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Enterprise Development and Market Competitiveness (EDMC)

Armenia Financial Sector Mapping Report

October 7, 2011

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ENTERPRISE DEVELOPMENT AND MARKET COMPETITIVENESS PROJECT

ARMENIA FINANCIAL SECTOR MAPPING REPORT

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Abbreviations

Abbreviation	Name
ACRA	Armenian Credit Reporting Agency
ADM	Armenian Dram
BDS	Business Development Services
CBA	Central Bank of Armenia
EDMC	Enterprise Development and Market Competitiveness
EGAT	USAID Economic Growth, Agriculture and Trade Bureau
EU	European Union
EUR	Euro
GOAM	Government of Armenia
IT	Information Technology
LO	Loan Officer
MIS	Management Information System
MSE	Micro and Small Enterprises
NGO	Non-Governmental Organization
PFS	Partners for Financial Stability
RM	Relationship Manager
SBI	ShoreBank International
SME	Small and Medium Enterprises
TA	Technical Assistance
ToR	Terms of Reference
UBA	Union of Banks in Armenia
UCO	Universal Credit Organization
USAID	United States Agency for International Development
VC	Value Chain
WC	Working Capital

CURRENCY EXCHANGE RATES USED:

AMD/USD = 372.83
USD/AMD = 0.00268

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1. EXECUTIVE SUMMARY

1.1. Background: This Financial Sector Mapping study was conducted under the "Economic Development and Marketing Competeviness" project implemented by the Pragma Corporation. The report is based on primary and secondary data collected from financial institutions in Armenia (including commercial banks, universal credit organizations, and others) on the financial products offered to SME's and value chain actors. It presents the data and findings in relation to the study objectives as per the Terms of Reference and makes a number of brief recommendations on potential interventions to increase value-chain lending in Armenia.

The authors approached this task with a focus on identifying the supply drivers for SME credit, reviewing the levels of current credit provision, the regulatory environment, human-resource capacity, as well as the resource availability of current lenders in the country. The focus of this study is on the SME sector, examining closely the credit environment for businesses employing from 5-250 people and having an identified credit need of roughly $5,000 - $2,500,000.

Main characteristics of SME credit provision in Armenia:

- *Banks are reluctant to target the sector due to risk-aversion and lack of market understanding.*
- *SMEs, particularly the smaller companies, lack formal credit histories, formal collateral and skills in financial management and market analysis.*
- *Capacity is lacking on all sides.*

To complete the study, an examination of the supply for credit was administered, based on a question sheet that was answered by 15 institutions. Additionally, a desktop research overview was conducted of formal credit provision in Armenia, highlighting key data and perceptions of constraints in SME credit provision. The current loan products available were examined in detail through a comparative analysis including amounts, terms, flexibility, grace periods and interest rates on offer, including an estimate of borrowers, and portfolio outstanding.

Top five banks by market share by sector

Transport and communication	Agriculture	Construction	Service	Trade	Industry
Ameria Bank - 38.7%	ACBA Bank - 71.7%	HSBC - 24.9%	Ardshininvest bank - 33.8%	Ameria Bank - 17.3%	ACBA Bank - 27.6%
Ardshininvest bank - 20.5%	Ardshininvest bank - 9.8%	Areximbank - 14.5%	Ameria Bank - 22.1%	HSBC -16.2%	Ararat Bank - 18.3%
ACBA Bank - 16.2%	Areximbank - 3.0%	Converse Bank - 9.4%	ACBA Bank - 11.4%	ACBA Bank - 15.5%	ArmSwiss Bank - 13.3%
HSBC - 5.2%	Ameria Bank - 2.9%	Ameria Bank - 9.2%	Ararat Bank - 9.3%	Unibank -10.6%	HSBC -10.8%
ADB - 4.2%	Converse Bank - 2.7%	ACBA Bank - 8.1%	Anelik Bank - 6.8%	Inecobank - 8.6%	Unibank -8.1%

Source: SBI analysis of reporting banks, CBA

Figure 1: Bank Market Share by Sector

1.2. Key findings: Although the SME credit sector in Armenia currently enjoys significant international support (e.g. by USAID, GIZ, KfW, EBRD, IFC, others), discussions with financial institutions lending at the SME-level in Armenia indicated that most banks are only half-heartedly supporting the needs of SMEs for banking products. Despite their high liquidity, the institutions that were interviewed demonstrated a low rate of provision of financial services to SMEs in Armenia due to poor client awareness and analysis, insufficient staff capacity, limitations on resources for lending in AMD, low SME ability to apply for credit, and a high-level of outreach costs.

At the same time, significant demand for credit services by individual businesses and SME borrowers has been demonstrated through previous USAID-funded projects, desktop research and direct observation. Previous research indicates that many potential borrowers express a high demand for loan products, but are reluctant to pay, in their view, “excessive” interest costs, and/or to accept loan products that require a large amount of collateral. However, Armenian SMEs face a range of issues related to low profitability and low capacity, and in many cases are unable to present a coherent set of financials or market projections to a potential lender. The difficulty for many SMEs to approach this banking sector needs to be addressed, even under the assumption that bankers often use low SME capacity as an excuse to avoid lending to a sector that they find risky or do not understand very well.

1.3. Recommendations: As there are limited financial and technical assistance resources to support financial institutions in increasing their value chain lending activities, the “answer” to facilitate lending is not simple. Indeed, the EDMC project represents the 4th generation of USAID and other donor funding of bank training and capacity-building, with a specific target of increasing the levels of SME lending to the economy. Considering the involvement of EBRD, IFC, GAF and other actors in the development of the financial sector of Armenia, any intervention proposed should complement these efforts, propose a new approach, and avoid costly duplication of effort.

In this context, our recommendations and insights for the project to facilitate value-chain credit access in Armenia include an array of potential interventions across the spectrum, with an emphasis on: 1) reducing the constraints affecting financial service providers in terms of increasing service provision; 2) promoting innovative new financial products through product design, client segmentation and borrower assessment; and 3) securing partner institutions’ buy-in through focused strategy development support, cost sharing provision, and a focus of approach.

A coherent program to train, equip and motivate lenders in Armenia can have a substantial impact on lending provision and resulting levels of SME job creation and growth. Combined with other EDMC efforts to target SMEs themselves with capacity-building to facilitate access to the lending community, we believe that a program of targeted interventions to support the lending sector can address the primary (and many of the second-tier) constraints to credit facilitation. The implementation of such a program needs to be implemented in phases, and carefully take into account the opinions, desires, and capabilities of select financial institutions.

In our view, experienced bankers with relevant geographical and specific bank strategy or value chain experience need to be brought to the fore of this program. This is because many financial institutions in Armenia no longer take technical assistance very seriously. In the authors’ view, any potential “access to credit” initiative to support value chain lending to SMEs in Armenia will, due to limited human resource capacity, need to provide high-value management consulting expertise to support new and innovative solutions. We recommend that any interventions be “demand-driven”; providing incentives and capability to financial institutions to provide financial services in the targeted value chain sectors over the long term.

The only way to address the major issue of “motivation” is to provide innovative consulting support to the financial institutions that agree to focus their strategy and product development efforts on increasing their banking services to the selected value chains. Crucial issues such as segmentation strategy and business model need to be directly correlated to the ability and willingness of potential partner banks to work with EDMC on funding value chains.

To resolve the constraints to increased value-chain finance, the EDMC project will need to work with progressive banks and UCOs, selected through a demand-driven assessment, on an aggressive and targeted consulting approach which builds real interest and ability at the lender-level. The banks and UCO’s will need to support this training, value this training, and will be required to invest human and other resources in ensuring that the approach is relevant and that it will create results. Only a strong focus on provision of high-value management consulting support to the financial institutions will generate the needed level of partner institution commitment that will make the project a success.

2. PROJECT BACKGROUND

The Enterprise Development and Market Competitiveness Program (the Program) is a five-year intervention designed to raise incomes and employment in Armenia by promoting growth in selected value chains with export potential. Focusing on the role of Small and Medium-sized Enterprises (SMEs), the Program is expected to facilitate the development of competitive enterprises and value chains by stimulating innovation, enhancing workforce skills, accelerating new enterprise formation, improving access to finance, and addressing shortcomings in the local environment. The Program will employ capacity-building, training, and grants to assist target value chains to reach into new and expand in existing markets. The Program is designed to be a catalyst, mobilizing additional resources from other sources to accelerate growth in the target value chains.

In this context, ShoreBank International (SBI) was asked to identify the constraints to SME access to finance, and to identify potential recommendations that would increase SME access to finance in the context of a value chain approach, contribute to the program goals, and provide inputs to the work plan. To achieve this goal, SBI conducted an examination of the supply for SME financial services in Armenia, interviewing a number of institutions regarding SME supply of credit products. SBI conducted interviews with senior staff at various lending institutions, highlighting their perceptions of key constraints in the credit provision market. The current loan products available in the market were examined in detail through an analysis including amounts, terms, flexibility, grace periods and interest rates that are available (see the Appendix). Following this initial supply-side assessment, the financial sector team will focus on conducting a demand analysis to refine our understanding of SME financing challenges and needs. This study will further inform the design of our tailored approach for partner financial institutions. The team will incorporate specific access to finance questions into the VC analysis surveys that will be applied to various subsectors. Moreover, the team will conduct in-depth surveys with approximately ten SMEs (exact number TBD) in chosen subsectors along various links in the VC (input supplier-producer-processor-distributor, etc) to gauge the demand structure and financing needs. Matching this information with the specific offerings available from the financial sector will provide a clear understanding of the gaps and opportunities for FI led VC financing initiatives.

In preparing this report, we sought to review and assess the SME lending environment, and to recommend an approach to working with partner institutions under the framework of EDMC that fits with best practices in SME lending. Additionally, SBI made an effort to focus its recommendations on interventions that are pragmatic, sustainable, and build on the ability of existing structures to attain quick outreach. As such, our analysis is divided into the following four components:

1. A review of the current financial sector environment in Armenia;
2. An analysis of the ability and willingness of a sample of financial institutions to widen SME credit provision into target value chains; and
3. Recommendations to inform the work plan in moving towards increased provision of SME financial services by alleviating constraints.

To examine these issues, SBI fielded an international and local team for a total of 19 days in order to review the constraints to financial services delivery in the region, focusing on key areas where a coherent constraint-alleviation process can make a difference. To comprehensively assess the level of credit provided by these financial sector actors, the mapping adopted both a quantitative and a qualitative approach, where desktop research was combined with in-depth interviews with financial-sector respondents. Four categories of financial sector actors were interviewed, including Commercial Banks, Universal Credit Organizations, Other Financial Institutions and CBA / Regulation.

Based on the institutions surveyed, a series of draft recommendations has been developed specifically targeting lending institutions and the CBA. While specific value chains to be supported are not yet identified, the approach followed here is intended to be sufficiently comprehensive and flexible to adjust as more detailed value chain segments are determined.

3. ARMENIAN FINANCIAL SECTOR MAP

The Armenian financial sector is comprised primarily of commercial banks and universal credit organizations, although pawn shops, currency exchanges and insurance companies provide a small fraction of overall credit support to the SME sector. Where there is an absence of participation from these actors, SMEs finance themselves or secure finance from sellers of various equipment (installment payments), although this is not a prevalent practice in Armenia. Therefore, the analysis of the supply of financial products in services generally focuses on the lending environment.

In this context, the below methodology was used to assess the sector:

1. Assess the actors, especially the commercial banks and UCOs, in order to identify financing levels and issues (particularly challenges and potential) in the various activities of lending to the SME sector.
2. Collect and analyze data (primary and secondary) on financial services provided by financial institutions, and, if relevant, non-financial institutions.
3. Use excel-based tools to collect financial data from financial institutions and non-financial institutions providing financing to the SME sector.
4. Develop a mapping report and overview of the findings on the current provision of financial services to the various activities of the SME sector.
5. Provide initial observations and recommendations on potential next steps within the scope of the Program to increase SME finance.

In this context, the background information on the overall financial sector, commercial banks, and UCO's is provided below.

a. Commercial Banking Sector

There are 21 banks active in Armenia, all of which are privately-owned. Most banks have some degree of foreign equity participation, with 12 banks having more than 95% capital owned by foreigners. With just under 91% of total financial sector assets in Armenia, the commercial banks dominate the market. Except for banks and UCO's, other providers of credit, such as insurance and investment companies, are very small and the level of their support to the SME sector is insignificant. A number are publically-listed on the Armenian Stock Exchange, but the majority are not. This situation directly affects their capital-raising ability, as they do not issue commercial paper or sell shares, but generally secure capital from majority shareholders.

In 2010-2011, the Armenian banking system preserved growth despite the adverse impacts of the financial crisis and demonstrated a high level of flexibility. According to the results of intermediate reports of the Armenian banks for the second quarter of 2011, the total assets of the banks were 1,763.3 billion drams[1] (USD 4.729 billion), representing an increase of 12.5 % compared to the end of year 2010. The commercial banks' volume of total liabilities increased by 14% from the end of last year to 1,410.8 billion drams (USD 3.785 billion) while the volume of credit investments increased by around 18% totaling to 1,082.7 billion drams (USD 2.9 billion). The level of bank deposits totaled 854.9 billion drams (USD 2.23 billion). The level of profitability for 2010 for the banking sector as a whole was 2.2% Return on Assets (ROA) and 10.7% Return on Equity (ROE).

[1] Figures as of June 30, 2011 provided from CBA reporting and EDMC research

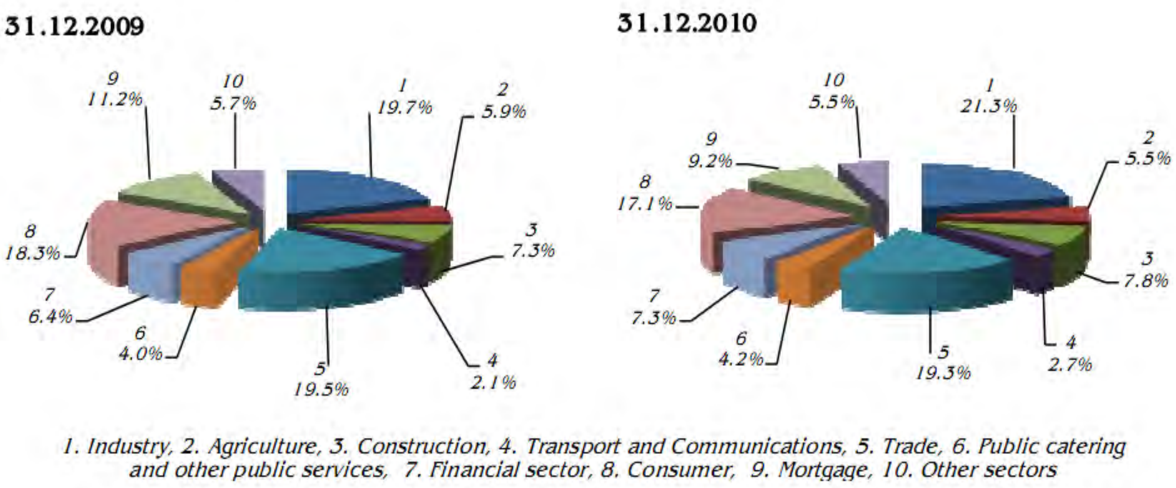
Because Armenian banks were relatively isolated from the global market, they did not suffer significant impairment or any bank closures as a result of the recent financial crisis. Before the crisis, non-performing loans (NPLs) stood at approximately 2-2.5% of gross loan volume, and at the peak of the crisis in early 2009, NPLs rose briefly to over 10% of gross loans, but have subsequently declined, and at end 2010 stood under 5%. Losses were absorbed relatively easily because capital and liquidity ratios of Armenian banks are extremely high with the aggregate capital adequacy ratio around 30% (the prudential ratios of the banking system can be seen in the Figure 1 below).

