



The European Union's Neighbourhood Programme

*Assessment of the Agriculture and Rural
Development Sectors in the Eastern
Partnership countries*

The Republic of Armenia



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List of abbreviations

AAP	Annual Action Plan
ARD	Agriculture and Rural Development
AMD	Armenian Dram, national currency, (534 to the EUR September 2012)
AOAF	Armenian Organic Agriculture Foundation
BSEC	Black Sea Economic Cooperation
BSP	Budget Support Programme
CIB	Comprehensive Institution Building
CIS	Commonwealth of Independent States
CNFA	Citizens Network for Foreign Affairs
EaP	Eastern Partnership
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EU	European Union
Eurostat	European Statistical Service
DCFTA	Deep and Comprehensive Free Trade Area
DCI	Instrument for Development Cooperation
DG AGRI	Directorate General for Agriculture and Rural Development
DG DEVCO	Directorate General for Development and Cooperation - EuropeAid
DANIDA	Danish International Development Agency
EEN	Enterprise Europe Network
EIA	Environmental Impact Assessment
ENPARD	European Neighbourhood Programme for Agriculture and Rural Development
ENPI	European Neighbourhood and Partnership Instrument
ENRTP	Environment and Sustainable Management of Natural Resources
EPR	Environmental Performance review
EUD	Delegation of the European Union
FAA	Federation of Agricultural Associations
FADN	Farm Analytical Network
FAO	Food and Agriculture Organisation of the United Nations
FCCC	UN Framework Convention on Climate Change
FDI	Foreign Direct Investment
FSP	Food Security Programme
GUAM	Organization for Democracy and Economic Development
IDP	Internally Displaced Person
IFOAM	International Federation of Organic Movements
INOGATE	Interstate Oil and Gas Transportation to Europe
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
MCA	Millennium Challenge Account
MDG	Millennium Development Goals
MoA	Ministry of Agriculture
MoE	Ministry of Economy
MoF	Ministry of Finance
MTA	Ministry of Territorial Administration
MTEF	Medium Term Expenditure Framework
NSA	Non-state actors
PFM	Public Financial Management

PPP	Purchasing Power Parity
RA	Republic of Armenia
SDC	Swiss Development Cooperation
SIF	Social Investment Fund
SIGMA	Support for Improvement in Governance and Management
SME	Small and Medium Enterprise
SPNA	Specially Protected Natural Areas
SPS	Sanitary and Phytosanitary
SPSP	Sector Policy Support Programme
TAIEX	Technical Assistance and Information Exchange (DG General Enlargement)
TCP	Technical Cooperation Project
UNECE	United Nations Economic Commission of Europe
UNDP	United Nations Development Programme
UNEP	United Nations Environmental Program
USAID	the United States Agency for International Development
USDA	The United States Department of Agriculture

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1. Introduction

1.1. Context and objective of the sector analyses

Many of the Eastern Partnership countries have a rural population relying to some extent for their livelihoods on small, and divided land plots, and communal or state owned pasturelands. These small-holders have very limited resources with little growth potential. The products from these lands are often only for subsistence purposes. The selling of any surpluses is made difficult by limited links to organised markets, and access to, or lack of, processing, storing, handling, packing or distribution facilities.

Donors are already providing assistance, including EU and FAO, but the current global crisis with soaring food prices among other consequences, have demonstrated the need of EaP countries to further enhance the formulation of agriculture policies aimed to support small-scale farmers and farmers' associations, support private and public stakeholders in the agricultural sector, increase agriculture production on a sustainable basis, and modernize both, agriculture and rural areas.

A general assessment of the agriculture and rural areas will be crucial for developing proper strategies for the agriculture and rural development sector. These studies will contribute to assess the situation in the sector, prioritise and target sub-sectors, areas of intervention and beneficiaries in consultation with the local public and private stakeholders.

The overall scope of the project is in line with the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) an EU initiative built in the EU's best practice experienced in developing agriculture and rural areas. Based on the results of this project, ENPARD programmes and activities could be identified, elaborated and implemented in interested EaP countries.

