

## AGRICULTURAL LENDING PROBLEMS AND WAYS OF IMPROVEMENT IN THE ARTSAKH OF REPUBLIC

**Tatevik VERDYAN**

Ph.D. in Economics, Senior lecturer at Shushi University of Technology

**Lusine HARUTYUNYAN, Anush HARUTYUNYAN, Fatma ARZUMANYAN**

Senior lecturers at Shushi University of Technology

**Elza MANGASARYAN**

Assistant at Shushi University of Technology

Key words: agriculture, lendings and loans, support, state programs, credit organizations

**Introduction.** Agriculture has a special place in the real sector of any country, which is one of the most important areas that determines the development of the economy, the employment of the population, and their socio-economic level. At the heart of solving a number of problems facing agriculture is the issue of financing agriculture. Financing refers to both the process of raising private capital and state subsidies, the implementation of various financing and lending programs through public competition.

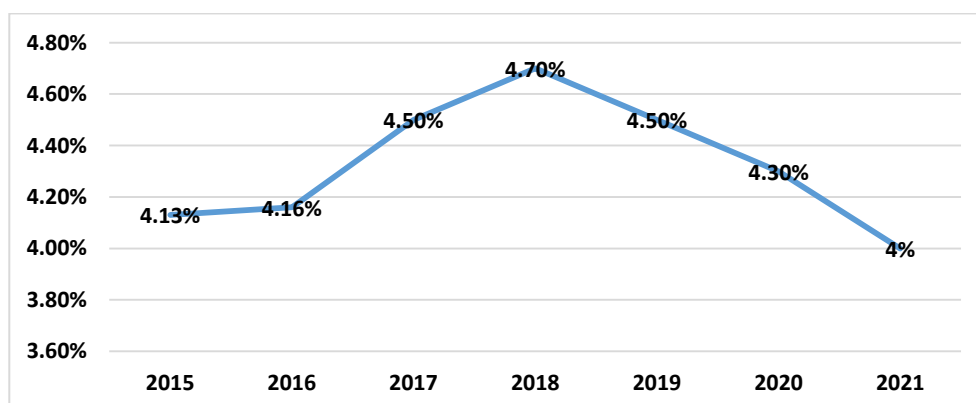
Lending to agriculture is still one of the most important problems in the sector due to inaccessible lending terms, such as collateral, interest terms and interest rates, which are difficult to access for most farms.

**Methodology.** The work used the content analysis of documents related to the research topic. A statistical method of data analysis was used with the development of appropriate graphs for a more convenient presentation of information. Also, we used the method of comparative analysis.

**Literature review.** The informational basis for the article are the works of Armenian and foreign economists. The sources of literature and analytical data is taken from a number of sources of the Government of the Republic of Artsakh, including data from the National Statistical Service of the Republic of Artsakh, Ministry of Agriculture of the Republic of Artsakh.

**Analysis.** Agriculture is one of the key sectors of the economy of the Artsakh Republic, which as of 2018 provided more than 11% of the country's gross domestic product, and in 2021 in the post-war period - about 5.5% [HNA, 2021].

Examining the share of agriculture in the budget expenditures of the republic, it is obvious that the means directed from the budget to agriculture in 2015-2021 have decreased.



**Figure1.** The share of agriculture in budget expenditures, %

Considering the targeted use of state funds and the implementation of subsidies, it should be clearly known that, unfortunately, the means of lending and subsidizing can not yet solve the problem of financing in the sector.

This requires reforms that will, in essence, facilitate the use of private capital provided by banks and financial institutions for the purposes of agricultural production. Therefore, in this regard, market lending mechanisms should be in place, where agricultural lending is mutually beneficial for both financial institutions and farms, providing volumes that can develop agricultural specializations, while activating the activities of farms that are a major part of the sector [ 2. Bayadyan, 2016, p.104].

Agriculture is financed through the banking system and financial opportunities provided by the state.

**Table 1.** Volumes of agricultural crediting by commercial banks in 2017-2021, mln AMD [http://stat-nkr.am, finans,2021 ]

	2017	2018	2019	2020	2021	Deviation (+ , -) 2021/2020	
						Absolute	Relative %
Total	118825,1	150025,7	167354,1	192801,9	206294,9	13493,0	6,9
Agriculture	998,8	1212,5	1810,3	2137,2	2829,6	692,4	32,4
% in total	0,84	0,80	1,08	1,11	1,37	0,26	23,4

2017-2021 lending by commercial banks has been growing steadily, with a growth of 32.4% in the agricultural sector in 2021.

Loans to agriculture from non-banks have been reduced. If compared to 2017, the loans provided to agriculture in 2021 decreased by 2977.2 million drams or 38.2%, then compared to the data of 2019, a 28% increase was registered. (table 2).