Figure 2: Prudential Ratios of Banking System (Source, CBA)

	31.12.2009	31.12.2010	Prudential thresholds
Capital adequacy prudential	28.4%	22.2%	12%
General liquidity prudential	34.4%	29.5%	15%
Current liquidity prudential	140.8%	131.5%	60%
Single borrower's maximum risk size prudential	15.9%	15.5%	20%
Major borrower's maximum risk size prudential	104.3%	114.0%	500%
Bank's single affiliated party's maximum risk size prudential	2.9%	2.6%	5%
Bank's all affiliated parties' maximum risk size prudential	8.7%	7.9%	20%

Armenia has a small banking sector, as measured by the level of credit to GDP. The financial intermediation level of the banking system increased in 2010, but still lags compared to the same indicator in many other CIS countries. The ratio of banking system assets to GDP increased by 2.6 percentage points in 2010 and has reached 44.5%. The ratio of loans issued by the banking system to GDP increased by 3.3 percentage points in 2010 and totaled 25.3% of GDP. This compares unfavorably to Georgia, Ukraine and Russia at 31.8%, 68.6% and 41%, respectively (*Source: Commerzbank Corporates & Markets, Fitch Ratings 2011).* At the end of 2010, the banking system loans were concentrated within the industrial, trade and consumer sectors as shown on Figure 2.

Figure 3: Structure of Loans to Residents by Sectors of Economy (Source, CBA)

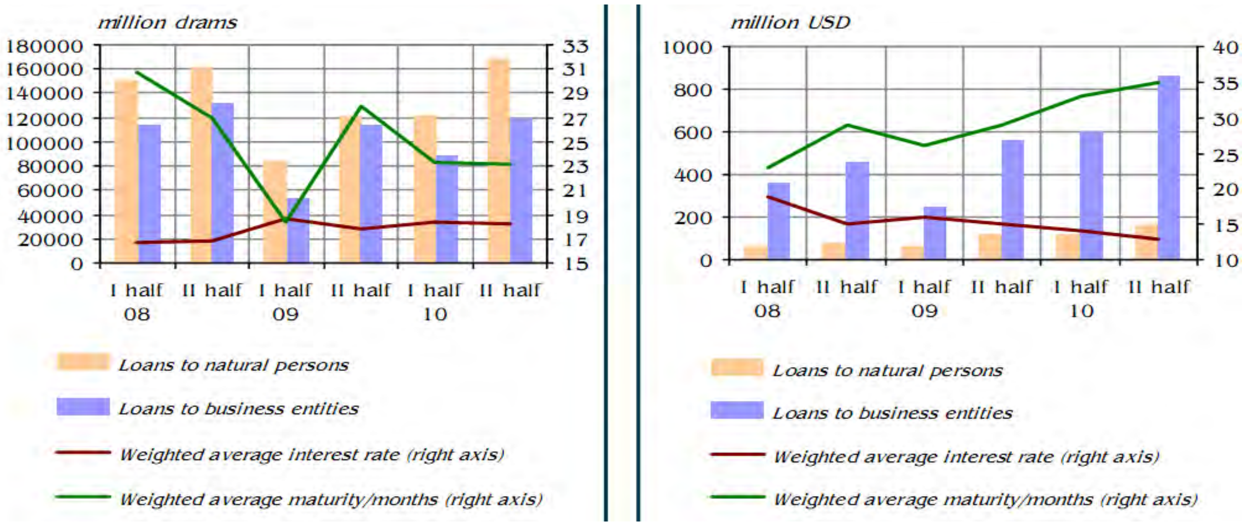


As a consequence of the global financial and domestic economic crises Armenian financial sector registered a loss of confidence in the AMD and a returned to greater use of the dollar. By the end of 2009, the level of dollarization in deposits was at 68.5% and it peaked at around 73% in early 2010, before receding slightly over the remainder of the year. This has had an adverse impact on lending in

AMD, since the high dollarization of deposits has led banks to seek to minimize their risks and they are often reluctant to make loans in AMD, despite higher SME demand for local currency loans.

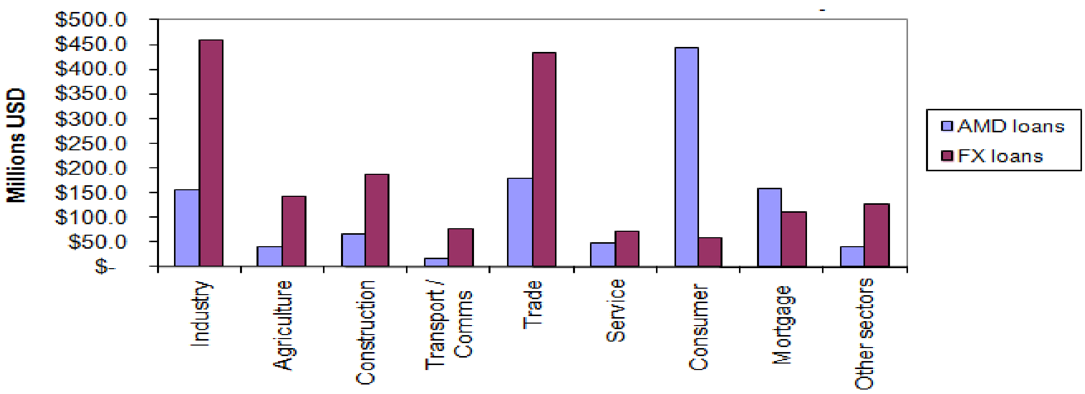
The comparative structure of loans issued in drams and foreign exchange are presented in Figure 3.

Figure 4: Issued Loans in AMD and FX (Source, CBA Annual Report 2010)



In figure 4 below, the prevalence of F/X loans is shown by sector, in which the preference for F/X loans (primarily USD) is shown for sectors such as industry, trade and construction where such actors would be expected to have at least some portion of their revenues denominated in F/X. However, the availability of consumer loans in AMD is made clear by the diagram demonstrating a high level of AMD lending to consumers. This is a major problem and is a key issue that will continue to play a part in the discussions with banks about their plans for value-chain lending.

Figure 5: Commercial Banks' AMD vs. FX loans by Sector (Source, CBA Annual Report 2010)



Although interest rates have fallen from as high as 40% in the 1990's to 14% (for ARD) and 11.4% (in USD) in May 2011 as a result of low inflation and structural reforms in the financial sector, real rates are still perceived as prohibitively high for many businesses. The major factor for the perception of high real interest rates has been high intermediation costs and inefficiencies in the banking sector. The banking sector response, generalized in our interviews with leading bank CEO's and risk managers, is that there are few "bankable deals" in the SME sector due to management and economic weaknesses. These perceptions are examined in more detail later in this report.

As seen in Figure 5 below, commercial banks dominate all lending activities in Armenia with just under 91% of all lending by volume. Despite this dominance, non-bank lenders are increasing their share of the market with a 1.1% increase in the total over 2009 levels. This growth is being driven by the Armenian microfinance organizations, with USD 76.4 million in loan volume and over 92 thousand borrowers. This is a substantial increase (over 15%) from 2009 levels and indicates that the microfinance actors within the Armenian UCO framework have maintained lending tempos as the banks have reduced their credit levels, particularly to businesses (source: MixMarket 2010).

Figure 6: Issued Loans in AMD and FX by Lender Type (Source, CBA Annual Report 2010)

In Armenia there are a number of banks and UCOs with strong relationships with international development institutions. At the end of 2010, 19 banks and 11 UCOs operating in Armenia serviced credit projects supported by the following international financial institutions:

- World Bank
- German-Armenian Fund
- International Development and Communication Corporation
- European Bank of Reconstruction and Development
- International Fund of Agricultural Development
- International Migration Organization
- Asian Development Bank
- Black Sea Trade and Development Bank
- OPEC International Development Fund
- Millennium Challenge Fund
- International Finance Corporation
- United States Agency for International Development

At the end of 2010, the loans provided by the banks within the framework of the projects supported by the above foreign institutions grew by 20% and totaled approximately $450 million at the end of July 2011. The Annex provides a detailed list of the banks that are active in the SME lending sector, and a summary of their operations, portfolio and target markets is given for each of the major institutions.

b. Universal Credit Organizations

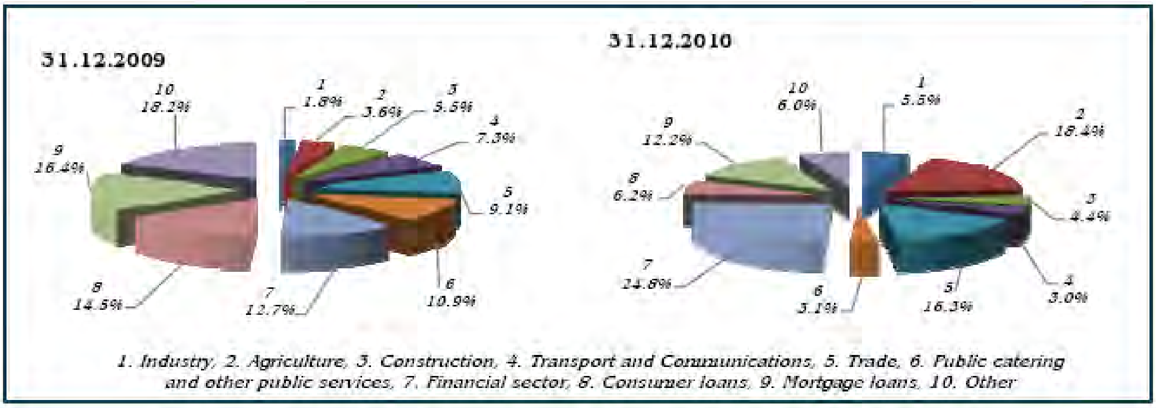
The legal form of Universal Credit Organizations (UCO) is equivalent to that of the generally-accepted term of Non-Bank Financial Institution. As of May 2011, there were 31 UCO organizations functioning in the territory of the Republic of Armenia, of which 13 had some form of foreign equity participation.

Despite their non-bank status, the CBA is responsible for regulation and supervision of credit organizations. These organizations include credit unions, savings unions, leasing and factoring organizations, as well as microfinance institutions. As of July 2011, of the 31 lending companies there are 4 leasing companies, one credit union and 26 universal credit companies. In total, these organizations have 60 branch locations in Armenia and approximately $234 million in assets.

As of July 2011, the total lending to the economy (including leasing) by credit organizations totals USD 142 million. The value of AMD loans and leasing over 2010 levels increased by 7.1% while the value of foreign currency loans and leasing was reduced by 2.8%. Loans to non-registered business entities and natural persons grew by 5.8% and loans to companies / legal persons, by 7.1%. The total volume of leasing has shrunk by 7.6% to USD 13 million.

In terms of risk classification of the loan portfolio, the share of 'standard' category loans and receivables in total has reduced nominally during Q2 2011 to 95.6 percent. The share of 'watch' category loans and receivables has amounted to 2.8 percent in total loans of credit organizations; the share of 'substandard' category loans and receivables, 1.0 percent; and the share of 'doubtful' loans and receivables is 0.6%.

Figure 7: Breakdown of UCO Loans by Sector in Armenia (CBA, 2011)



The Armenian microfinance industry emerged through initiatives by several international organizations (such as World Vision, Save the Children, CRS, UMCOR, and OXFAM). The country is now characterized by a wide and expanding microfinance sector composed of credit organizations, downscaling banks, and to a lesser extent NGOs. Overall, the microfinance sector is experiencing an increasing level of competition, especially in urban areas where local commercial banks are rapidly entering the sector and providing loans starting from USD 500. Moreover, the commercial banks funded by the German-Armenian Fund (GAF) and financed by KfW, as well as other UCOs in the process of expanding their impact in the sector (such as ProCredit Bank), are to be considered strong competitors for the microlending environment. In rural areas MFIs continue to face competition from the Agriculture Cooperative Bank of Armenia (ACBA).

Four leasing companies are active in Armenia in supporting the credit needs of individuals and SMEs, mainly in the agricultural sector. In accordance with the Civil Code in Armenia, financial leasing is a form of finance where: (1) the lessee selects an asset; (2) the lessor (financial intermediary) purchases the asset; (3) the lessee has the use of the asset during the term of the lease in exchange for paying a series of rentals for the use of the asset; (4) allowing the lessor to recover a predetermined amount of the asset's costs through the rentals paid by the lessee and where the fair market value of the asset covers the residual balance of the purchase price. As in most countries and in accordance with IAS-17, the lessee has the option to acquire ownership of the asset by paying a purchase price at the end of the lease period. According to Armenian law, the financial intermediary remains the legal owner of the asset throughout the lease period.

In this context, leasing is an acceptable form of financing for many actors in the SME sector who desire to purchase new equipment or to upgrade existing equipment. However, there are a number of constraints that restrict the ability of leasing companies to expand their operations in support of increased numbers of SMEs. These include requirements related to VAT payments, currency issues, and others regulatory weaknesses that are discussed later in this document.

The most prominent UCOs with an active outreach program to the SME sector in Armenia are listed in the Annex.

c. Other Organizations

1. Pawn Shops[2]

As of end-December 2010, 116 pawn shops (excluding branches) operated in Armenia. During the year, total attracted funds of pawn shops grew by 82%, and loans provided by pawn shops grew by 59%. As of end-December 2010, the total attracted funds of pawn shops totaled USD 17.7 million, and total loans provided by pawn shops totaled USD 53.4 million. Anecdotal evidence suggests that struggling individuals have increased their efforts to monetize the value of their possessions as a result of the economic crisis.

2. Exchange Offices and Dealers

As of end-December 2010, 302 exchange offices (excluding branches) had licenses for currency trade operations. During 2010, the volumes of the US dollar (buy and sell) totaled USD 437.6 million and USD 432 million respectively (compared with USD 420.1 million and USD 415.2 million in 2009). During 2010, the volumes of the EUR buy and sell totaled EUR 51 million and EUR 49.9 million respectively (compared with EUR 47.5 million and EUR 46.4 million in 2009).

3. Distance-Banking Systems

According to the CBA, a number of banks implemented distance-banking systems allowing their customers managing their own accounts remotely. These systems allow account holders to receive information concerning their accounts, and perform various other operations primarily of a simple nature (bill payments, money transfers to bank accounts, etc). In 2010 the total value of payments carried out through distance banking systems increased by 30% over 2009 and totaled USD 8 billion.

[2] Information on pawn shops, exchange offices and distance banking is provided by the CBA, 2011

The payments were carried out via: a) bank-client services such as postal transfers, where the total value of payments was USD 5.3 billion, with USD 7,000 average value of single payment. b) internet-banking services, where total value of payments was USD 308 million, with a USD 1,877 average value of single payment. c) telephone-banking services, where total value of payments was USD 8 million, with USD 1,237 average value of single payment. The relatively high value of these payment transfers (considering the GDP per capita of $2,676 in Armenia) indicate that they are most likely business transfers and payments, although further examination may be useful.

4. Provision of Other Financial Products and Services

The following information about "non-traditional" financial projects is provided:

***Factoring*:** This is a financial transaction whereby a business job sells its accounts receivable (i.e. invoices) to a third party (called a factor), usually at a discount. Factoring is currently not widely-employed in Armenia. The year 2010 saw approximately EUR 7 million in factoring transactions which were underwritten by two banks, and transactions were dominated by domestic transactions (one international factoring transaction reported for 2010).[3]

***Letters of Credit*:** According to interviewed banks, some mid-size and smaller firms have access to LCs, although most do not possess the collateral needed to meet underwriting standards for LCs. This type of financing is particularly relevant to value chain finance. For many smaller firms without credit histories and collateral, access to credit that enables them to finance domestic operations is a pressing concern which precludes them from even contemplating cross-border sales strategies. When smaller firms are able to qualify for loans, they feel these loans are expensive and only available with short-term maturities.

