ARMENIA’S MICROFINANCE SECTOR AT A GLANCE

Economy

Overview. The policies adopted by the Government of Armenia in the last few decades have improved the country’s tax administration, reduced the size of the shadow economy, and decreased the level of public debt. The country’s economy owes its resilience to the recent shocks to careful macroeconomic management, including a stable financial sector, a flexible currency rate, and an active inflation-targeting system.

Table 1: Main Indicators, 2022

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Actual (2022)</th>
<th>Dynamics (YoY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population, million</td>
<td>2.98</td>
<td>-</td>
</tr>
<tr>
<td>GDP, current, $ billion</td>
<td>19.49</td>
<td>40.6%</td>
</tr>
<tr>
<td>GDP growth rate, %</td>
<td>12.6</td>
<td>6.9a</td>
</tr>
<tr>
<td>GDP per capita, current, $</td>
<td>6,752</td>
<td>40.3%</td>
</tr>
<tr>
<td>Average annual inflation, %</td>
<td>8.6</td>
<td>1.4a</td>
</tr>
<tr>
<td>Unemployment rate, %</td>
<td>13</td>
<td>(1.5)a</td>
</tr>
<tr>
<td>Average gross salary, $</td>
<td>540.5</td>
<td>15.4%</td>
</tr>
<tr>
<td>Public debt, % of GDP</td>
<td>49.3</td>
<td>(14.2)a</td>
</tr>
<tr>
<td>Banking sector assets, % of GDP</td>
<td>98.7</td>
<td>(2.7)a</td>
</tr>
</tbody>
</table>

( ) = negative, AMD = Armenian dram, GDP = gross domestic product, YoY = year-over-year.

Notes:

a Represents the percentage point.

b Currency rate: $1 = AMD391.2.

Sources: Statistical Committee of the Republic of Armenia, the World Bank, and the Central Bank of Armenia.

In 2022, the Armenian economy grew by a remarkable 12.6%, despite a difficult external environment. The share of services in gross domestic product (GDP) reached 64.7%. Tourism, finance, and information technology experienced the most substantial growth, while industry accounted for 23.9% and agriculture at 11.4%. The double-digit growth and the Armenian dram’s appreciation of more than 20% against the United States (US) dollar boosted Armenia’s GDP per capita to $6,572. The unemployment rate has been fluctuating largely during the last few years, reaching 12.6% in 2022, which was 0.2 percentage point less compared to the previous year. In the same year, supply-side shocks and rising prices for imported commodities, including oil, drove inflation up to 8.6%. The inflation targeting framework is set at 4% ±1.5 percentage points. However, inflation in Armenia is expected to slow down by the end of 2023 as global inflation stabilizes and domestic and external demand weaken.
Credit ratings. Influenced by Armenia’s improving external and fiscal metrics and the reduction in public debt, Fitch Ratings upgraded Armenia’s long-term foreign currency issuer default rating to ‘BB-’ from ‘B+’ in 2023, with a stable outlook.1 Similarly, S&P Global Ratings raised its long-term foreign and local currency sovereign credit ratings on Armenia to ‘BB-’ from ‘B+’ and affirmed its short-term foreign and local currency sovereign credit ratings at ‘B’. The outlook is stable.2 Moody’s has affirmed the ‘Ba3’ local and foreign currency long-term issuer and foreign currency senior unsecured ratings of the Government of Armenia and revised the outlook from negative to stable.

COVID-19 response. The coronavirus disease (COVID-19) pandemic had minimal impact on Armenia’s economy as the government swiftly implemented a comprehensive COVID-19 Strategic Management Plan in March 2020, when the first case was recorded, and introduced a $150 billion anti-crisis program.

Small and Medium-Sized Enterprises Sector Overview

Small and medium-sized enterprises (SMEs) play an important role in increasing Armenia’s economic competitiveness, promoting inclusiveness and achieving sustainable development. Since 2011, Armenia has defined SMEs in accordance with European Union (EU) standards, considering either employment and turnover or employment and balance sheet criteria (Table 2).3

<table>
<thead>
<tr>
<th>Category</th>
<th>Employees</th>
<th>Annual Turnover</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Up to 10</td>
<td>&lt; AMD100 million</td>
<td>&lt; AMD100 million</td>
</tr>
<tr>
<td>Small</td>
<td>Up to 50</td>
<td>&lt; AMD500 million</td>
<td>&lt; AMD500 million</td>
</tr>
<tr>
<td>Medium</td>
<td>Up to 250</td>
<td>&lt; AMD1.5 million</td>
<td>&lt; AMD1 million</td>
</tr>
</tbody>
</table>

AMD = Armenian dram, SMEs = small and medium-sized enterprises.