1.2. Study Team

This report was conducted by the following team:

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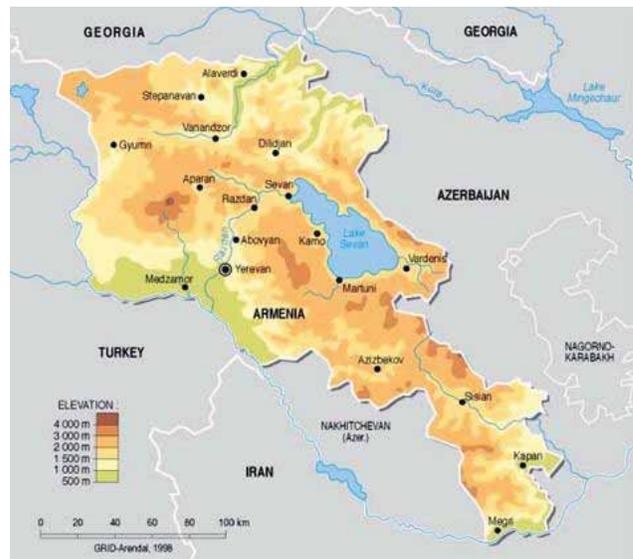
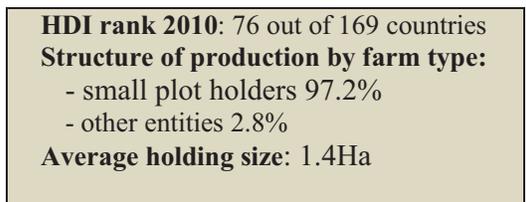
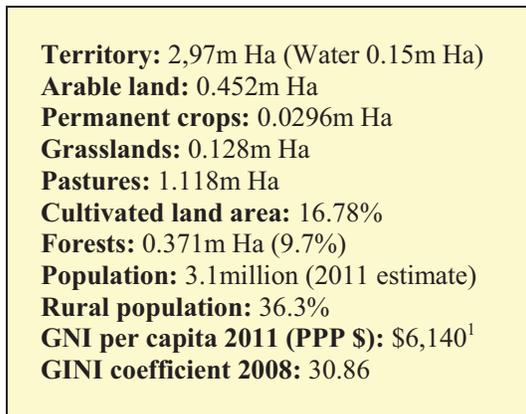
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2. Background and key figures

2.1. General context and economic indicators

Geography

Armenia is a mountainous, landlocked country in the South Caucasus, covering 29,800 Km². More than 90% of its territory is located above 1,000 m. The altitudes of the territory of Armenia vary between 380 m above sea level for the lowest point in the valley of the Debed River, to 4,090 m above sea level at the highest peak of Mount Aragats. The climate is highland continental with hot summers and cold winters.



Administrative regions

Armenia is subdivided into ten administrative divisions, or provinces (marzes). Within each province are self-governing communities, consisting of one or more settlements. Communities are classified as either urban or rural. Currently, there are 915 communities, 49 urban and 866 rural administrative communities. The capital, Yerevan, also has the status of a community and is divided into twelve semi-autonomous districts.

Economy and trade

¹ Source: World Bank data

The economy went into steep decline in 2009, GDP falling by 14.4% to \$16.25 billion, as compared to 2008, due to the global economic crises. This fall was one of the biggest declines in the world. The economy has now recovered to the pre-2009 level, reaching \$18.17 billion (2011, PPP), with an official unemployment rate of 6.2%. In 2011 economic growth increased further by 4.6%, and growth is expected to be around 4% in 2012. Industry contributes more than half of the growth figure, especially the mining sector and, to a lesser extent, agri-industries. Industrial output has increased from the pre-crisis period by 17.5% and agriculture output by 8.1%.

Exports amounted to \$1.3 billion in 2011, made up mainly from pig-iron, unwrought copper, nonferrous metals, diamonds, mineral products, food and beverages and energy. The food and beverage element of exports reaches \$230m, predominantly brandy (64%). Imports stood at \$3.4 billion, the food and beverage element at \$702m. The agricultural import content of total imports stands at around 21%.

Bilateral trade with the EU increased in 2011 as compared to 2009: EU exports to Armenia increased by 15.7%; EU imports from Armenia increased by 23.3%. Armenia is engaged in progressing the implementation of key recommendations for the launching of negotiations on a DCFTA, to further enhance trade relations. In particular, this relates to legislative and institutional reforms in the areas of Technical Barriers to Trade, Sanitary and Phytosanitary Standards and Intellectual Property Rights, and in adopting a Food Safety Strategy.