Warehouse Receipt Financing: Warehouse receipt financing is a collateralized commodity transaction where the goods themselves provide security for the loan. This type of financing is relevant for SMEs and allows lenders to immediately sell off a liquid asset – namely the underlying commodity – if a processor or farmer defaults on the loan. Warehouse receipts are a means of accessing post-harvest finance for working capital needs and the financing cycle usually begins after harvesting the commodity is stored in a licensed warehouse that issues a receipt proving that the commodity is physically in the warehouse, and the receipt forms the basis of the financing transaction.

The provision of a credit product focused on warehouse receipts is a discussion point among many financial institutions, most notably Converse Bank which as part of its ownership structure is affiliated with ownership of cold storage units located near the airport. As part of its value chain facilitation efforts, EDMC will explore the development of credit products such as warehouse receipts, factoring, and others when supported by demand from the SME sector as well as interest and sufficient capacity of a financial institution.

Credit Bureau: In regards to information on the credit histories of Armenian borrowers, banks and UCO organizations can access the Credit Registry of the CBA. All past due loans within three days worth less than USD 4,000 must be reported to the CBA. The CBA control over client over-

[3] Source: PFS Report on Factoring in Armenia (June 2011) and CBA data (Dec 2010)

indebtedness may be limited, however, especially in rural lending which, in general, is represented by smaller loan amounts.

In addition, the private Credit Bureau (ACRA) facilitates information exchange within the microfinance industry. ACRA's services include credit reports, consumer credit reports and commercial credit reports. In 2007, ACRA began supplementing its services with online credit reports provided to its members, and is generally regarded as providing a very useful and efficient service to creditors.

Activities of Multilateral Investment and Donor Institutions:

A number of donors and multilateral institutions are active in Armenia, as per the below:

- USAID - Partners for Financial Stability (PFS) regional activity is addressing the financial constraints to enterprise competitiveness through targeted technical assistance and capacity building for the Central Bank of Armenia (CBA), the Union of Armenian Banks and other key financial sector stakeholders. It supports reforms in legal, institutional development and investment promotion areas, and trains financial to enhance their capacity in managing risk, reducing transaction costs, and developing new products for value chains. They have produced several feasibility studies and reports this year, including for movable collateral registry, factoring and establishing a credit rating agency.

- EBRD – Providing financing to financial institutions in foreign and local currency and some bi-lateral loans to larger firms. They have equity stakes in four banks and support other "partner banks" with technical assistance and loans.

- IFC - Running one banking project to support Risk Management and housing finance. They have four partner banks that they support with technical assistance for SME lending. Lent $15 million to a partner bank for small hydroelectric plant construction financing. Also implementing an investment climate project with Ministry of Economy.

- German Armenia Fund – Managing two revolving credit lines for partner banks with funding from the KfW ($42 million) and the World Bank ($30 million) for SME lending.

- The Fund for Rural Economic Development in Armenia (FREDA) - FREDA is the first investment fund in Armenia with a rural focus that makes investments in rural SMEs by providing innovative financing instruments (loans and equity) and capital and management assistance, thus enabling the enterprises to improve their competitive position and thus contribute to accelerate rural development. Sectors include: Food processing and canneries; milk processing; wineries and fish factories and processors.

d. Central Bank of Armenia and Regulation:

The Central Bank of Armenia acts as the central regulator of all lending activity and ensures the stable functioning of the financial system. It generally has a good reputation and the performance of the banking sector over the past years, where many of the excesses of the crisis and resulting collapse in bank confidence and lending activities were avoided, demonstrates this fact. It has been supported by various USAID and other donor-funded projects, and has expressed a recent interest in technical assistance and training in aspects of bank and UCO supervision.

The CBA is also the supervisory authority for UCOs, which must provide CBA with regular reports on financial statements, cash flow analysis, maturity of assets and liabilities and other relevant issues. The CBA supervision for these organizations is mainly focused on their capacity to manage and monitor credit and currency risks. Besides off-site supervision, a complex on-site visit is scheduled every three years. The CBA conducts its analysis by checking credit file samples, meeting clients and assessing loan documentation, and provides banks with recommendations on credit risk.

The CBA performs an on-going supervision over the financial system participants, especially banks and UCOs, to identify and prevent excessive risk levels of the financial system participants; combat money laundering and terrorism financing; protect financial system consumer rights; prevent negative speculative tendencies in the securities market. Separate departments (mainly the Financial Supervision Department) perform off-site and on-site inspections of the financial institutions. Recent changes include

Other recent changes are that the provisioning requirement for non-performing assets was loosened and now defines classification of those assets based on maximum number of overdue days at the moment of classification, instead of total number of days the asset was nonperforming. It was further defined that bank loans are not classified at the moment of issuance, but rather the provision is formed for them from the part of the loan that is not covered.

On the issue of F/X lending and currency risk, one of the tasks of the CBA has been to reduce the dollarization of the Armenian economy and strengthen the dram. As can be seen in the chart below, the dram has increased its share of all measures of deposits over the past 18 months. However, significant levels of dollarization of the deposit base still exist, which results in the mismatch between available funding and credit demand as indicated earlier in this report.

Figure 8: Dollarization in Armenia (Source, CBA Monetary Bulletin – May 2011)

	D1	D2	D3	D4	D5
2010					
January	47.4	69.8	63.8	82.6	50.9
February	48.0	70.1	61.8	83.0	51.5
March	50.9	72.7	66.4	83.6	52.6
April	48.9	71.2	63.1	82.9	52.1
May	47.0	69.5	61.8	82.3	52.5
June	45.8	68.7	59.5	81.5	53.6
July	45.3	68.4	58.3	81.4	54.8
August	44.9	67.7	60.3	80.6	55.1
September	43.9	65.8	60.1	80.4	55.7
October	43.5	65.5	57.4	80.0	56.2
November	43.2	64.5	58.7	79.5	56.5
December	42.8	64.3	57.3	79.6	56.6
2011					
January	45.5	66.1	59.3	79.5	56.8
February	45.2	65.3	58.1	79.2	57.3
March	45.6	65.1	59.9	78.9	58.5
April	45.6	66.0	59.6	79.1	58.7
May	45.0	65.1	57.3	78.7	58.9

D1 - ratio of residents' FX deposits to broad money.
D2 - ratio of residents' FX deposits to resident's total deposits.
D3 – share of FX demand deposits of resident natural persons in total demand deposits of resident natural persons.
D4 - share of FX term deposits of resident natural persons in total term deposits of resident natural persons.
D5 – ratio of FX loans provided to resident real sector to total loans provided to resident real sector (loan indicators do not include consumer loans).

These updates to the regulatory environment by the CBA have resulted in a stronger banking sector that is able to weather shocks and to perform at levels of profitability despite the crisis. However, the banking and UCO stakeholders interviewed during the mapping study have proposed a number of potential improvements to the regulatory environment that are explored later in this document.

4. CHALLENGES IN INCREASING SME LENDING OUTREACH

Commercial financial institutions in Armenia are driven by profitability and like any bank will usually attempt to provide services to the most profitable segments of the market and less-risky borrowers in order to generate a beneficial risk/return ratio. In Armenia banks typically focus on larger commercial borrowers, service urban areas, and recruit large deposits while minimizing exposure by lending to clients with a high collateral coverage, long-standing accounts, steady cash flows, a strong balance sheet and a high motivation to repay.

As expressed by banks and some UCOs in Armenia, lending to SMEs is problematic because they rarely meet these criteria. SMEs usually require smaller loans, flexible payment terms and are susceptible to seasonal fluctuations in cash flow, and may not have formal bank accounts. Therefore, relatively few banks prioritize lending to SMEs given these risks and high transaction costs. In many cases, this has been left for the UCO sector (mainly former microfinance institutions) to service, as they have lower collateral and other requirements generally but compensate by offering higher interest rates to cover the higher operating costs and perceived risk.

Given this environment, there remains a significant opportunity for financial institutions to improve their ability to serve the SME market. To take advantage of this, however, will require selecting the right financial institution and pursuit of a SME finance business model that directly addresses the senior management return requirements balanced against an acceptable risk approach.

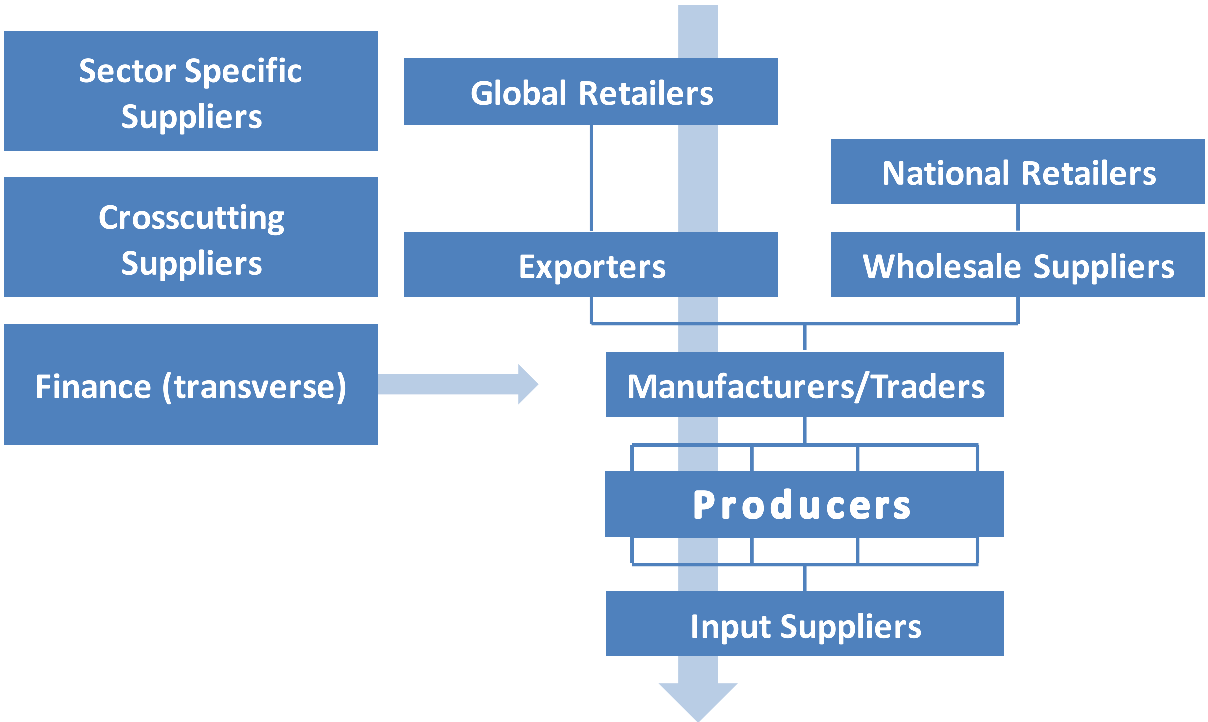


Figure 9: Value Chain Financing Framework

A breakdown of some of the challenges and constraints is provided below:

a. Observations on SME Ability to Access and Absorb Credit

The survey identified a number of constraints related to the ability of Armenian SMEs to access credit. Although the demand of SMEs for credit was not examined in detail, due to the focus of this report on SME credit supply, the comments of the various banks interviewed indicated that their view is that the SME sector lacks skills, management proficiency and seriousness in terms of their ability to formally apply for credit. Many bankers stated that there are relatively few opportunities for them to target the sector due to its undeveloped state, credit officers' lack of comprehensive financial statements, and the banks' generally low market understanding.

On the other hand, a significant number of Armenia's SMEs find it very difficult to work with financial institutions. There is a lack of sophistication among many SME owners and managers, and frequently they rely on the lender to propose financial solutions needed to develop loan applications and business plans. A large number of smaller companies never move beyond the application process because of the collateral or documentation requirements needed by the banks to evaluate creditworthiness.

Even banks where the procedure is nominally simple and designed for quick review and approval, many SME applicants are daunted by the need for formal collateral which in many cases is mandated by CBA prudential requirements. For example, it is common practice for Armenian banks to require 140% collateral on the requested loan amount (i.e. for a $30,000 loan, $42,000 of collateral is required which is then discounted by 30%). This is well in excess of CBA requirements which require a lesser coverage, up to 100%, of the outstanding amount in terms of provisioning.

In addition to these challenges, many SMEs lack credit histories and are suspicious of requests for accurate financial statements and financial records that are needed by the lender to evaluate and document a lending decision. When credit is available to them, it tends to be expensive and only available for short-term extensions of credit. There are very few "non-traditional" credit products available, such as inventory financing or factoring, and the SME is faced with little choice in terms of loan products available. An additional complicating factor is that many SMEs believe that if they go to banks or provide them with documentation, the local government will seek them out to extract unpaid taxes or fees.

SME Definition used in this report:

- *Micro – up to 10 people; turnover – 100 mil AMD*
- *Small – 10-50 employees; turnover 100 – 500 mil AMD*
- *Medium – 50-250 employees; turnover 500 mil - 1.5 bil AMD*

To overcome this challenge, best practice SME lenders have begun to take a more proactive approach in working with SMEs based on a "know-your-customer" model. This approach emphasizes the role of the lender as an advisor to entrepreneurs and a supporter in the construction of financial and other information that yields better and faster credit decisions. For financial institutions with the appetite for innovation and strategic growth, a comprehensive program focused on better and faster credit analysis would help reduce the reliance on excessive collateral.

In this context, it is clear that a value chain focused program of BDS support can contribute to the ability of SMEs to access credit. This is foreseen in the approach of EDMC towards credit facilitation, i.e. strengthening the ability of SMEs to access credit. This report does not focus on the credit demand side, but recommendations are provided in later sections of this report that will be helpful as the value chain analysis is conducted by EDMC in the coming weeks.

b. Observations on Bank Ability and Constraints to Providing SME Credit

Despite the bankers' complaints about the various weaknesses of their SME counterparts, our survey identified a number of weaknesses (identified by EDMC staff, desk research as well as self-identified by the surveyed bankers) that restrict the provision of SME credit in Armenia. In analyzing the various responses from the financial institution meetings, there are a number of issues related to their ability, capacity and willingness to engage in SME and VC lending. Many of these issues relate to the fact that many bankers are confident in their ability to assess and target the sector, although observation and desktop research (particularly of EBRD sources) shows that the bankers' skills in these areas is likely not as high as claimed.

The following issues are areas where the discussions during the mapping survey indicated generally unrealized weaknesses by the banking sector and their internal thinking related to the prospect of cooperation on achieving the EDMC program goals:

- While Banks in the market have generally incorporated key aspects of SME finance best practice, there continues to be a gap in converting this basic infrastructure into strong and growing SME credit portfolios. This results primarily from a lack of management commitment to the sector and an absence among banks to understand the need for re-tooling their SME finance approach given current financial and economic challenges in Armenia. To overcome these challenges, bank management requires improved understanding of the opportunities, tactics and risks in SME lending. For example, during boom times, lending staff became accustomed to focusing on sales and loan portfolio growth, thus forcing bank management to centralize decisions and apply stricter benchmarks for credit risk policies. Today, this practice while warranted in certain cases could be reconsidered if risk management staff is able to improve its understanding of credit risk for certain segments. Overall the banks maintain a highly conservative approach to client identification and loan analysis/administration strategy and methodological practices. This in turn limits their capacity to respond in an efficient and cost-effective manner to the financing needs of SMEs in high potential subsectors. A value chain financing approach provides this key advantage and with the broader activities of the EDMC suggests a more comprehensive strategy for serving SMEs which committed banks should find appealing. The team aims to develop an approach to serving the targeted VCs through an approach that will provide the confidence to bank management and staff in the business case for SME finance and the tools for achieving results.

