



Executive Brief - Armenia

Effects of the Financial Crisis on Vulnerable Households

Follow-up study February- March 2010

Background: This brief is part of a series of case studies on the impact of the global financial and economic crisis on households' food security¹. These studies were carried out a year after initial assessments of the crisis's impact in the same countries in order to show trends in vulnerability and responses.

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.
- ✓ The country's economy relies largely on European and Russian markets. The slowdown in exports and foreign capital inflows has been mainly felt in the **construction sector**, a driving force of the economic growth (24.7% of GDP in 2007), and in the **mining sector**, affected by the steep fall in international prices of metals.
- ✓ **Remittances** account for 20% of GDP. Some 25% of households received remittances in 2007, contributing on average to 60% of their income. Traditionally, more than 80% of Armenia labour migrants (seasonal and long-term) move to Russia and most of them work in the construction sector, which has been heavily hit by the crisis.

Update on the macro-economic impact on the country

The financial crisis has affected Armenia through reduced trade, foreign investments and remittances caused by the economic slowdown in source countries. The global crisis has affected the following:

- ✓ **Economic growth** has been more severely affected by the global economic crisis than originally foreseen. Real GDP is projected to decline by -15.6% against -8% anticipated in 2009.
- ✓ Most of the economic slowdown has been due to the **collapse of the construction sector** which had become a key driver of the economy and is highly dependent on remittances.
- ✓ The **volume of remittances** has sharply decreased as a result of the depressed economy in Russia (-30% in the first 9 months of 2009).
- ✓ **Exports and imports** are estimated to have fallen by around 25% compared to 2008. The balance of trade is expected to remain negative, though slightly less than in 2008.
- ✓ The national revenue/expenditure balance is anticipated to be negative and much worse than in previous years, as a result of decreased revenues from imports and grants. Foreign Direct Investment in 2009 is expected to reach only about 1/4 of the amount received in 2008.
- ✓ The rate of inflation remained contained in 2009 (around 3%-4%) and better than in 2008 as food and fuel prices decreased. However, in rural areas food prices continued to increase in 2009 and early 2010.
- ✓ The **poverty rate** increased from 26% in the 2nd quarter of 2008 to 28% in the 2nd quarter of 2009, representing some 90,000 additional poor people in the country.
- ✓ The level of **extreme poverty** nearly doubled from almost 4% in the 2nd quarter of 2008 to about 7% in the 2nd quarter of 2009, increasing the number of extremely poor individuals by over 107,000.

Update on the impact at household level

The financial crisis has **deteriorated the purchasing power** of the population and is hitting hardest those below or 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.

Affected households cope by reducing the consumption of meat and dairy products and relying heavily on bread, potatoes and cabbage for their diet. They increasingly take on debts to buy their food and to pay for home utilities. Impoverished families can no longer afford to pay for health care, nor for university education of children, with a negative implication for future employment opportunities, especially in urban areas..

Most affected households groups include:

- ✓ **Farmers and livestock owners**, as food production has continued to decline as a result of the crisis. **Less acreage of land has been cultivated** due to the lack of income to pay for agricultural inputs and services. In some areas, **large numbers of cattle have been slaughtered to pay off the debts** incurred for purchase of food and the loans taken for unsuccessful out-migration to Russia. This has directly affected food availability and

¹ Analysis has been undertaken in Armenia, Bangladesh, Ghana, Nicaragua and Zambia.

food consumption at household level, reduced income from the sales of agricultural produce and undermined future coping capacities.

- ✓ **Workers in construction and manufacturing sectors** were affected by significant jobs cuts at the beginning of the crisis, though wage rates and working hours have remained stable among those who continued to be employed.
- ✓ **Casual labourers in construction or petty or informal traders**
- ✓ **Salaried employees in rural areas**, where budget cuts have led to reduced village budgets and layoff of regular workers in the village administration and services (health, education).
- ✓ **Seasonal migrants** to Russia have lost employment opportunities, and restrained their migration due to the risk of further indebtedness abroad.
- ✓ **Social assistance beneficiaries** who were already fully depending on government's social benefits and pensions before the crisis and who have seen their situation worsen as their purchasing power has declined due to the continued rise of food prices. Albeit too low to cover essential food and non-food requirements, these transfers are the only stable income for these households and have become so for those who previously could find casual labour or migrate.

Update on responses and future outlook

- ✓ The government took swift measures to contain the crisis, including mobilising additional external funding from the International Monetary Fund (US\$540 million), World Bank (US\$50 million) and Russia (US\$500 million), supporting bank lending to small and medium enterprises, prioritising essential public expenditures and maintaining a flexible exchange rate regime. Social spending was protected, including an increase of the level of pensions.
- ✓ WFP responded to the crisis by launching small-scale food- or cash-for-work projects in most affected villages. Despite limited coverage due to the lack of resources available, beneficiaries' basic food needs were covered for up to 6 months without incurring new debts.
- ✓ Projections at macro-economic level from the World Bank and International Monetary Fund for 2010 and beyond, anticipate resumption of real GDP growth (+1.2%) and improvement of the various economic indicators.
- ✓ Sustained growth resumption will depend on the recovery of the Russian as well as global economies given the high dependence on exports to, and remittances from Russia. Normalization of the Armenian-Turkish relations will also contribute to the economic revival in Armenia.
- ✓ Recovery at household level is anticipated to take much longer than at macro-economic level, due to continued lack of labour and income earning opportunities.
- ✓ In terms of food security, this will translate by the continuation of low incomes and depressed purchasing power for food and other basic needs such as health and utilities. Future livelihoods will continue to be jeopardized by the foregoing of tertiary and higher level education, decreased engagement in agriculture, sale of animals and unsustainable debts.

Recommended priority actions

At macro-level:

- Increase public spending for the Family Benefit Programme and improve targeting;
- Raise and expand unemployment benefits to capture new job seekers and returning migrants;
- Enhance the current public works programme to increase coverage and efficiency;
- Protect access to health services for the poor and to higher education for the needy students.

For WFP:

- Provide capacity building of national and local authorities to strengthen their ability to identify and target food insecure households and to design responses accordingly, building upon existing assessment and monitoring systems such as the Integrated Living Conditions Survey;
- Revive the school feeding programme, giving priority to areas of heightened food insecurity due to the global economic crisis and establishing clear hand-over procedures to the government from the outset;
- Support the expansion of the national social assistance system (with food and cash) to cover households and individuals affected by the global crisis (e.g. returned migrants, recent unemployed etc.) and deprived persons in areas of heightened food insecurity, who are not yet enrolled in the national system.

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How was the study done? The follow-up study was conducted by WFP. It built on secondary data such as a national household survey conducted by the Ministry of Labour and Social Issues (MLSI) and WFP in August 2009 and other available reports, complemented by a rapid qualitative assessment including interviews with 120 households, semi-structured interviews with 46 key informants and 22 Focus Group discussions. The assessment took place in 9 out of 11 regions and both rural and urban areas were covered.