**Table 2.** Loans provided to agriculture by non-banking organizations 2017-2021 [stat-nkr.am], (million AMD)

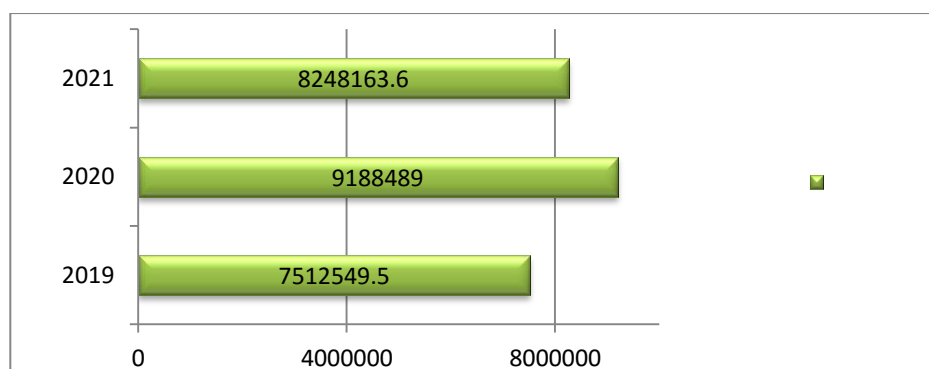
Years	2017	2018	2019	2020	2021	Deviation (+, -) 2020/2019	
						Absolute	Relative %
Total	33032.8	35645.2	17853.5	18660.2	21622.8	2962,6	15,9
Agriculture	7788.3	6047.2	3757.3	4384.5	4811.1	426,6	9,7
% in total	23.5	16.9	33.8	23.4	22,3	-1,1	-4,7

By providing credit management guarantees, the state promotes preferential lending to those organizations and branches whose activities correspond to the targeted programs of economic development [Asatryan, 2004, 245]

Significant work has been done in terms of agricultural sector development and credit regulation in Artsakh by the Rural Agricultural Support Fund (RFAS) of the Republic of Artsakh. For many years it has implemented measures aimed at the development of agriculture in Artsakh, ensuring the necessary level of food self-sufficiency in the country, balanced territorial development.

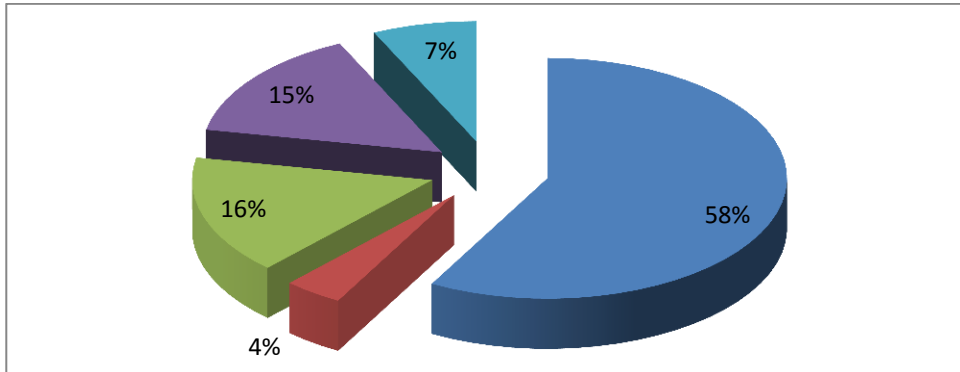
In 2020 the Rural Agricultural Support Fund (RFAS) of the Republic of Artsakh also continued the implementation of activities arising from the strategic program for the development of agriculture of the Artsakh Republic, the purpose of which is to conduct intensive agriculture, supplementing the resources lost due to the 44-day Artsakh war, by building greenhouses, creating intensive orchards and cultivating valuable crops, breeding livestock.

In 2020 the support provided by the fund increased by 22.3% as compared to the previous year, and in 2021 it amounted to 8248163.6 thousand AMD, which is 10% less than the previous year (Figure 2).