- Generally, there is a **focus by the banks and UCO's on loan products** not the services provided to the client – for example – "we need to do factoring because another bank is doing it" or because a donor sent a consultant to develop a product. Banks focus on currencies and products rather than on clients. There is rarely a pursuit of identifying specialized segments and providing tailored products. From a best practice perspective, there is a complete lack of client segmentation in the Armenian banking sector and a lack of client need awareness by value chain, industrial sector or geographical area.

- In this context, banks **classify their outreach based on broad classifications** into industrial categories, and not value chains. They lack an understanding of how to differentiate "good" entrepreneurs from other categories, and do not take sweat-equity or entrepreneur motivation into account during the loan assessment process. They are in most cases lacking in knowledge of the functioning of value chains and the inter-relationships of small to large actors in each chain.

- Almost all of the banks and UCO's interviewed stated that they perform cash flow analysis and considered collateral as a secondary source of repayment. While this may be the case, given the level of previous technical assistance in the country, the level of intermediation suggests that something is not working at the policy and process level. The **degree of unmet financing demand as well as the bottlenecks and loan rejection rates requires further investigation** before tailoring a consulting program to assist the banks.

- Many banks stated that they are designing/experimenting with new products (factoring, warehouse receipts) – some because of donor funding, other because of competitors. Most of the banks, however, did not **demonstrate a strong commitment to new product design**, and seemed that they were only half-heartedly committed to providing value to their SME clients in terms of new product development.

- As outlined in numerous other studies but also highlighted by representatives of the banks themselves, FI's in Armenia have a challenge related to local currency funding (i.e. not enough AMD funding) as compared to the **high demand, especially by smaller firms, for loans denominated in AMD**. Generally, banks lack access to currency, credit insurance and securitization technologies/platforms that would mitigate risk and allow them to better meet the credit demand of the small business sector, which includes many value chain actors.

- Additionally, the banks' focus on providing low-technology and standardized banking services to clients, resulting in their relative inability to encourage local long-term AMD savings that would match loan demand. This asset and liability mismatch cannot be entirely eliminated, but **marketing and systems improvements can be made** to attempt to increase local savings.

- Banks in Armenia have **already received a significant amount of technical assistance** over the past 10-11 years, including SME specialized assistance packages from IFC, EBRD or other international partners. Many banks that were interviewed may require a significant investment in technical assistance, funding, guarantees or other incentive to "get them interested" in technical support to increase their SME lending capacity. For this reason, the team will focus on introducing high-value innovative support to banks that will secure commitment to a cost sharing arrangement.

- A **coherent approach to building capacity of all actors is needed**, including elements such as improving financial literacy, building trust in banks, and strengthening the role of

SMEs in improving the speed and quality of the lending process, preferably through bank-led education efforts. These efforts need to include more than just the usual technical assistance for just a few banks, underwritten by donor funds. To expand the level of value chain lending in a major way, all levels of actors such as banks, UCO's, the CBA and the SMEs themselves will need to be involved in the process.

In addition, from the interviews with the various banks and other stakeholders, it appears that the banks are also "constrained" in lending to SMEs because, as mainly single-owner entities, they do not have the strategic goal of significantly increasing their lending activity or revenues, and they are seemingly satisfied with the current scale of their businesses as they exist today.

In many cases, the banks and UCOs were certain that they are doing the best they can to satisfy the SME appetite for credit products, but that the problems were all on the SME side as described in the previous section. The banks in most cases were reluctant to discuss their capacity-building needs in anything but general terms, although they were able to identify a few focus areas as described later in the report. The banks' confidence in their procedures, as well as, their exposure to significant levels of technical assistance over the past decade will present a challenge to securing bank and UCO buy-in for a management consulting program that will achieve program goals. The EDMC approach to overcoming these challenges is presented in the next section.

5. RECOMMENDATIONS

The purpose of the EDMC financial sector mapping exercise is to identify potential interventions to facilitate SME credit provision in Armenia within the EDMC framework goals. Generally, this can only be accomplished by reducing the constraints to increased VC lending, motivating financial institutions to increase credit provision, and by providing bank practitioner expertise to help selected banks and UCO's implement a VC-focused strategy with a "best practice" approach.

Building on the premise that SMEs lack access to sufficient credit products, and based on the results of our surveys of the relevant Armenian financial institutions, the following primary constraints to SME credit provision faced by local financial institutions have been identified and should be resolved in the context of any SME credit facilitation program in Armenia.

***Value Chain Finance** – Differs from traditional SME Finance, in that it looks at the individual firms as being part of an interconnected chain of actors in a specific subsector of an industry, rather than just individual firms operating on their own. Here, financing is designed to flow through the chain to the different actors to support the whole chain's development and growth, based on their relationships in the production and marketing of a good or service. Outside financial institutions, and even actors within the chain, can provide this financing.*

These general constraints, identified by financial sector actors, are the following:

1. Lack of interest, focus, confidence, or strategy to support SME banking
2. Lack of bank lending skills and staff capacity for increased SME banking resulting in excessive risks and operational costs;
3. Lack of loans in the currency or term required;
4. Lack of capacity and professionalism on the part of SMEs to apply for and access credit.

As there are limited financial and technical assistance resources to support financial institutions in increasing their VC lending activities, the "answer" to facilitate lending is not simple. Indeed, the EDMC project represents the 4th generation of USAID and other donor funding of bank training and capacity-building, with a specific target of increasing the levels of SME lending to the economy. Considering the involvement of EBRD, IFC, GAF and other actors in the development of the financial sector of Armenia, any intervention proposed should complement these efforts and avoid costly duplication of effort.

Therefore, EDMC believes that a coherent program to train, equip and motivate lenders in Armenia can have a substantial impact on lending provision and resulting levels of SME job creation and growth. Combined with efforts to target SMEs themselves with capacity-building to facilitate access to the lending community, EDMC believes that a program of targeted interventions to support the lending sector can address the primary (and many of the second-tier) constraints to credit facilitation. The implementation of such a program needs to be implemented in phases, and carefully take into account the opinions, desires, and capabilities of select financial institutions.

This is because many financial institutions no longer take technical assistance very seriously. The only way to address this major issue, one of "motivation" is to significantly upgrade the level of consulting support to the financial institutions that agree to focus their strategy and product development efforts on increasing banking services in the selected value chains. The bottom line is to show the banks that SME lending can be profitable and the risks can be managed properly. As mentioned earlier, banks and UCOs do not have a good grasp of different client segments and they tend to focus more on offering a number of products instead of looking at different client clusters and providing tailored services that fit VC actor needs. This crucial issue of segmentation strategy and business model, which would allow banks to increase their market share, identify new clients and improve their risk management, is directly correlated to the ability and willingness of potential partner banks to work with EDMC on funding value chains.

a. Recommendations to Increase Capacity of Banks and UCO's

Recommendations and insights for the project to facilitate SME credit access in Armenia include an array of potential interventions across the spectrum, with an emphasis on 1) reducing the institutional constraints affecting financial service providers in terms of increasing service provision; 2) securing partner institutions' buy-in through strategy and business model development, cost sharing provision, and focus of approach and 3) promoting innovative financial products through product design, training, and capacity-building of banks, UCO's, regulatory actors and the UBA.

Our recommendations below concentrate on reducing the top constraints to SME lending in Armenia as identified by our survey of the financial institutions. These recommendations are designed to focus efforts on addressing the constraints identified during the mapping research and expressed by the institutions themselves. The constraints are broken down into the following three requirements, with a short summary of potential alleviation measures.

1. Increase Lender Institutional Capacity

Based on our quick assessment, most Armenian lenders require improved staff capacity and systems in order to increase outreach and to properly assess SME credit needs and repayment capabilities. This needs to be addressed by building capacity of existing and potential SME lenders through training, knowledge-sharing and strengthening of loan officers and credit institution managers, and also by facilitating launch of new loan products.

This can be achieved through a program of consulting to the banks, as well as the development of a formal and demand driven lender-training operation through the Union of Banks of Armenia. Indeed, the UBA needs to be, over the long term, the entity that will provide this training and other capacity-building efforts as part of its normal activities.

To resolve the identified constraints, the EDMC project will work with progressive banks and UCOs, selected to design high-value consulting interventions that are supported by the participating institutions. By requiring that the banks and UCOs invest human and other resources into the design and development of these trainings, we will ensure that these activities will remain relevant and create results for the institutions.

To achieve this, the EDMC intends to raise awareness of the MSME finance gap in Armenia and approach relevant financial institutions in Armenia with a simple proposal – does the institution want to increase take advantage of this opportunity by leveraging EDMC, and if so, is it willing to commit substantial resources to target this market? If it is, the EDMC project will be able to offer high-value financial services consulting support to fine-tune the strategy and design a roadmap for achieving these goals.

If the banks and UCOs are interested in this type of support, then the project will develop a quantitative analysis of these capabilities, and their ability and interest to provide financial services that will benefit the value chains selected by the project. Importantly, our approach will be a knowledge and relationship-building exercise that will not succeed overnight, but is expected to gradually win the support of 4-6 key financial institutions that share the EDMC goal of improved capacity and willingness to support value-chain lending activities in Armenia. Pending the selection of the value chains the project is not able to mention any institutions specifically, but it is expected that at least two to three commercial banks, a leasing company, and a one to two UCOs (leasing organizations and MFIs) will be among the top selected partners.

The methodology for selecting the partner institution will be based on a qualitative and quantitative analysis of the capabilities, interest and ability of the financial institution to support increase value-chain lending in the identified sectors. Each potential financial institution partner (the initial possible range is expected to be approximately 15-18 institutions (of the total of 21 banks and 31 UCO's) which will be quickly assessed, interviewed, examined and if suitable, invited to sign a memorandum of understanding for EDMC consulting services that will be designed to strengthen the institution and assist it in the achievement of its strategy. Finally, 4-6 initial partners will be selected based on their ability to meet the goals of the collaboration and to support value chain lending.

To determine these partners, the qualitative and quantitative assessment will be based on a score sheet provided in the appendix, but with significant additional input to be provided through discussions and interviews with value chain actors, the financial institutions themselves, the CBA, GoARM stakeholders and USAID. Based on these interviews and the scorecard analysis, institutions who meet the minimum requirements will be invited to submit an expression of interest to EDMC with an outline of its institutional-strengthening requirements and how EDMC can meet their needs.

At that point, the EOI's will be evaluated by EDMC project management and, in consultation with stakeholders and USAID, a range of technical assistance measures will be outlined in a work plan to be agreed upon with the partner institutions. The work plan will outline the contributions and deliverables of each party, and describe in detail the obligations of each. The work plan with each participating institution will outline how the bank/UCO will collaborate with the project and tie into the other EDMC activities related to value chain enhancement.

Since most of the financial institutions have already received a great deal of technical assistance, the EDMC project will focus not on the usual run of training and capacity-development. Rather, consulting teams with experienced bankers steeped in real-world bank management and strategy expertise will be brought in to conduct market segmentation, strategy analyses, bank assessments and other concrete interventions that will be of significant value to the bank in developing outreach to targeted sectors. Through the next step in our proposed workplan, the team will conduct a SME financing demand analysis that will serve to inform the design of general and specific interventions.

In implementing the above methodology, with a constant feedback loop between the supported financial institutions, the targeted SME value chain sectors, USAID, SEAF and GoARM stakeholders will insure that a level above the "usual" technical assistance will be available to partner financial institutions. Importantly, the EDMC management consulting services will target only those institutions that have the political will and resource capacity to exploit the EDMC assistance and leverage the SME activities implemented by other components of the program. Acknowledging the differences in bank sophistication and the level of access to advisory support available to different institutions, EDMC will structure its provision of consulting services into several levels and develop specific targets and milestones for each partner institution.

2. Increase Lender Operating Resources:

In this context, partner institutions that agree to the EDMC financial institution work plan will have access to a range of interventions that will address their lack of operating resources. Many of the existing potential lending partners indicated that they lack IT, branch infrastructure and staffing resources needed to increase SME outreach. Supported by EDMC project experts, these institutions where needed will receive access to improved credit scoring and infrastructure mechanisms to increase their capability to support the SME sector.

Assessment: Partner Banks and UCO's will be identified based on the highest value to be added through the tailored capacity building support, as well as their political will to actually conduct increased VC outreach. The EDMC analysis of partner bank lending practices, including products/services analysis, underwriting criteria, decision making, collateral, recovery procedures, internal controls, SWOT analysis of their SME market position, etc will be conducted by experienced bankers well-informed about local lending capabilities and Armenian value chains .

Buy-in: Value chain outcomes of this methodology, for 3-4 institutions in the first year of the program, are expected to be tailored recommendations for new SME banking products and related training priorities with a focus on senior-level buy-in for new products that emerge from the demand side analysis conducted with the VC enterprises. In the implementation phase, EDMC will assist partner banks and UCOs in development of new lending techniques and products and in development of credit scoring/risk rating models tailored to the institution's portfolio profile, where needed.

Segmentation and Credit Methodologies: The project will work with several partner banks/UCOs to develop a SME credit application and segmentation process, incorporating credit scoring and risk-based pricing of both existing loan products and new products. It will also focus on interventions that support the development of products and services that can service MSMEs up and down the value chain - from input providers, to producers, processors, distributors, wholesalers, and retailers. Once the value chains are selected, regionally-experienced bankers will support the partner institutions with focused training to expand their ability to segment their clients and develop credit methodologies to support the segmentation results.

Develop lender professional skills: The development of the professional skills in the financial sector needs to be developed via a local partner such as the UBA or similar organization. Programs have been started recently for actuaries and risk managers, but they are in very early stages. Furthermore, financial analysts, internal auditors, and internationally certified accountants are needed. The CBA has singled out this need as a clear requirement for progress in the development of the financial sector and specifically asked for assistance in developing sustainable programs for training these professionals.

b. Recommendations to Increase the Capacity of SMEs to Access Credit Products

Although it is not within the scope of this report to provide insights into the challenges faced by SMEs in accessing credit, a set of recommendations is listed here to provide perspective. As mentioned earlier, potential SME borrowers lack the capacity to draft business plans, to design marketing and feasibility studies, to meet formal collateral requirements (or demonstrate that they can) and to fill out loan applications that meet requirements to secure a loan. As part of a comprehensive credit access program, it is clear that all of these constraints must also be addressed through the provision of advisory services directly targeting SMEs in the selected value chains.

However, in Armenia, there are relatively few companies, consultants or experts who are available to provide such services or conduct credit facilitation training for businesses to learn how to access credit. This includes the development of financial reports needed to provide lenders with information on SME cash flows, balance sheets or income statements. Although some donor programs are active, very little capacity has been developed in this context, mainly due to lack of significant SME interest.

We will work with our the value chain component to ensure that such activities facilitate the provision of credit services to support the working capital, equipment and expansion needs of SME clients. Most SMEs in the area lack even a basic knowledge of credit facilitation, including knowledge of business plan development, building relationships with local banks and bankers, and awareness of collateral and other legal requirements for lending. This constraint has the impact that, in some cases, there is a lender willing to lend to an SME but the entrepreneur lacks the ability to finalize a business plan or secure legal and collateral registration documents that will enable the loan to be approved.