1 The definition has been aligned with the definition of SMEs operating in European Union member states.
2 This is based on the Ministry of Economy of the Republic of Armenia.


The private sector is predominantly composed of micro, small and medium-sized enterprises (MSMEs). In 2022, there were 64,481 registered and active MSMEs, of which 54,430 were microenterprises, and accounted for 99.5% of all registered enterprises.

1 Fitch Ratings: Credit Ratings & Analysis for Financial Markets.
In 2021, the majority of the registered SMEs were engaged in wholesale and retail trade (58%), and manufacturing (2.7%). Trade accounted for the largest share of the total SME turnover (46.1%), followed by manufacturing (17.3%) and mining (8.8%) sectors. Yet, SMEs face challenges to grow and expand their business. The SME Financial Forum Centre estimated the SME financing gap to be 10.8% of the GDP. SMEs are constrained in accessing loans due to the stringent credit history requirements or the lack of available collateral. The lack of financial transparency and controls is another major constraint.

According to the Global Findex 2021, while 55% of adults (age 15 and above) have a bank account, significantly fewer (27%) are able to borrow from a financial institution, confirming the challenges mentioned above. This clientele is typically served by microfinance institutions, which are called universal credit organizations (UCOs).

### Overview of the Financial Sector

Despite the country’s political and economic challenges, Armenia’s financial sector has demonstrated remarkable stability and growth. Banks play a significant role, accounting for 83.8% of the total system assets. The Central Bank of Armenia (CBA) is the only regulator for the financial sector and oversees market conduct and consumer rights protection in the country for all licensed institutions.

Armenia’s financial sector is dominated by 18 local commercial banks with total assets of approximately $19.2 billion as of 2022. The financial sector also includes 46 UCOs, 7 insurance companies, 15 investment companies, 8 mandatory pension funds, 8 billing organizations, and 81 Lombards (a term for money lenders). UCOs are the second largest asset holders, totaling approximately $1 billion. In 2022, the commercial banks experienced a profit surge due to an influx of Russian citizens relocating to Armenia and actively utilizing their services.
**Overview of the Microfinance Sector**

There is no specific regulation for microfinance in Armenia. Microfinance is generally understood as loans provided to MSMEs—as group loans to self-employed entrepreneurs involved in trade and individual loans to entrepreneurs and small businesses in manufacturing, services, and agriculture sectors. Armenia initiated its first microfinance initiative shortly after gaining independence in 1991 and since then has seen the growth of UCOs. However, most banks now have an SME or microfinance unit and provide micro and small loans to the same type of customers.

Commercial banks in Armenia have been actively lending to both SMEs and individuals since the early 2000s, as the market for large enterprises was heading toward saturation. While UCOs have been growing, lending by UCOs lags behind that of commercial banks.

The operations of UCOs are guided by the Republic of Armenia’s Law on Credit Organizations. According to the laws and regulatory acts, the UCOs are categorized as credit unions, savings unions, financial leasing organizations, factoring organizations, and other UCOs based on their primary activities. The Civil Code sets an interest rate cap, preventing all financial institutions from providing loans that exceed double the banking rate (the interest cap is 12% as of 2023), as stated by the CBA.

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**Figure 2: Categories of Universal Credit Organizations**

<table>
<thead>
<tr>
<th>Credit Unions</th>
<th>Savings Unions</th>
<th>Financial Leasing Organizations</th>
<th>Factoring Organizations</th>
<th>Other Credit Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attract funds from their participants, provide funds to them, and in some cases, raise funds from others following CBA regulations.</td>
<td>Attract funds from their participants and provide funds to them.</td>
<td>Execute financial leasing transactions.</td>
<td>Execute factoring transactions.</td>
<td>Implement the activities specified by the Law on Credit Organizations.</td>
</tr>
</tbody>
</table>

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**Table 4: Structure of Armenia’s Financial Market, 2022**

