



## Executive Brief - Armenia

### Effects of the Financial Crisis on Vulnerable Households

**Background:** This brief is part of a series of five presenting the findings of case studies on the effects of the global financial and economic crisis on households' food security, conducted in **March and April 2009**.<sup>1</sup>

#### Overview

Armenia is a mountainous, landlocked country in the South Caucasus with a population of 3.2 million, of which 65% is urban. After several years of hardship since its independence in 1991, Armenia had successfully switched to a market economy with double digit growth rates since 2000, accompanied by significant poverty reduction. Armenia is particularly vulnerable to the global financial and economic crisis due to the following:

- ✓ Its economy relies largely on European and Russian markets. The slowdown in exports and foreign capital inflows is already felt in the **construction sector**, a driving force of the economic growth (24.7% of 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 25% of households received remittances in 2007, contributing on average to 60% of their 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 the country?

The financial crisis is affecting Armenia through reduced trade, foreign investments, and remittances caused by the economic slowdown in source countries. The impact of the crisis has been felt immediately:

- ✓ **Economic growth** started slowing down already last September. In the first quarter of 2009, GDP decreased by 4.3%. Growth projections for 2009 range from minus 5.0% to minus 8.0%.<sup>2</sup>
- ✓ **Extreme poverty** could reach levels not seen since the early 2000s, reversing gains in poverty reduction. 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 of 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.
- ✓ More than 15,000 persons newly registered with official **unemployment** agencies (first quarter 2009)..
- ✓ In March, as a measure to support the export sector, the **local currency - the dram depreciated** by 22% against the USD. This led to significant price increases for some basic food and non-food commodities.

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

The financial crisis has deteriorated the **purchasing power** of the population and is hitting hardest those below and not far above the poverty line. Household income has decreased due to a 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 has affected their ability to **access sufficient food** and cover other basic needs, in particular heating, health and education. Households mainly cope by increasing food purchases on credit with the risk of falling into a debt trap, substituting wheat products with potatoes, and reducing consumption of meat, dairy products and vegetables.

Households that are directly affected by the shock are:

- ✓ **Remittances receivers:** Income of households with seasonal migrants has already dropped seriously as many labour migrants 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 difficult to send money back. Up to 85,000 households could be affected by receiving less or no remittances in 2009.
- ✓ **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. 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. So far, workers in the mining sector and chemical industry have been slightly more protected – mainly through government mediation. However, they already went through job-reductions and periods of forced leave and lower wages and their future remains uncertain.

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

<sup>2</sup> The most recent IMF projection is minus 5%. At a recent conference organized by IMF, UN and World Bank, experts referred to minus 8.0%.

Households indirectly affected are:

- ✓ **Farmers and livestock breeders:** They experience increased costs of agricultural inputs and decreased income due to lower demand. Investing into this year's agricultural season will be difficult as credit and remittances are also reduced. Particularly vulnerable are small-scale farmers and livestock breeders in low-production zones in higher 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 closed down due to decreased demand and tightening credit conditions. Small shops are increasingly selling on credit but some have already stopped this common practice.
- ✓ **Social benefit receivers** (mainly households with many children or elderly members, former refugees and female-headed households): This group is affected by chronic food insecurity caused by poverty. The situation is exacerbated by the price increases in 2008 and the price effects of the global financial crisis. The number of eligible households has increased, particularly among households that relied on only one income source before the crisis. About 35% of the extremely poor households were not covered by social transfers in 2007; the exclusion error is therefore a concern.

## How is the situation likely to evolve?

---

Globally, the CIS countries are forecast to experience the largest economic downturn due to curtailed access to external funding, dropping demand from advanced economies, and the fall in commodity prices. Growth perspectives for both Armenia and Russia are bleak (minus 6.0% for 2009 and around zero for 2010). The most likely scenario is a worsening of the situation throughout 2009. A reversal of this trend cannot be expected before 2010 or even 2011.

- ✓ **Food availability:** Availability of food could be at risk during the 2009/10 winter season and beyond. The level of land cultivated and agricultural productivity are expected to decline as small-scale producers and returning migrants who turn to agriculture to sustain themselves may not be able to finance the required inputs.
- ✓ **Food access:** The negative economic outlook translates into a pessimistic scenario for food access. While unemployment will be on the increase throughout 2009, seasonal migration to Russia will continue to drop. Despite the Government's intention to prioritize social spending in the current budget, it is most unlikely that the 'new poor' will be absorbed. Food access will be difficult during the winter if households are unable to stock up their reserves in October/November.
- ✓ **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. Decreased health and heating expenditures will further impact the nutritional status of vulnerable individuals and could eventually lead to an increased risk of child mortality. The delivery of health care services could be hampered by the budgetary effects of the economic crisis.
- ✓ **Other impacts:** Economic hardship could force households to cut on educational expenses, lead to changes in family planning, and increase insecurity and violence.

## What are the ongoing responses?

---

The government is negotiating support with international financial institutions for its **Anti-crisis Action Plan** to promote growth through infrastructure projects, support SMEs and new business initiatives. The **international community** including the UN Country Team, IMF and World Bank are fully committed to concerted efforts.

## Needs and recommended priority actions

---

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

- ❖ **Advocate** for the protection of budgets and increased efficiency of social safety net programmes, health and education; scale-up of public work programmes; and reintegration projects for returning migrants.
- ❖ **Support measures** to agricultural activities through access to inputs, agricultural assets and credit.
- ❖ Reach the **most vulnerable** groups that are excluded from the social safety net through charity programmes 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" in rural areas, which cannot be absorbed by the overstretched social safety nets and may not benefit from the planned public-works schemes.
- ❖ **Closely monitor** the situation.

**For more information, please contact:** Lola Castro, WFP Country Director: [lola.castro@wfp.org](mailto:lola.castro@wfp.org),  
Claudia Ah Poe, WFP Food Security Analysis Service (OMXF): [claudia.ahpoe@wfp.org](mailto:claudia.ahpoe@wfp.org)

**How was the study done?** 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, UNICDO and UNHCR. It is based on a secondary data review, and a rapid qualitative assessment of 120 households and key informants. Both rural and urban Armenia and 9 out of 11 regions were covered.