Moreover, to address this constraint, there is a strong need to build capacity of financial institutions and/or other service firms to assist value chain SMEs to understand and to meet the requirements of borrowing from formal financial institutions. In other markets, financial institutions are picking up this demand by developing SME centers, supporting associations and other SME support activities with a focus on assisting SMEs in formal collateral registration, and in meeting the requirements of lending institutions. This service may be achieved initially by partially leveraging banks' marketing and business development budgets.

3. Address Regulatory and Other Constraints Identified by Financial Institutions

As mentioned earlier in this report, a number of other constraints limit the ability of banks and UCO's to increase value-chain lending. These include currency exposure issues, low deposit mobilization, lack of appropriate regulation at CBA level (particularly for leasing), and other constraints that reduce the ability to meet client needs. Generally, at the policy level, a range of efforts is needed to improve conditions in at least three areas – strengthened consumer confidence, greater knowledge and literacy of financial services, as well as more suitable products for selected value chain lenders.

To support this, EDMC (through the UBA or other local partner) can provide trainings for the CBA related to the development of new tools and laws (through its work with industry associations and market participants to identify and address persistent regulatory barriers that affect sector efficiency) to develop regulatory capacity for creation of SME more appropriate vehicles for value chain lending as well as equity funds. This can be led by the project component responsibly for competitiveness and improved regulation.

In this context, the CBA will require training related to the development of new tools and laws that will facilitate the provision of increased value chain finance. EDMC will work to provide expertise to the CBA on the following issues in order to develop more appropriate regulation that allows banks and UCOs to be more effective in targeting the SME sector:

a. Facilitation of New Investment in the Banking Sector to Assist in Increasing Resources

- Develop database and analysis format for private banks to make them more attractive.
- Develop and maintain a banking and UCO database to be used for investment promotion.
- Support the UBA in developing capacity to monitor movements and events in the sector, from both a qualitative and quantitative perspective as regards to investment facilitation.

b. Work with international experts and CBA authorities to facilitate access to AMD funding, credit insurance and securitization technologies/platforms that would mitigate risk and allow banks to better meet the credit demand of the small business sector.

c. Work with the CBA to increase local AMD savings with the goal of reducing the current funding mismatch for value-chain financing. Propose marketing efforts such as "Savings Days" and other interventions that can be made to attempt to increase local savings in AMD.

d. Develop draft legislation and CBA instructions on issues such as credit insurance, warehouse receipts, better guidance on factoring, and in the establishment of innovative credit platforms or new product development.

e. Form a "working group" for SME lending facilitation that would be comprised of USAID, EDMC and GoARM representatives as well as those of IFC, GAF, EBRD and other actors. Use the UBA infrastructure and offices to make this a locally-driven effort.

f. Work with the UBA to develop their capacity to provide long-term and sustainable training provide assistance to banks/UCOs on Risk Management (the development of the Risk Certification Program, with the goal is to establish a self-sustaining professional capacity in risk management. Also, design risk management and other financial courses that the universities will teach on an on-going, sustained basis

Financial Sector Database – Our team will review the possibility of adapting the Financial Sector Deepening Project (FSDP) financial indicators database as a basis for the EDMC project. The database was built under the FSDP, and contains financial data (annual and quarterly) for 22 banks starting as early as 2003/2004. The database was used to prepare on a quarterly basis detailed individual bank reports and analytical analyses of the overall banking system. EDMC team will leverage this database to develop a strong understanding of the long term changes in the Armenian financial sector, partner institution selection, and for suggesting improvements to the SME finance data environment.

6. YEAR ONE WORK PLAN INPUT TO SUPPORT METHODOLOGY

A. Institutional Support to Financial Institutions:

Building on the above recommendations, the following timeline for the FI strengthening component of EDMC is proposed. A draft framework for establishing tasks and baseline numbers for future M&E tracking purposes is below:

	2011					2012						
A. Institutional Support to Financial Institutions	1	2	3	4	5	6	7	8	9	10	11	12
1. Project initiation and partner introductions (completed)												
2. High-level mapping of the financial sector (completed)												
3. Understanding VC financing needs												
4. Awareness raising and knowledge sharing event focused on the VC financing opportunity with prospective partner FIs												
5. Finalizing partner FI selection												
6. Delivering consulting support to partner FIs (gap analysis, designing the path forward and providing targeted expertise)												

1. **Project initiation and partner introductions -** The team has completed general introductions of EDMC and the project to potential partner financial institutions with a focus on those that have already expressed a strong interest in a strategy to increase their SME / value chain lending. Additional introductions to other banks and UCOs will continue to gauge level of interest and provide back-up partners.

2. **Mapping the financial sector –** This is the subject of the earlier sections of this report. The team will continue to develop its understanding of the sector and deepen relationships with FIs.

3. **Understanding VC financing needs –** SBI would propose to conduct market research to complete our understanding of the SME needs for value chain financing. This analysis would provide a basis for tailoring our approach with financial institutions and serve as a benchmark for overall program success. To begin, the team will incorporate specific access to finance questions into the upcoming VC survey work that will be applied to up to 20 subsectors selected by the Value Chain team. Based on this initial data, SBI will have a starting point for more in-depth research with each chosen subsector to gauge the demand structure and financing needs along various links in the VC (input supplier-producer-processor-distributor, etc). An initial draft of the information to be gathered from the SMEs in the selected sub-sectors can be found in Annex 6.

4. **Awareness raising and knowledge sharing event –** Following completion of VC financing needs analysis, the team would organize a high-profile financial sector event. The agenda would be designed to share the findings of our work, including the nature of VC financing opportunities and the EDMC roadmap for resolving specific challenges facing partners. Depending on the outcome of this approach for industry-wide support the team will consider continuing this kind of activity.

5. **Finalizing partner FIs for VC financing –** By working with senior management, SBI is convinced that sustainable, results-oriented change can occur in financial institutions. The component team leader, supported by relevant experts, would work closely with FIs to determine the broad or narrow scope for EDMC participation based on a clear understanding of desired VC financing impact. Among the criteria for partnership, we will require FI management to commit to aggressive SME financing targets. This activity would include detailed planning meetings with interested FIs to understand the business requirements of each prospective partner and lead to a specific EDMC scope of work and agreement with each partner.

6. **Delivering consulting support to partner FIs –** Once the partnership agreement is in place, the team would work with each partner to assess its existing product offering and market position vis-à-vis SME finance. Then, the team would work with each partner to understand the gap analysis and define the desired SME finance capability or offering vis-à-vis the EDMC target sectors. These building blocks would serve as the basis for developing a compelling business case and project plan for each partner which would be followed by targeted consulting interventions. Based on our gap analysis and planning activities the team would provide expertise to partner financial institutions with the aim of expanding current product offerings to new sectors or new geographies and/or introducing new products for current or new markets. More specifically, the EDMC consulting team will support the partner financial institutions in strategy, products, segmentation, risk management and other value-chain oriented interventions. Our team will conduct intensive consulting assignments to support implementation of agreements with partner institutions under the guidance of the component team leader and with the support of our local team. Finally, based on initial quantitative and qualitative information our team will monitor and report on organizational performance and profitability indicators that will serve as further support for attracting additional partners. The component team leader would be responsible for scoping assignments, selecting staff, providing consultant support and monitoring results.

B. Beyond Financial Institution Interventions - Policy and Regulatory Support for VC lending

Recognizing that the challenges for delivering VC financing to SMEs is broader than simply improving FI capacity, the component team would work with other members of the Pragma team to inform SME capacity efforts, as well as, policy and regulatory initiatives related to SME financing. We would propose to work with the broader team to identify and address the major legal and regulatory constraints as identified by banks and credit institutions and develop a knowledge-based network for value chain finance with inputs from all relevant stakeholders.

While still early, the legal and regulatory aspects have not emerged as a significant problem for SME lending, with the exception of lease financing and other specialized financing approaches. While there are a number of initiatives to consider at the macro level, it seems much of the SME finance constraint is under the control of the banks themselves. For example, collateral requirements appear to be in line with industry norms and while unsecured lending is a challenge, the bigger issue is the change in collateral values in recent years due to economic factors. While, there is an interest-rate ceiling, banks manage to get around this with fees and few banks complain about this challenge. Perhaps the biggest challenge to address is the need for local currency lending. Local currency lending is challenged by the absence of insurance companies or pension funds to provide funding and exacerbated by savings behaviour focused on the USD rather than on the dram. There is still significant room for investigation in this area, however, including the recent move by the CBA to increase the provisioning requirements for foreign currency loans. In addition, there remain opportunities at the industry level to build a platform for improving the sharing of information, and increasing the flow of information about the SME sector.

7. CONCLUSION

The primary purpose of this report is provide an initial mapping of the financial sector in Armenia, identifying the constraints to SME access to financial services, and to outline a set of recommendations that would increase access by the SME sector in a range of value chains. The authors approached this task with a focus on identifying the supply drivers for SME credit, reviewing the levels of current credit provision, the regulatory environment, human-resource capacity, as well as the resource availability of current lenders in the country.

Although the SME credit sector in Armenia has received significant international support the level of financial-institution lending at the SME-level in Armenia is low. Despite their high liquidity, the institutions that were interviewed demonstrated a low rate of provision of financial services to SMEs in Armenia due to poor client awareness and analysis, insufficient staff capacity, limitations on financial resources for lending in AMD, low SME capacity for borrowing, and a generally high-level of outreach costs.

The methodology for selecting the partner institution will be based on a qualitative and quantitative analysis of the capabilities, interest and ability of the financial institution to support increase value-chain lending in the identified sectors. Each potential financial institution partner (the initial possible range is expected to be approximately 15-18 institutions (of the total of 21 banks and 31 UCO's) which will be quickly assessed, interviewed, examined and if suitable, invited to negotiate a formal memorandum of understanding for EDMC consulting services that will be designed to strengthen the institution and assist it in the achievement of its VC financing strategy.

The qualitative and quantitative assessment will be based on a score sheet provided in the appendix, but with significant additional input to be provided through discussions and interviews with value chain actors, the financial institutions themselves, the CBA, GoARM stakeholders and USAID. MOUs will be evaluated by EDMC project management and, in consultation with stakeholders and USAID, a range of technical assistance measures will be outlined in a work plan to be agreed upon with the partner institutions.

EDMC Interventions to support the increase in SME credit in Armenia:

- *Support SMEs in market development, financial planning, and improved performance in selected value chains ,*
- *Build the capacity of banks and UCO's to provide appropriate financial products and services to SMEs*
- *Provide input on the EDMC's capacity-building of the CBA to develop more appropriate regulation that allows banks and UCO to be more effective in targeting the SME sector*

To resolve the constraints to increased value-chain finance, the EDMC project will need to work with progressive banks and UCOs, selected through a demand-driven assessment. The EDMC team will play an aggressive and targeted consulting role focused on building long-term management commitment and sustainable results at the lender-level. The banks and UCO's will be required to support EDMC advisors and will be required to invest human and other resources in ensuring that the approach is relevant and will create results. Only a strong focus on provision of high-value consulting support to the financial institutions will generate the needed level of commitment that will make the cooperation a success.

ANNEX 1: LIST OF INTERVIEWS

1. **ACBA-Credit Agricole**
   - Stepan Gishyan – General Manager

2. **ACBA-Leasing**
   - Arsen Bazikyan

3. **Ameria Bank**
   - Aram Hovsepyan – Head, Small and Medium Business Lending
   - Gagik Sahakyan – Director Corporate Banking
   - Karen Martirosyan – Deputy Head of management Advisory Services

4. **Aregak Universal Credit Organization**
   - Mariam Yesayan – Executive Director

5. **Converse Bank**
   - Vahe Dalyan - Head of Risk Management Department

6. **HSBC Bank**
   - Astrid Clifford – Chief Executive Officer
   - Vahan Kajayan – Deputy Head of Commercial Banking

7. **Inecobank**
   - Vaghinak Khachatryan – Head of Loan Department
   - Lilit Martirosyan - Head of Corporate Lending Division
   - Alla Pavlova – Head of Development and External Relations Department
   - Victoria Ter-Sargisova – Specialist, Development and External Relations Department

8. **Kamurj Universal Credit Organization**
   - Gagik Vardanyan – Executive Director

9. **ProCredit Bank**
   - Asmus Rotne - Executive Director
   - Ashot Abrahamyan – Deputy Executive Director

10. **Finca UCO**
    - Yervand Barseghyan – General Director
    - Hrachya Tokhmakhyan – Chief Financial Officer, ACCA

11. **German Armenian Fund**
    - Gevorg Tumanyan – Director
    - Sergey Sayadyan – Project Manager
    - Davit Mikayelyan – Senior Auditor

12. **Small & Medium Entrepreneurship Development National Center of Armenia (SME DNC)**
    - Tigran Harutyunyan – Executive Director
    - Gegham Petrosyan – Deputy Executive Director
    -

ANNEX 2: LENDING INSTITUTION DETAILED INTERVIEW GUIDELINES

I. Lending Institution Information

Lending Institution:	**Location**:
Interviewee's Name:	**Title**:
Responsibility:	
Main Branches:	

II. Questions

A) Bank Lending Operations

1. Please provide some details on the strategy and product placement of your bank?

2. Please provide portfolio information of your bank? (total in ARM)

3. What is rough estimate of your portfolio / number of loans in below areas?
    a. Consumer Loans (in fx or local currency)
    b. Microfinance < USD 10,000 equivalent (in fx or local currency)
    c. Small business < USD 100,000 equivalent (in fx or local currency)
    d. Medium or Large Corporate > USD 100,000 equivalent (in fx or local currency)
    e. Mortgages (which currency USD, ARM, USD etc.)
    f. Letters of Credit / Factoring / Leasing / Other

4. Please describe your level of lending operations to the following sectors?
    a. Sector: Agriculture
    b. Sector: Tourism
    c. Sector: Construction
    d. Sector: IT
    e. Sector: Manufacturing
    f. Sector: Other
    g. Location: Focus on Particular Part of the Country?

5. Can you describe your lending methodology (NOTE: Ask questions on following points):
    a. Do you base loan decisions on collateral assessment or cash flow? HOW?
    b. Do you analyze complete income of borrower or only "Official Income"
    c. Do you differentiate between Urban and Rural Loans? SME and Corporate?
    d. What type of Credit Scoring / Client Assessment? Statistical or Judgmental?

6. In what currency do you mainly offer loans? (AMD, EUR, USD, RUB)

7. Do you offer products such as leases, letter of credit, trade finance, similar? If not, why not?

8. Do you have the sense that you priced your products appropriately?
    a. Based on your cost of funds
    b. Based on macro-economic risk
    c. Based on client risk?

9. What is the average maturity of your loans to SME sector?

B) Constraints

10. What do you see as the main obstacles to growing your portfolio to support SMEs?

a. Lack of Funding Sources
b. Lack of Knowledge on how to serve this sector
c. Lack of demand from customers
d. High credit risk of SMEs
e. Difficulty in valuating / repossessing collateral
f. Lack of sufficient IT system
g. Bad regulation / legal environment

11. What do you need (capital, portfolio guarantees, other) to achieve your strategic vision?

12. What type of training would you need to be able to increase your lending support to SMEs?

13. Do you believe that new products need to be developed to meet the needs of your present and future borrowers? If so, what are these products?

14. More importantly, why are you not offering these products now?

15. Do you believe that the SME sector in Armenia is "credit-worthy"?

C) Bank Financing

16. What is the role of deposits in your source of funds?

17. How do you finance your loans?
    a. If Bank, what types of deposits?
    b. If Bank, what types of loans or lines of credit?
    c. If Bank, loans from parent institution?
    d. If Bank, any preferential loans or lines of credit (i.e. EBRD, USAID)?
    e. If NBFI, what types of loans or lines of credit?
    f. If NBFI, any subsidized or donor derived loans? (i.e. EBRD, USAID)?