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Number</th>
<th>Total Assets (AMD billion)</th>
<th>Total Capital (AMD billion)</th>
<th>Total Liabilities (AMD billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>18</td>
<td>8,390.1</td>
<td>1,246.7</td>
<td>7,143.4</td>
</tr>
<tr>
<td>Credit organizations</td>
<td>46</td>
<td>651.6</td>
<td>365.4</td>
<td>286.2</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>7</td>
<td>74.5</td>
<td>23.0</td>
<td>34.1</td>
</tr>
<tr>
<td>Investment companies</td>
<td>15</td>
<td>67.0</td>
<td>11.7</td>
<td>55.3</td>
</tr>
<tr>
<td>Mandatory pension funds</td>
<td>8</td>
<td>674.3</td>
<td>0.6</td>
<td>55.3</td>
</tr>
<tr>
<td>Billing organizations</td>
<td>8</td>
<td>64.8</td>
<td>26.4</td>
<td>38.4</td>
</tr>
<tr>
<td>Lombards (pawnshops)</td>
<td>81</td>
<td>8.6</td>
<td>6.4</td>
<td>6.4</td>
</tr>
</tbody>
</table>

AMD = Armenian dram.

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**Notes:**


Associations and/or Networks, Credit Bureau, and Government Programs

**Association of Credit Organizations of the Republic of Armenia.** This is a voluntary association of 27 UCOs. Established in 2008, this association aims to enhance the financial and credit system by optimizing the potential of UCOs.

**ACRA Credit Reporting Closed Joint Stock Company (CJSC).** The ACRA Credit Reporting CJSC, the first voluntary private credit bureau in Armenia, gathers and processes data from all banks and UCOs in the country. Established in 2004, it plays a crucial role in the financial sector by maintaining a comprehensive database of consumer payment patterns for various credit obligations. Its objective is to provide risk assessment services to clients in banking, financial, insurance, and general business industries through their online platform to facilitate effective business decisions.

**Government programs.** The CBA has established and controls two refinancing UCOs: the Home for Youth and the National Mortgage Company. These organizations collaborate with banks and UCOs to ensure liquidity, stability, and affordability in Armenia’s mortgage market and offer favorable lending conditions for the citizens. While the Home for Youth provides loans with low interest rates to middle-income and low-income young people for housing, education, and other household needs, the National Mortgage Company operates in the secondary mortgage market and offers long-term refinancing loans with low interest rates, making mortgage affordable for households.

**Figure 3: Loans of Credit Organizations by Residency Status, 2022**
(AMD million)

<table>
<thead>
<tr>
<th></th>
<th>Nonresidents</th>
<th>Residents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Currency</td>
<td>11,410</td>
<td>68,594</td>
</tr>
<tr>
<td>Local Currency</td>
<td>25</td>
<td>185,856</td>
</tr>
</tbody>
</table>

AMD = Armenian dram.
Source: Central Bank of Armenia (accessed 1 October 2023).

**Figure 4: Loans of Credit by Sectors of the Economy, 2022**
(% of total)

- **0.1%** Nonprofit Organizations
- **39.6%** Companies
- **60.3%** Households

Source: Central Bank of Armenia (accessed 1 October 2023).
Performance of the Microfinance Sector

In 2022, UCOs saw an increase in total loan portfolio for both residents and nonresidents. These organizations were active in the lending market, providing AMD11.43 million ($26.2 million) to nonresidents and AMD254.4 billion ($583.7 million) in loans to residents, primarily households (60.3%) and companies (39.6%), and a mere 0.1% to nonprofit organizations. Loans to households, both consumer loans and mortgages, are mostly denominated in the local currency.
For 2022, the Armenian credit organizations system achieved a return on assets of 2.09% and return on equity of 3.61%.

Key Actors, Products, and Services

UCOs in Armenia are licensed to engage in a wide range of financial operations. This includes attracting borrowings, extending loans, financing debt or commercial transactions, issuing guarantees, providing payment and settlement services, and engaging in currency exchange transactions, among others. The following are the five main players in Armenia’s microfinance sector:

- **ACBA Leasing Armenia.** It provides leasing and financing solutions to businesses and individuals in Armenia focusing on equipment, vehicles, and real estate to support local enterprises and promote economic growth in the region.

- **Aregak UCO.** It provides microloans, savings accounts, and financial education to the underserved communities, especially individuals with limited access to traditional banking.

- **Global Credit UCO CJSC.** Established through the merger of the Washington Capital UCO CJSC and the Credit Union UCO CJSC, it provides offline and online loans to both legal entities and individuals.