**Figure 2.** Support provided by the Rural Agriculture Support Fund of the Artsakh Republic in 2019-2021 (thousand drams)

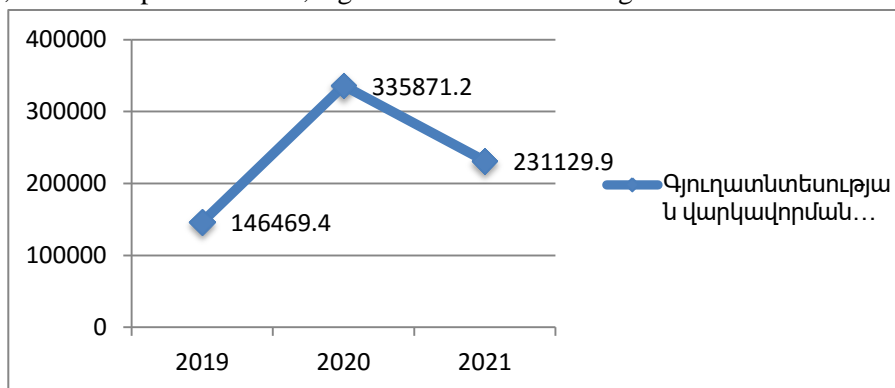
In 2021 the majority of the support structure provided by the Fund was in the form of loans, gratuitous assistance and direct sales, which accounted for 58% of the total support, 16% of gratuitous assistance, and 15% of direct sales (Figure 3).



**Figure 3.** Support structure for agricultural development in Artsakh Republic, 2021

In 2021, 58% of the support provided by the Fund was through loans.

The volume of agricultural crediting by the Village Agriculture Support Fund in 2021 has decreased compared to the previous year, amounting to 231,129.9 thousand AMD, while compared to 2019, a growth of 57.8% was registered.



**Figure 4.** Volumes of agricultural crediting (thousand drams)

In post-war Artsakh, agricultural loans are provided not only by the Village Agricultural Support Fund, but also by FIDES UCO CJSC, where the following conditions for providing agricultural loans are available (Table 3).

In 2021, the following commercial banks cooperated with the Fund in the process of providing agricultural loans: "Armbusinessbank" CJSC, "Artsakhbank" CJSC and "Converse Bank" CJSC.

**Table 3.** Terms of agricultural loans

		"Fides" UCO CJSC	RFAS of the AR
1	Loan currency	AMD	
2	Annual interest rate	6%	2%
3	Date	Up to 60 months	7 years
4	Loan amount	1.000.000-20.000.000 AMD	100.000-1.500.000 RA
5	The method of granting a loan	One-time, phased, cash, non-cash	
6	Subject of pledge	Agricultural equipment, real estate, mechanisms, vehicles, etc.	Collateral, guarantor or guarantee

**Conclusion.** The analysis shows that there are a number of problems in the process of agricultural lending, most of which are related to the subject of collateral, foreign currency lending, lack of agricultural insurance, consulting and information system.

Considering that agriculture is quite sensitive to financing due to the weak level of development of agricultural lending and the many problems that have arisen in the process, in terms of the large-scale development of the agricultural lending system and increasing its accessibility, the importance of implementing state support programs are attached.

The growth of agricultural lending has a direct impact on the growth of gross agricultural output. In other words, gross agricultural output, among other factors, is quite sensitive to financing, access to financing on affordable terms can significantly contribute to the further growth of agricultural activity.

Given that agriculture is quite sensitive to financing due to the weak level of development of agricultural lending and the many problems that have arisen in the process, the implementation of state support programs in terms of large-scale development of the agricultural lending system and increasing its accessibility.

State-sponsored loans provided by commercial banks and credit organizations are essential for the advancement of economic entities. However, in terms of agricultural support, it is still incomplete without insurance. In particular, it is necessary to develop a system in which, in case of borrowing from commercial banks and credit organizations by economic entities, the expected crop of the villager must be insured, which will make up the amount of the loan taken. Moreover, the sum insurable must be 3-5% of the loan taken. At the request of the bank, the economic entities must first sign an insurance contract with the insurance company, after which the bank will agree to provide a loan to the villager. Thus, economic entities will receive compensation in case of damage from insurance companies, will be able to repay the loan without difficulty, will not have to demand compensation from the state for the loss.

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**Tatevik VERDYAN, Lusine HARUTYUNYAN, Anush HARUTYUNYAN, Fatma ARZUMANYAN, Elza MANGASARYAN**

**Agricultural lending problems and ways of improvement in Artsakh Republic**

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In the Republic of Artsakh, agriculture is considered as a sphere of national security, regardless of its development, it has been and will remain one of the leading branches of the economy. In general, providing the necessary preconditions for the further development of the sector and transition to the innovative path requires significant financial resources. In connection with all this, it is vital for agricultural producers to find a reliable and affordable source of financing, including the possibility of lending to commercial banks and credit organizations, which can be one of the most effective ways to solve the problems facing the agri-food system, contributing to competitiveness and rural strengthening of territories. Based on the study of the credit policy implemented in the agricultural sector of the Republic of Artsakh, the article substantiated the need for lending, clarified the existing problems, and pointed out the ways to improve the lending process.