18. If Bank or NBFI, any subsidized or donor derived loans?

19. How have you (the institutions been affected by the financial crisis / recession?

20. Will you increase or decrease your lending in these areas for the next 3-5 years (circle answer)?

a) Small business generally < USD 100,000 equivalent	up	down	% how much
b) Sector: Agriculture	up	down	% how much
c) Sector: Tourism	up	down	% how much
d) Sector: Construction	up	down	% how much
e) Sector: IT	up	down	% how much
f) Sector: Manufacturing	up	down	% how much
g) Sector: Other	up	down	% how much

21. Location: Will you change or increase your focus in a particular part of the Country?

22. How have you addressed higher NPLs or PARs

ANNEX 3: PARTNER LENDING INSTITUTION SCORING MATRIX

EVALUATION MATRIX FOR BANK / NBFI PARTNERSHIPS FOR EDMC PROJECT

A	**Management Experience**	Low		Hi	**Score**
1	SME Lending Experience *(low - under 25% of the portfolio)*	1	2	3	
2	Experience with Donor/IFI funded projects, including TA programs	1	2	3	
3	Current experience in relevant Value Chain(s)	1	2	3	
4	Potential Impact towards program goals (e.g. gender impact)	1	2	3	
	Sub-total Management:				**0**
B	**Operational Plans/Methodology**	Low		Hi	
1	Quality of analysis and understanding of clients (e.g. cash flow based lending)	1	2	3	
2	Collateral not the primary decision factor in SME lending?	1	2	3	
3	Loan product suitability for SMEs	1	2	3	
4	Staff training plan in place	1	2	3	
	Sub-total Operational Plans:				**0**
C	**Financial Resources**	Low		Hi	
1	Sufficient current liquidity	1	2	3	
2	Possible access to additional capital to fund organic growth	1	2	3	
3	Possible level of lending in local currency	1	2	3	
4	Cost-perception of lending product to SMEs	1	2	3	
	Sub-total Financial Resources:				**0**
D	**Infrastructure**	Low		Hi	
1	Branch network across the country	1	2	3	
2	Ability to introduce new or improved SME loan products	1	2	3	
3	Sufficient IT system in place or planned	1	2	3	
	Sub-total Infrastructure:				**0**
E	**Interest in Expansion of SME Lending**	Low		Hi	
1	Management interested in expansion of SME lending	1	2	3	
1	Owner(s)/Board interested in expansion of SME lending	1	2	3	
2	Interested in expansion into relevant Value Chains	1	2	3	
3	Interest in new services or new product development	1	2	3	
4	Implementation capacity at loan officer level	1	2	3	
	Sub-total Interest in SME Lending:				**0**
	Grand Total:				**0**

Bank Name: TBD

Notes Attributes of Institution:

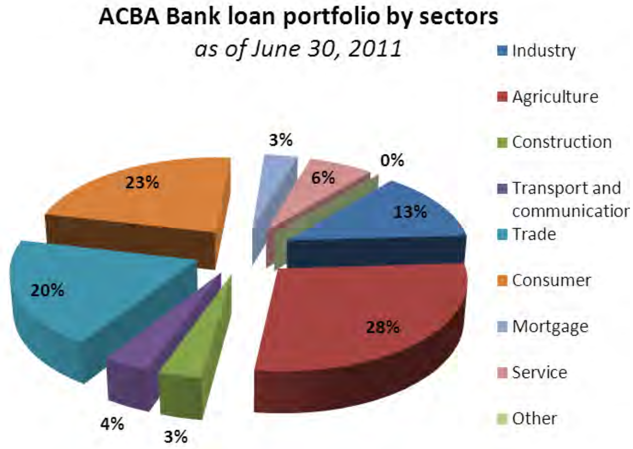
ANNEX 4: SNAPSHOT OF ARMENIAN FINANCIAL INSTITUTIONS

Below follows a snapshot of the financial institutions engaged in SME lending in Armenia:

ACBA-CREDIT AGRICOLE BANK

"ACBA-CREDIT AGRICOLE BANK" CJSC was founded in 1996 within the framework of the European Union's TACIS program by the model of European cooperative banks. In September 2006 the French Credit Agricole Banking Group purchased 28% shares of the Agricultural Cooperative Bank of Armenia [ACBA Bank], and the ACBA Bank was renamed to ACBA Credit Agricole Bank.

The bank has strong focus on financing SMEs (over 50% of the total portfolio) and has the largest market share in Armenia serving agriculture clients. Leveraging a strong branch network and strategic focus on financing economic activity in rural areas, ACBA Bank established strong presence in all regions of Armenia. The bank benefits from technical assistance support from the French Credit Agricole Bank.



The bank has 42 branches (including the Head office): 7 - in Yerevan, the rest in the 10 marzes of Armenia. As of 31 August 2010, the bank served 203,175 clients: 8343 legal entities and 194,832 individuals. As of 31 January 2011, the number of bank employees totaled 902.

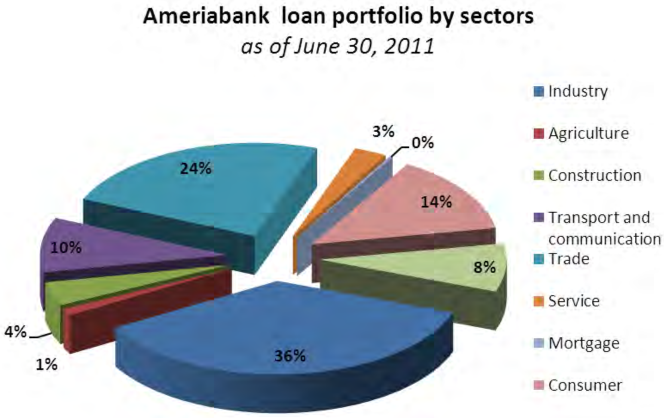
Because of ACBA Credit Agricole Bank's strong presence in all regions of Armenia and its commitment to SME lending it could become an effective partner to EDMC, particularly in working with SMEs in the rural areas for the relevant value chains. Since the bank has access to technical assistance and training from Credit Agricole Banking Group, EDMC will develop a pragmatic approach to collaborating with ACBA Credit Agricole if selected as a partner.

Overall Bank Data (as of 30 June 2011)	**Value**
Assets	169.83 billion AMD/ 455,529 million USD
Liabilities	129.44 billion AMD/ 347,180 million USD
Total capital	40.39 billion AMD/ 108,349 million USD
SME Portfolio Data	Value*
Total Loan Portfolio	500 million USD
SME Portfolio	Over 50% of the total portfolio
Average SME loan size	30,000-50,000 USD
Range of SME loan size	3,000 – 200,000 USD
**Data is based on interviews and is approximated by the staff interviewed*	

Bank interviewed on: September 14, 2011

Ameriabank

"Ameriabank" CJSC, former "Armimpexbank" CJSC, is the legal successor of the latter, which was established in 1910 as Yerevan branch of the Caucasus Trade Bank. The 99.99% of the shares of bank belong to TDA Holding Limited Fund - affiliated company of Russian "Troika Dialogue" Company.



The bank has 7 branches: 4 - in Yerevan, one is Karabakh, one in Qadjaran, one in Dilidjan. As of 30 June 2011, the number of bank employees totaled 366.

As of 30 June 2011: total capital - 32 343 090 thousand dram, the assets - 177 440 273 thousand dram, the liabilities - 145 097 184 thousand dram.

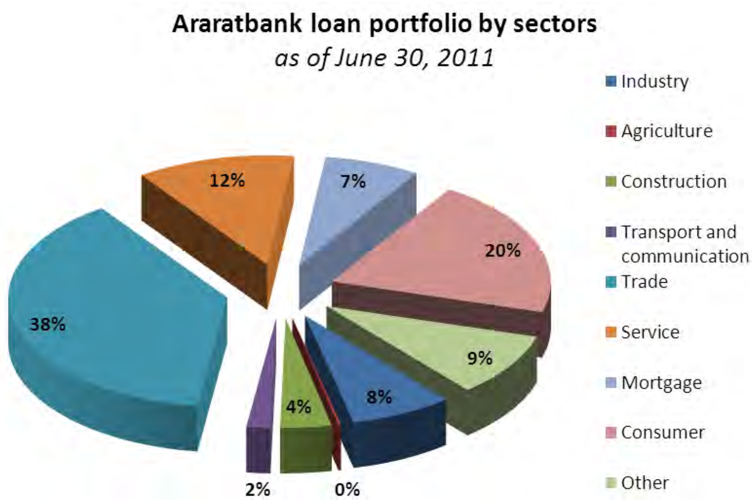
Ameriabank is mainly focused on corporate clients and was interested in exploring possibilities for collaboration with SEAF to identify a pipeline for potential equity investments. Because of its large market share in agriculture logistics Ameriabank could potentially be one of the partners EDMC would work with to create linkages between larger companies and smaller firms in the selected value chains.

Overall Bank Data (as of 30 June 2011)	**Value**
Assets	177.44 billion AMD/477.23 million USD
Liabilities	145.09 billion AMD/390.23 million USD
Total capital	32.34 billion AMD/ 86.98 million USD
SME Portfolio Data	
Corporate Loan Portfolio	58%
SME Portfolio	7%

Bank interviewed on: N/A

ARARATBANK

ARARATBANK was established as a result of the reorganization of Haykapbank, operating on Armenian financial market since 1991. The Bank has been functioning as an open joint stock company since August 2007. Since 30 Jan. 2009 the Bank has been a member of NASDAQ OMX Armenia. Its status of a stock exchange member enables the Bank to trade in all instruments available at the Stock Exchange, including corporate securities, repo agreements, government bonds and foreign currency.



The Bank participates in various international and government lending programs, including World Bank's "Access to Finance", Lending Programs of European Bank for Reconstruction and Development, "Economy Stabilization Lending" of the Armenian government, credit programs of the Swiss Izmirlian Foundation, "Development of Sustainable Market for Housing Finance" program of the German KFW, the mortgage program of the National Mortgage Company UCC.
The Bank has 37 branches, and its service network includes 34 Cashing Centers and 46 ATMs. As of 30 June 2011, the Bank had 417 employees.

EDMC team did not meet with the bank during the initial scoping mission and will be conducting an additional analysis of the institution in the context of partner selection.

Overall Bank Data (as of 30 June 2011)	**Value**
Assets	68.38 billion AMD/ 183.91 million USD
Liabilities	57.24 billion AMD/153.95 million USD
Total capital	11.13 billion AMD/ 29.93 million USD
SME Portfolio Data	
Large enterprises Loan Portfolio	10%
SME Loan Portfolio	42%
Individuals Loan Portfolio	15%

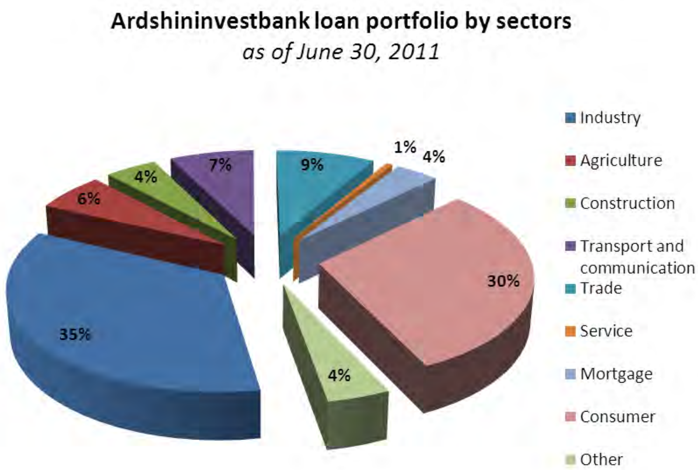
Bank interviewed on: N/A

<u>Ardshininvestbank</u>

The bank was established in December 2002. In 2003 "Ardshininvestbank" acquired considerable part of assets and liabilities of "Ardshinbank" OJSC and "Armagrobank" CJSC together with their network of branches. The shareholders of the bank are "Business Investment Centre" Co Ltd., "International Business Center" CJ CJSC, and "Region" IFK CJSC.

The bank participates in loan programs of the World Bank (Assistance to Agricultural Reforms/ Enterprise Development), the International Organization for Migration (IOM), the "National Center for Small and Medium Business Entrepreneurship of Armenia" Fund.

The bank has 55 branches: 13 - in Yerevan, 36 - in all marzes of Armenia, 6 – in the Nagorno-Karabakh, and has a representative office in Paris. Ardshininvestbank serves approximately 95.000 clients and has over 1,000 employees.



EDMC team did not meet with the bank during the initial scoping mission and will be conducting an additional analysis of the institution in the context of partner selection.

Overall Bank Data (as of 30 June 2011)	**Value**
Assets	128.29 billion AMD/ 345.04 million USD
Liabilities	97.18 billion AMD/261.37 million USD
Total capital	31.1 billion AMD/ 83.64 million USD

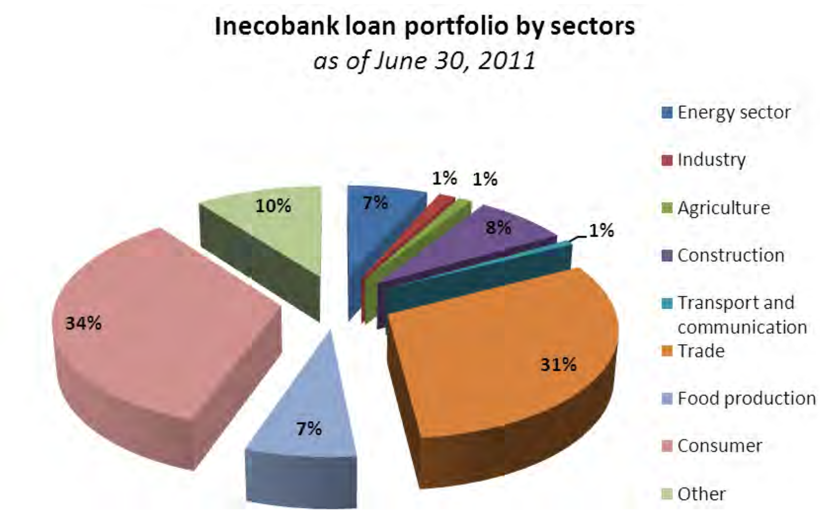
Bank interviewed on: N/A

Inecobank

Inecobank was established in 1996 as an institution with the mission to foster private sector development in Armenia by focusing on Micro, Small and Medium-size Enterprises. Current international shareholders of the Bank are IFC – 10% and DEG – 13.5%. As of April 2011 Incecobank had 464 employees. It has 15 branches in 6 regions.

The bank cooperates with a number of international organizations such as: EBRD within the framework of SME Lending and Trade Facilitation programs; IFC within the framework of SME and Mortgage (real estate purchase and repair) programs; German-Armenian Fund; Black Sea Trade and Development Bank (BSTDB) for lending to exporters and importers from the Black Sea region partner countries; DEG to support start-up and developing businesses; International Foundation of Agriculture Development (IFAD) and World Bank International Development Cooperation Fund to facilitate agricultural and small agricultural finance; KFW Bank within the framework of the "Stable Development of Mortgage Market" program.

Inecobank primarily focuses on serving on micro and SME clients (45% of the total portfolio) and it has an increasing appetite for retail express loans. The bank has been experimenting with introducing new innovative products such as factoring and trade finance (50 clients with a portfolio of 10 million USD).



The bank is interested in developing a client-focused approach to provide appropriate services for its clients, develop new products to increase client retention and attract new clients. With its focus on growth and emphasis on MSME clients, Inecobank could potentially serve as a strong partner for EDMC.