- **FINCA Armenia.** It is part of the FINCA Impact Finance, a global network of 18 microfinance institutions and banks. It provides loans for agriculture, small businesses, and a range of consumer products.

- **Kamurj UCO.** One of the leading microfinance service providers in Armenia and established in 1998 by the “Save the Children Inc.,” it evolved into a universal credit organization in 2010. Currently, Kamurj UCO CJSC is providing agricultural loans, business loans, mortgage and/or renovation loans, and consumer loans.

Figure 5 presents the financial figures of key UCOs in Armenia. Among the listed UCOs, ACBA Leasing UCO CJSC stands out with its substantial assets amounting to AMD64.1 million. Aregak UCO CJSC has AMD29.5 million, Global Credit UCO CJSC has AMD24.9 million, Finca UCO CJSC has AMD23.0 million, Development and Investments Corporation of Armenia CJSC has AMD22.6 million, and Kamurj UCO CJSC has AMD15.5 million. These figures highlight the diverse financial performance and stability of the UCOs in Armenia during 2022.

Figure 5: Top Universal Credit Organizations of the Armenian Microfinance Sector, 2022 (AMD million)

![Figure 5: Top Universal Credit Organizations of the Armenian Microfinance Sector, 2022 (AMD million)](image_url)

AMD = Armenian dram, CJSC = Closed Joint Stock Company, UCO = universal credit organization.
Toward a Digital Transformation

Financial market digital transformation is a key priority in Armenia’s strategy to establish a national electronic identity system, broaden financial inclusion, and create a noncash economy. The CBA is leading this process. Since bank account numbers will be used to enable national electronic identities, citizens will have to link their current bank account number or open new ones with chosen partner digital financial services providers.

The CBA is creating an open financial environment in Armenia to enable local financial institutions to offer competitive, personalized financial services and products. This requires sensible regulatory and oversight frameworks and shared standards. The CBA aims to improve legislation and regulation and introduce new licenses for the new goods and services providers to encourage innovation and financial technology (fintech) in Armenia’s digital financial services industry. This will make “banking as a service” and “banking as a platform” business models possible. If UCOs do not want to be left behind, they will need to significantly invest in digitalization efforts.

Challenges

UCOs in Armenia face several operational challenges, as follows: (i) the overall economic environment, including inflation and exchange rate volatility, could impact the borrowers’ creditworthiness and loan demand; (ii) compliance with financial regulations; (iii) funding of loan book through external resources (UCOs are nondeposit taking); and (iv) need for technology advancements and improved service delivery to withstand competition and to maintain customer loyalty.

Furthermore, with commercial banks increasing their lending to the same market segment as UCOs, competition has been on the rise. With limited ability to raise cheap funds, UCOs struggle to offer competitive rates, raise investment funds for their digitalization efforts, and grow at a profitable rate. In response to these challenges, some UCOs have explored the prospect of transforming into banks, as exemplified by Fast Credit’s transformation in 2022. Nonetheless, such transformations remain an exception within the microfinance landscape. Addressing these challenges effectively is crucial for the long-term success and sustainability of UCOs in Armenia.

Conclusion

Looking ahead, the trajectory of Armenia’s microfinance sector hinges on the extent to which the banking sector proactively engages in closing the existing finance accessibility gap for MSMEs. This, in turn, presents a unique window of opportunity for investors to play a pivotal role in shaping the sector’s future. The dynamic interplay among the UCOs, commercial banks, potential sector reforms, and investor involvement will ultimately determine the sector’s ability to meet the diverse financial needs of Armenia’s business landscape.
About the Asian Development Bank

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members—49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

This publication has been coproduced by ADB’s Armenia Resident Mission and the Microfinance Program (MFP).

ADB’s Work in Armenia

ADB has supported Armenia through various programs mainly in transport, public finance, school safety, energy, water supply, and urban development since 2005. About 70% of the active sovereign lending portfolio is for transport, and this is helping to develop an efficient, safe, and sustainable road network while improving domestic and cross-border connectivity for Armenia.

As of September 2023, ADB has committed 59 public sector loans, grants, and technical assistance totaling $1.3 billion to Armenia.

About ADB’s Microfinance Program

ADB’s Microfinance Program (MFP) is a credit enhancement and risk-allocation tool, designed to promote local currency lending by commercial banks and financial institutions to microfinance institutions. Under the program, ADB shares the default risk—usually up to 50%—on wholesale loans to microfinance institutions extended by its Partner Financial Institutions (PFIs).

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