<b>17.2</b>	18.4	17.7	17.4	16.5	<b>16.5</b>	17.2	17.4	17.2	16.5	<b>16.5</b>	19.2
Treasury bill yield (%) <sup>11</sup>	<b>6.5</b>	6.4	6.5	6.5	7.5	<b>7.5</b>	8.5	7.5	8.0	9.6	<b>9.6</b>	10.5
<b><i>Government sector indicators</i></b>												
Budget balance (cash) <sup>5</sup>	<b>-0.9</b>	1.6	2.7	-1.1	-2.4	<b>-0.8</b>	1.9	-0.8	-1.9	-1.5	<b>-1.4</b>	-5.7

<b>External sector indicators</b>												
Exchange rate AMD/USD <sup>2</sup>	<b>363.5</b>	362.1	341.0	335.8	304.2	<b>304.2</b>	307.3	302.7	302.1	306.7	<b>306.7</b>	367.8
Exchange rate AMD/USD <sup>10</sup>	<b>416.0</b>	359.4	354.0	337.8	317.1	<b>342.1</b>	308.1	307.1	302.3	306.4	<b>306.0</b>	325.6
Real effective exchange rate <sup>6,10</sup>	<b>114.1</b>	128.7	127.6	125.6	132.2	<b>128.6</b>	136.1	133.1	133.5	147.5	<b>137.5</b>	150.7
Exports of goods (FOB) <sup>7</sup>	<b>985.1</b>	231.2	293.8	303.8	323.4	<b>1,152.3</b>	234.0	286.0	311.8	236.6	<b>1,068.4</b>	123.4
Imports of goods (CIF) <sup>7</sup>	<b>2,191.6</b>	645.2	714.5	829.6	1,087.2	<b>3,276.6</b>	846.8	1,059.7	1,218.7	1,285.0	<b>4,410.3</b>	658.5
Trade balance <sup>7</sup>	<b>-1,206.5</b>	-413.9	-424.1	-525.8	-763.8	<b>-2,124.3</b>	-612.8	-773.7	-907.0	-1,048.3	<b>-3,341.9</b>	-535.2
Current account <sup>7,8</sup>	<b>-117.1</b>	-191.2	-53.4	-103.1	-241.5	<b>-589.3</b>	-303.9	-220.6	-337.5	-493.3	<b>-1,355.3</b>	
Current account (excluding official transfers) <sup>7,8</sup>	<b>-197.1</b>	-208.0	-87.9	-114.2	-273.7	<b>-683.7</b>	-318.7	-234.0	-363.7	-514.1	<b>-1,430.5</b>	
Gross foreign reserves (excluding privatization receipts) <sup>2,7,9</sup>	<b>1,072.0</b>	1,062.8	1,216.0	1,421.6	1,659.2	<b>1,659.2</b>	1,606.0	1,579.6	1,585.2	1,406.8	<b>1,406.8</b>	1,343.3

\* The source of data on monetary indicators, financial market and exchange rates is the Central Bank of Armenia. The source of data on real and external (except exchange rates) sectors is the National Statistics Service of Armenia. The source of data on government sector is the Ministry of Finance of Armenia.

1- Percentage change with respect to the same period of the previous year.

2- End of the period.

3- Weighted average interest rate on interbank dram loans and deposits with maturity up to one year (except demand funds) for the last month of the period.

4- Weighted average interest rate on dram loans extended to economy by commercial banks with maturity up to one year (except demand funds) for the last month of the period.

5- Central government budget cash deficit (including clearance of arrears), % in GDP. Since 2008 government sector statistics records according to GFS 2001 accounting standards.

6- Index, 1999-2003 weights, exc. Humanitarian aid, petroleum, natural gas and diamonds, 9 partner countries (1997=100)

7- Million USD.

8- Balance of payments is provided by the National Statistical Service (NSS) of RA.

9- Includes monetary gold, SDR holdings, reserve position in the IMF, foreign exchange in convertible currency (at current exchange rates).

10- Period average.

11- Weighted average yield on medium-term government coupon securities of the last month of the period. If during the given month no allocations have been made the yield of the preceding month is used.

12- Percentage change against the previous period.

13- The indicators for 2007, 2008 are revised and updated by NSS.