Overall Bank Data (as of 30 June 2011)	**Value**
Assets	68.22 billion AMD/183.48 million USD
Liabilities	54.68 billion AMD/147.06 million USD
Total capital	13.54 billion AMD/ 36.42 million USD
SME Portfolio Data	**Value***
MSME Portfolio	45%
Corporate Portfolio	30%
Mortgage	6%
Other (includes retail)	19%
Range of SME loan size	3,000 – 200,000 USD
**Data is based on interviews and is approximated by the staff interviewed*	

Bank interviewed on: September 17, 2011

Converse Bank

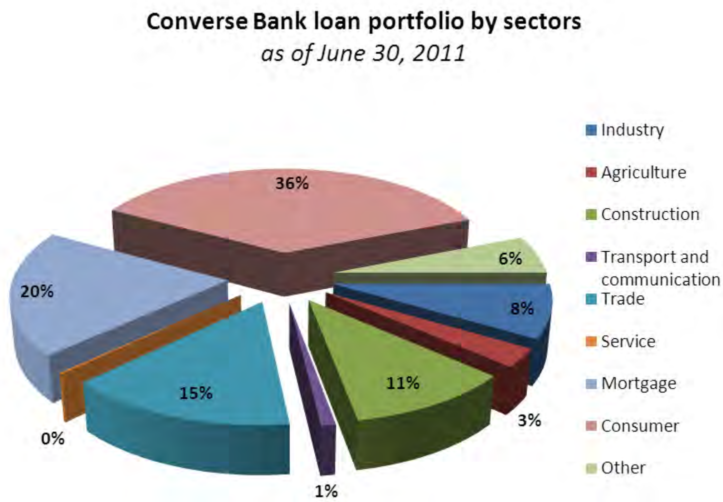
The bank was established in 1993 as a "North Armenian" shareholding bank. In 1997 it was reorganized as "Converse Bank" CJSC. Bank's shareholders are: "Advanced Global Investments" LLC

(President/CEO: Eduardo Eurnekian) – 95%, Mother See of Holy Etchmiadzin Catholicosate H.H. Karekin II, Catholicos of All Armenians, Director – 5%.

The bank participates in a number of loan programs: World Bank ("Small and Medium Business Development" project financing / "Agricultural Reforms" project financing), the U.S. Department of Agriculture ("Marketing Support Financing" project), Armenian-German Fund (Small and Medium Business project financing), the International Fund for Agricultural Development - IFAD (development of rural enterprises and small trade).

The bank has 25 branches: 10 - in Yerevan, 15 - in the marzes of Armenia. In 2010, the number of active customers of the Bank grew by 30% or 16,193, and by the end of the year the number of customers-account holders comprised 69,849 with 93.1% for individuals and 6.9% for legal entities. In 2010, the Bank's loan portfolio was similar to the previous year in the amount of AMD 46.1 billion or 52.1% of assets.

The bank has been experimenting with introducing new innovative products such as factoring, warehouse receipts and leasing, but so far has experienced limited success, partly due to MIS challenges associated with introducing more complex products.



As of 30 June 2011: total capital - 16 733 559 thousand dram, the assets - 81 283 285 thousand dram, the liabilities - 64 549 726 thousand dram.

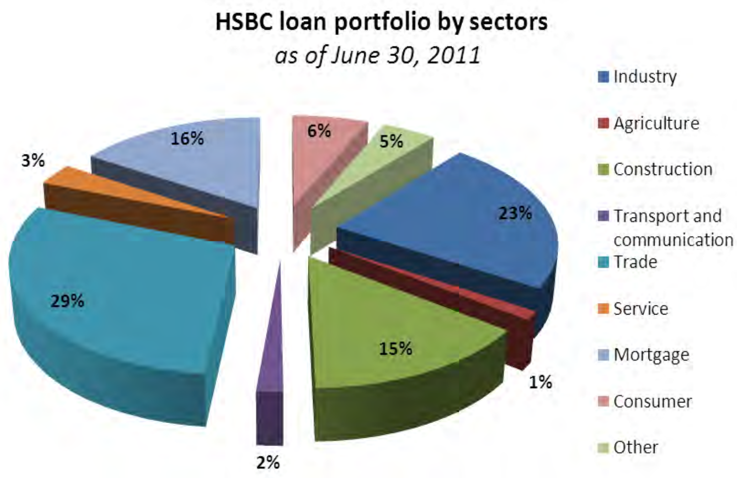
Converse Bank has a strong interest in developing branchless banking and has developed a partnership with Armenian Postal Services for developing "postal banks", currently waiting for additional license permissions from CBA. EDMC will consider partnering with the bank to implement efficient SME outreach activities to firms not served by the current bank infrastructure.

Overall Bank Data (as of 30 June 2011)	**Value**
Assets	81.28 billion AMD/218.61 million USD
Liabilities	64.55 billion AMD/173.61 million USD
Total capital	16.73 billion AMD/45.0 million USD
SME Portfolio Data	**Value***
Large enterprises	33,8%
SMEs	5,3%
Individual entrepreneurs	5,1%
**Data is based on interviews and is approximated by the staff interviewed*	

Bank interviewed on: September 9, 2011

HSBC Bank Armenia

HSBC Armenia started its activity in 1996 as "Midland Armenia Bank" JSC. In 1998 it was renamed into "HSBC Bank Armenia" CJSC. The co-founders of the bank are the HSBC Group - 70%, and investors representing the Armenian Diaspora.



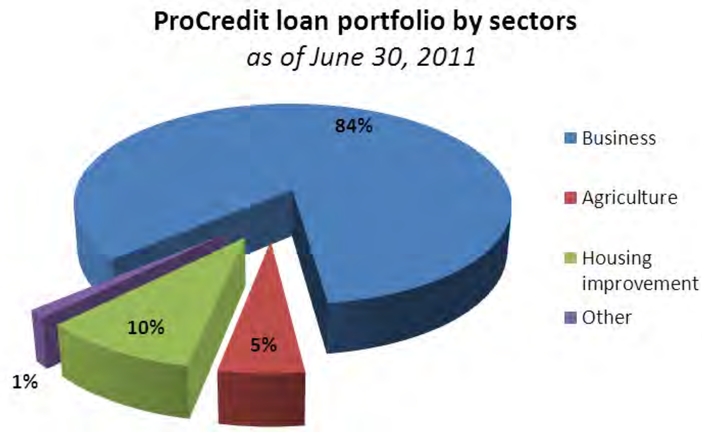
The bank has 7 branches in Yerevan and it solely focused on corporate clients. In 2010 used to have a small SME portfolio but is phasing out form serving this customer segment. As of 31 March 2011, the bank had 384 employees and served 33,233 individuals and 5,284 legal entities.

HSBC Armenia is mainly focused on corporate clients, and could be a partner to support the identification of the pipeline for potential equity investments.

Overall Bank Data (as of 30 June 2011)	**Value**
Assets	155.16 billion AMD/417.31 million USD
Liabilities	127.98 billion AMD/344.21 million USD
Total capital	27.17 billion AMD/73.08 million USD
SME Portfolio Data	**Value**
Large enterprises	50,0%
SMEs	28,0%
Individual entrepreneurs	1,2%

Bank interviewed on: September 20, 201

ProCredit Bank



ProCredit Bank launched its activity in Armenia on February 5, 2008. ProCredit Bank is a full-fledged bank with a 100% foreign capital, focused on offering high-quality banking services to small and medium sized enterprises and private individuals.

ProCredit Bank in Armenia is a member of ProCredit Group, consisting of 21 financial institutions operating in Eastern Europe, Africa and Latin America, which are governed by ProCredit Holding AG located in Frankfurt am Main, Germany.

Shareholders of ProCredit Bank are "ProCredit Holding AG - 68.46% of shares; "European Bank for Reconstruction and Development" (EBRD) – 16.67% of shares; KfW – 14.87% of shares.
ProCredit Bank focuses on serving the micro and small business sector in Armenia, and it differentiates itself in the market by its flexibility in evaluating collateral and entrepreneur's documentation with the main focus on cash flow analysis. It provides business loans up to 10,000

USD without any collateral, jut personal guarantees, and larger loans with a combination of real estate and movable assets.

As a new bank, ProCredit is focused on expanding its market share and its client base. With a commitment to the MSME sector and already having a strong cash-flow credit analysis culture, ProCredit could be a potential partner who will seek to identify new clients within the smaller firms in the value chains selected by EDMC.

Overall Bank Data (as of 30 June 2011)	**Value**
Assets	25.6 billion AMD/68.85 million USD
Liabilities	19.36 billion AMD/52.07 million USD
Total capital	5.7 billion AMD/15.33 million USD
SME Portfolio Data	**Value***
Large enterprises	33,8%
SMEs	5,3%
Individual entrepreneurs	5,1%
**Data is based on interviews and is approximated by the staff interviewed*	

Bank interviewed on: September 19, 2011

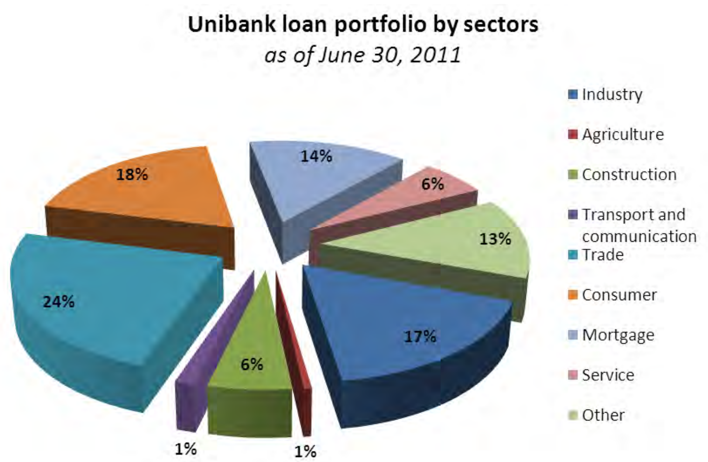
Unibank

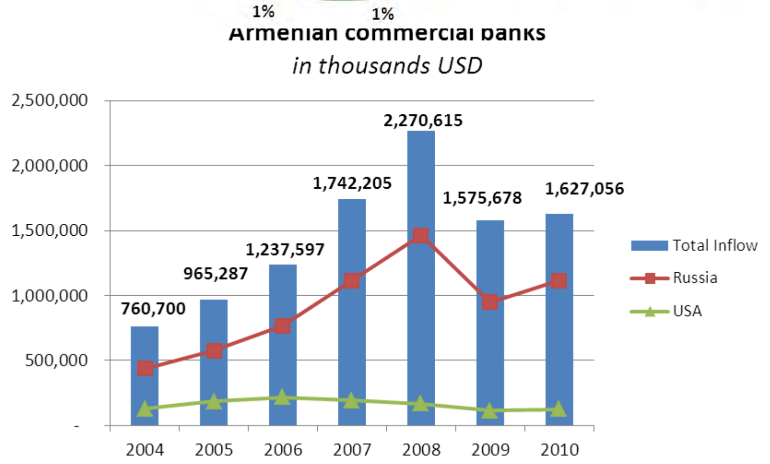
The bank was established in October 2001. The "Unibank" shareholders are Ripatonso Holdings Ltd – 75.43%, Gagik Zakaryan - 12.285%, Georgi Piskov - 12.285%.

The bank is a participant of the IFAD program for supporting the implementation of investments in the rural areas. The bank is a participant of the program of National Center for Assistance to Small and Medium Enterprise Development. The bank is a participant of ABN AMRO International Bank's program on risk management.

The bank has 15 branches in all regions of Armenia, 37 points of service placed in retailed outlets and a representative office in Moscow. The bank has 637 employees.

Unibank is the largest provider of remittances services in Armenia, mainly due to the Unistream money transfer platform used in large for transfers from Russia. In 2010, 595 million USD were transferred through Unibank, while the highest volume was in 2008 with 650 million USD). Unibank has attempted to introduce credit products for regular remittance receivers, but so far this product was met with little enthusiasm.





Unibank has a strong SME portfolio and is open to collaborating with EDMC on developing new products to fit its customers' needs. As the largest provider of remittance services, Unibank is well positioned to develop lending products that link remittances. The bank currently acknowledges the potential of such products but is struggling to develop a product that fits client demands.

Overall Bank Data (as of 30 June 2011)	**Value**
Assets	112.86 billion AMD/303.54 million USD
Liabilities	96.56 billion AMD/259.70 million USD
Total capital	16.29 billion AMD/43.81 million USD
SME Portfolio Data	**Value***
Total Loan portfolio	220 million USD
SME portfolio	40%
**Data is based on interviews and is approximated by the staff interviewed*	

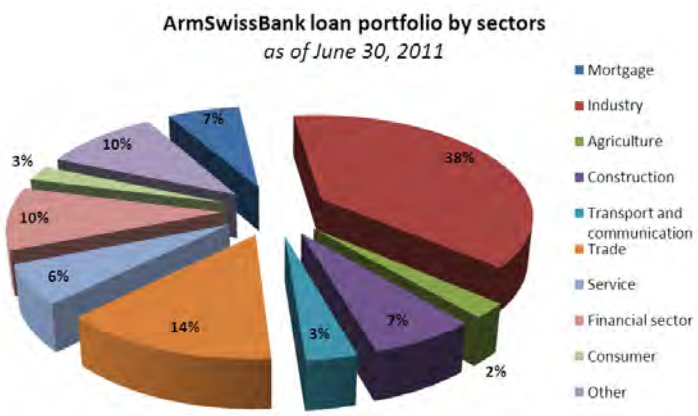
Bank interviewed on: September 19, 2011

Armswissbank

ARMSWISSBANK CJSC was founded on October 7, 2004. The founder and sole shareholder of the bank is the founder, shareholder and CEO of the world-famous watch-making company "Franck Muller Watchland", Vartan Sirmakes.

In 2008 ARMSWISSBANK became a member of Factors Chain International. It cooperates with German-Armenian Fund under "Renewable Energy Development" lending program. In 2006-2007 the Bank participated in initiatives for the securities market development, as well as in institutional reforms through close cooperation with the Central Bank of Armenia and different international organizations (OMX, FSDP).

The Bank has 78 employees. As of 30 June 2011: total capital - 10 040 776 thousand dram, the assets - 38 397 910 thousand dram, the liabilities - 28 357 134 thousand dram.



EDMC team did not meet with the bank during the initial scoping mission and will be conducting an additional analysis of the institution in the context of partner selection.

Overall Bank Data (as of 30 June 2011)	**Value**
Assets	38.4 billion AMD/ 103.28 million USD
Liabilities	28.36 billion AMD/ 76.28 million USD
Total capital	10.04 billion AMD/27.0 million USD

Bank interviewed on: N/A

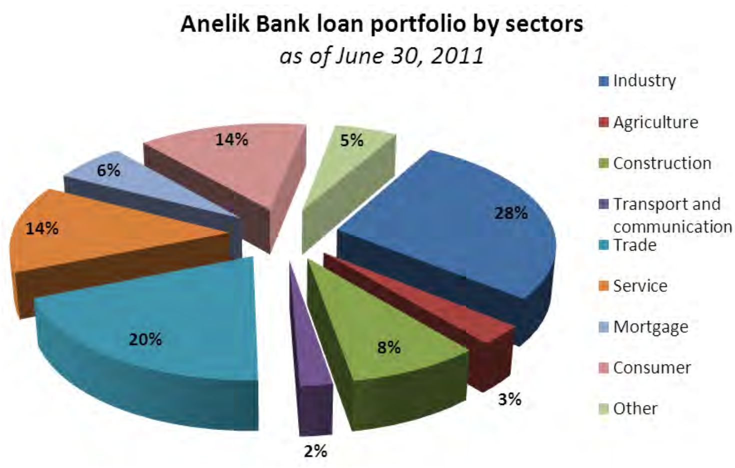
Anelik Bank

"Anelik Bank" was founded on 1 August 1990 as a Shareholding Commercial Bank by enterprises and organizations of Light Industry. The Shareholding Commercial Bank "Anelik" has been registered in 1996 and since then operates as "Anelik Bank".

The bank is involved in international credit programs of European Bank for Reconstruction and Development (EBRD), German-Armenian Foundation (GAF), Agricultural Marketing Service of the U.S. Department of Agriculture (USDA), International Organization for Migration and World Bank.

The bank has 11 branches in Yerevan, Gyumri, Abovyan, Gavar, Echmiadzin and Vanadzor. "Anelik RU" Commercial Bank Co. Ltd has been operating in Moscow since December 2003.

In July 2009 Lebanese Credit Bank has purchased 51% of "Anelik Bank" shares. Previously, "Anelik Bank" had 4 individual shareholders, each holding 25% of the shares. After the deal, the given individuals hold 12.25% of the bank's shares.



EDMC team did not meet with the bank during the initial scoping mission and will be conducting an additional analysis of the institution in the context of partner selection.

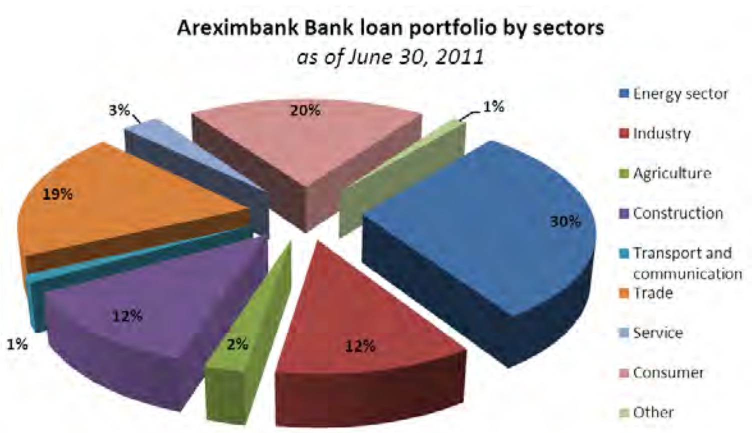
Overall Bank Data (as of 30 June 2011)	**Value**
Assets	63.62 billion AMD/171.11 million USD
Liabilities	47.73 billion AMD/128.37 million USD
Total capital	15.89 billion AMD/42.74 million USD
SME Portfolio Data	**Value**
Large enterprises	34,4%
SMEs	33,2%
Individual entrepreneurs	10,7%

Bank interviewed on: N/A

Areximbank – Gazprombank Group

The Armenian-Russian Export-Import Bank was established in 1998 to support the entrepreneurship and manage the financial flows between Russia and Armenia. Russian "Gazprombank" (Open Joint Stock Company) is the 100% shareholder of "Areximbank – Gazprombank Group" CJC.

As of 30 June 2011: total capital - 15 092 883 thousand dram, the assets - 80 498 277 thousand dram, the liabilities - 65 405 394 thousand dram.



EDMC team did not meet with the bank during the initial scoping mission and will be conducting an additional analysis of the institution in the context of partner selection.

Overall Bank Data (as of 30 June 2011)	Value
Assets	80.5 billion AMD/ 216.51 million USD
Liabilities	65.41 billion AMD/ 175.92 million USD
Total capital	15.09 billion AMD/ 40.59 million USD

Bank interviewed on: N/A

Armenian Development Bank

Bank was established in 1990 and before 1996 it operated as the "Bank for Reconstruction and Development". The bank participated in the following international financial programs: the World Bank's Highway Project (1997-2001); participated in a Small and Medium Enterprises (SME) Lending Program (1999-2002); jointly with the World Bank and the International Agricultural Development Agency it realized loan programs for farmers and processing industry (2000-2003).

The bank serves more than 5,900 clients, 18% of which are legal entities and 82% individuals. The bank has two branches in Yerevan, one in Vanadzor, one in Gyumri and one in Arstakh. Armenian Development Bank has 156 employees and 75 shareholders.

As of 30 June 2011: total capital - 7 461 234 thousand dram, the assets - 31 239 235 thousand dram, the liabilities - 23 778 001 thousand dram.

EDMC team did not meet with the bank during the initial scoping mission and will be conducting an additional analysis of the institution in the context of partner selection.

Overall Bank Data (as of 30 June 2011)	Value
Assets	31.24 billion AMD/ 84.02 million USD
Liabilities	23.87 billion AMD/ 63.96 million USD
Total capital	15.09 billion AMD/ 40.59 million USD

Bank interviewed on: N/A

VTB Bank (Armenia)

The bank was established in 1923 to attract private savings and lend consumer credits to wide layers of the population. Before 1993, it was a part of the USSR State Savings Bank, after which operated as a specialized Savings Bank. In September 2001, the Government of Armenia made a decision to privatize the state "Armsavingsbank" by selling it to ARCH Limited Consortium and MIKA Armenia Trading. In early 2003, the wholeshare package passed on to "MIKA Armenia Trading". In March 2004, the Russian "Vneshtorgbank" purchased 70% shares of "Armsavingsbank". On June 20 2006 the "Armsavingsbank" was renamed into "VTB-Armenia Bank". VTB Bank purchased 30% minus one share from "Mika Armenia Trading" Company and became the full owner of 100% of shares of "VTB-Armenia" Bank.

The bank has 970 employees, 68 branches with 24 branches in Yerevan, the rest in all marzes of Armenia. The bank serves 271,118 clients: 265,517 individuals and 5,601 legal entities.

EDMC team did not meet with the bank during the initial scoping mission and will be conducting an additional analysis of the institution in the context of partner selection.

Overall Bank Data (as of 30 June 2011)	Value
Assets	151.92 billion AMD/ 408.60 million USD
Liabilities	123.28 billion AMD/ 331.57 million USD
Total capital	24.64 billion AMD/ 66.27 million USD

Bank interviewed on: N/A

<u>ArmBusinessBank</u>

The bank was established in December 1994 as the legal successor of the shareholding "Arminvestbank" established in September 1991. In April 2006 Ukrainian "Ukrprombank" purchased 35% shares of the "Arminvestbank". In mid-April the Christies Management Company, registered on the British Virginia Islands, bought the 30% share of the bank and. In June 2006 Ukrainian "Alfa-Garant" Insurance Company purchased the remaining 35% shares of the "Arminvestbank". As of September, 2009, "Armbusinessbank" CJSC shareholders are "Christie Management" Company with 86.99% and "Ukrprombank" LLC with 13.01% of shares.

The bank has 24 branches: 10 in Yerevan, 2 in Gyumri, and branches in Vanadzor, Kajaran, Talin, Armavir, Ararat, Vardenis, and also in NKR – 2 in Stepanakert, and branches in Martuni, Hadrut, Askeran, Martakert.

EDMC team did not meet with the bank during the initial scoping mission and will be conducting an additional analysis of the institution in the context of partner selection.

Bank interviewed on: N/A

<u>Armeconombank</u>

Armeconombank OJSC (the former Armenian Republican Bank "Zhilsotsbank" of USSR) was the first among state-owned banks of Armenia to be reorganized into a joint stock bank, and currently the bank shares are listed on Armenian stock exchange (ArmEx).

The Bank takes active participation in International loan projects of European Bank for Reconstruction and Development /EBRD/, International Finance Corporation /IFC/ (small and medium size businesses finance program) and German-Armenian Fund (micro and small businesses Finance Program). Beginning from October 2006 the bank participates in "Mortgage Market Steady Development" program of German KfW Bank.

Armeconombank has 35 branches (17 in Yerevan, 17 in the regions and one in Nagorno Karabakh). The number of the banks active customers as of September .2010 totals to 80,800 corporate entities and individuals, with majority of them located in Yerevan. As of September .2010 the bank has 1,417 shareholders (17 non-resident shareholders (37.1%)). The major shareholders are Sukiasyan brothers (53.5%), and the European Bank for Reconstruction and Development (25%).

EDMC team did not meet with the bank during the initial scoping mission and will be conducting an additional analysis of the institution in the context of partner selection.

Bank interviewed on: N/A

<u>Artsakhbank</u>

Artsakhbank, CJSC was established on February 12, 1996 on the basis of the Nagorno Karabakh Central Bank and Savingsbank. The bank operates both in Armenia and throughout Nagorno Karabakh considering its mission to assist in economically effective social programs implementation, middle and small entrepreneurship establishment and its further development. Artsakhbank is a universal bank: it offers a wide range of products, presented in the financial market. In Nagorno Karabakh it also serves the state budget of the NKR, as well as the Government and other state agencies.

At present, the Bank has 17 branches, of which 11 perform throughout Nagorno Karabakh and 6 in Yerevan. As at October 1, 2009 the Bank serves 27 329 customers, of which 25 783 are individuals.

The Bank has 414 employees, as at October 1, 2009.

EDMC team did not meet with the bank during the initial scoping mission and will be conducting an additional analysis of the institution in the context of partner selection.

Bank interviewed on: N/A

BTA Bank

BTA Bank CJSC was founded in 1991, being the legal successor of "International Investment Bank" CJSC. In 2008, the bank was provided was renamed "BTA Bank" CJSC. The banks is the strategic partner of "BTA Bank" SC (Kazakhstan), "BTA Bank" SC (Belarus), "Temirbank" SC (Kazakhstan), "Silk Road Bank" SC (Georgia), "BTA InvestBank" CJSC (Russia), "Omsk-Bank" OJSC (Russia), "BTA-Kazan" SCB OJSC (Tatarstan), "BTA Bank" CJSC (Kyrgyz Republic), "BTA Bank" OJSC (Ukraine).

BTA Bank services 8464 individuals and 474 legal entities through 4 branches in Yerevan and one in Gyumri. As of July 1, 2011 the number of bank employed 145 staff.

EDMC team did not meet with the bank during the initial scoping mission and will be conducting an additional analysis of the institution in the context of partner selection.

Bank interviewed on: N/A

Byblos Bank Armenia

Byblos Bank Armenia started its activity in 1992CJSC as the legal successor of "ITB' International Trade Bank". In April, 2000, the shares of the bank were acquired by foreign companies which later joined the Makarios Group Holding. In 2007, 100% of the bank shares were acquired by one of the major Lebanese banks "Byblos Bank" S. A. L, which operates in France, Belgium, England, Syria, Iraq, Cyprus, Sudan, etc.

The basic mission of the bank is to provide quality and modern banking services to individuals with average income, as well as to medium and big entrepreneurs. In the nearest future, the bank will continue working on expanding the services' range, offering its consumers improved and more convenient banking products, in particular, in the sphere of retail banking services.

EDMC team did not meet with the bank during the initial scoping mission and will be conducting an additional analysis of the institution in the context of partner selection.

Bank interviewed on: N/A

Mellat Bank

Mellat Bank was established in 1995 within the framework of the bilateral agreement on Partnership, friendship and neighborly relations between the Republic of Armenia and the Islamic Republic of Iran, signed in 1992. The only owner of 100% bank capital is the Iranian "Mellat" state bank.

EDMC team did not meet with the bank during the initial scoping mission and will be conducting an additional analysis of the institution in the context of partner selection.

Bank interviewed on: N/A

Prometey Bank

The "Prometey" commercial bank was established in 1990. The bank is the shareholder of "Armenian Card" CJSC and the full member of "ArCa" payment system, the affiliated member of MasterCard payment system, the member of SWIFT system, the member of Anelik, MIGOM, Contact, MoneyGram money transfer systems for individuals.

The shareholders of the bank are "Prometey-City" Ltd (49,975%), "ZNGS-Prometey" CJSC (46,125%), and a citizen of the Russian Federation Vazgen S. Gevorgyan (3.9%). The bank has 5 branches in Yerevan and Gyumri, and as of 31 December 2010 it had 129 employees.

EDMC team did not meet with the bank during the initial scoping mission and will be conducting an additional analysis of the institution in the context of partner selection.

Bank interviewed on: N/A

ANNEX 5: SUMMARY DATA OVERVIEW OF COMMERCIAL BANKS

	Commercial Banks Summary Financial Indicators						
	as of June 30, 2011 (in thousands)	**Assets (AMD)**	**Assets (USD)**	**Liabilities (AMD)**	**Liabilities (USD)**	**Equity (AMD)**	**Equity (USD)**
1	ACBA Credit Agricole	169,834,986	$455,529	129,439,099	$347,180	40,395,887	$108,349
2	Ameriabank	177,440,273	$475,928	145,097,184	$389,178	32,343,090	$86,750
3	Anelik Bank	63,624,187	$170,652	47,737,659	$128,041	15,886,528	$42,611
4	Ararat Bank	68,367,073	$183,373	57,236,985	$153,520	11,130,088	$29,853
5	Ardshininvestbank	128,292,219	$344,104	97,183,097	$260,663	31,109,122	$83,441
6	Areximbank – Gazprombank Group	80,498,277	$215,911	65,405,394	$175,430	15,092,883	$40,482
7	ArmBusinessBank	143,687,224	$385,396	124,987,798	$335,241	18,699,426	$50,155
8	Armeconombank	59,766,140	$160,304	50,801,787	$136,260	8,964,353	$24,044
9	Armenian Development Bank (ADB)	169,834,986	$455,529	129,439,099	$347,180	40,395,887	$108,349
10	ArmSwissBank	38,397,910	$102,990	28,357,134	$76,059	10,040,776	$26,931
11	ArtsakhBank	62,025,570	$166,364	52,452,039	$140,686	9,573,531	$25,678
12	BTA Bank	9,052,017	$24,279	3,601,982	$9,661	5,450,035	$14,618
13	Byblos Bank Armenia	34,922,106	$93,668	26,167,785	$70,187	8,754,321	$23,481
14	Converse Bank	81,283,285	$218,017	64,549,726	$173,134	16,733,559	$44,883

15	HSBC Bank Armenia	155,157,200	$416,161	127,983,946	$343,277	27,173,254	$72,884
16	InecoBank	68,217,727	$182,973	54,682,551	$146,669	13,535,176	$36,304
17	Mellat Bank	43,555,101	$116,823	33,808,249	$90,680	9,746,852	$26,143
18	ProCredit Bank	25,059,096	$67,213	19,360,149	$51,928	5,698,947	$15,286
19	Prometey Bank	33,416,503	$89,629	15,294,521	$41,023	18,121,982	$48,607
20	UniBank	112,859,067	$302,709	96,564,560	$259,004	16,294,507	$43,705
21	VTB Bank Armenia	151,921,906	$407,483	123,280,285	$330,661	28,641,621	$76,822

ANNEX 6: A2F QUALITATIVE SURVEY TOOL - DRAFT

	EDMC Access to Finance Qualitative Survey (DRAFT)			
Sectors	Tourism	Agribusiness	Information Technology	Construction Materials
Subsector				
Type of SME				
Ownership type				
Single owner				
Joint-stock				
LLC				
SME Financing Usage				
Degree of accessing commerical financing services (Difficult-Easy)				
Using commerical financial products within last year				
Main source of awareness of financing				
Are you getting all of the financial services from the same institution?				
Names of financial institutions being used				
Main needs for financing that are not being met				
Main obstacle to accessing financial services				
Product types used or needed				
Working Capital Loan				
Fixed Asset Loan				
Equipment Leasing				
Insurance (crop, liability, equipment)				
Accounts Recievables Financing				
Factoring (selling account receivables at discount to raise cash)				
Warehouse Receipt Financing				
Trade Finance Products (exporting)				
Wire transfers				
Mobile banking, internet banking				
Foreign investment				
Inter-chain finance cash flows				