Despite the recovery, the Armenian economy still remains vulnerable, as witnessed by the large current account deficit. Vulnerabilities include an undiversified export sector, limited access to foreign markets and a large dependence on remittances. The export structure is still resource-based with predominantly a low value added component and an unbalanced structure, which calls for a broadening of the economic base and diversification of the export structure. Among the efforts undertaken by the GoA for export development is the adoption of export-led industrial policy aimed at identification of the sectors with the greatest export potential, so as to provide support to those sectors.

Population

The population of Armenia is 3.1 million (2011) with an annual population growth rate of 0.107%. Two thirds of the population live in Yerevan, the capital, and the three adjacent provinces (marzes): Armavir, Ararat and Kotayk.

Province	Population	%	Density /km ²
Yerevan	1,188,877	38.35%	5,196.4
Armavir	255,861	8.25%	206.2
Ararat	252,665	8.15%	126.1
Kotayk	241,337	7.78%	114.9

The remaining third of the population live in sparsely populated and mountainous rural areas, where a low-input, subsistence and semi-subsistence farming is important as a source of livelihood. Armenia is classified by FAO among the countries with a moderately high level of hunger with 21% of undernourished population (FAO)². Due to the global recession, including rising food prices, poverty levels in 2008 – 2011 have increased from 27.6% to 35.8%, with more or less equal levels of poverty in rural and urban areas

² Food Security and Agriculture Highlights, Jan-March 2012, Food security indicators: www.foodsec.org/ar

The single most important source of non-farm income is the seasonal migration of male workers to other countries in the CIS. Male migration results in one third of households in Armenia being headed by a woman, with a rising trend especially in rural parts of the country. Households headed by women are likely to be the poorest households. An IMF analysis shows that remittances, in the period since a peak of 19% share of GDP in 2004, have averaged 16% of GDP. That remittances are a critical source of FX inflows for Armenia, averaging 38% higher than total exports, twice higher than FDI, eight times higher than bank flows, and four times higher than official government inflows to Armenia. That they finance around 40% of imports. Armenia is one among the 15 largest remittances recipients in the world, 89% originating from Russia, mostly in USD and transferred through the banking system

State finance

The State consolidated budget of 2012 consists of revenues of 938.5 billion AMD - about \$2.3b³, (taxes revenues, state and social insurance fees, official grants and other revenues), expenditure of 1071.0 billion AMD, with a deficit of 132.5 billion AMD (around \$0.33b). The consolidated community budgets show revenues of 93.7 billion AMD, including grants from the state budget, and expenditures of 93.7 billion AMD. The budget deficit improved from 5% in 2010, due to the economic rebound and fiscal consolidation, with a 3.1% budget deficit projected for 2012.

An IMF three-year lending programme of \$404 million was launched in June 2010, a \$50.7 million tranche released in June 2012. This disbursement raises to almost \$270 million the total amount of low-interest funds allocated to the Armenian government and Central Bank under the scheme. Russia granted a stabilisation loan to Armenia in 2009 for \$500 million, on undisclosed terms.

EU relations

In September 2012 the EU announced bilateral assistance to Armenia under the ENPI of € 157 million for 2011-2013, double the amount for the previous period. On top of that, an additional € 15 million has been allocated for 2013 under the *'More for More'* principle. The Financing Agreement under the ENPI Action Programme 2011, includes a Framework Programme in support of the EU-Armenia agreement –€ 19.1 million (mainly CIB to support the DCFTA) and support for the implementation of the ENP Action Plan and preparation for the future EU Association Agreement -€ 24 million.

³ 1 \$ = 405 AMD (Oct 2012)

2.2. Agriculture and the rural sector

At the end of the 1980s, the combined effects of a serious earthquake, the break-up of the Soviet Union, and the conflict over Nagorno-Karabagh, led to a sharp increase in the level of poverty. Armenia also implemented one of the most comprehensive land reform programs in the former Soviet Union states. Land reform was initiated in 1991, and by mid-1994 most of the agricultural land had been privatized. As a result, around 340,000 private farms were created, but with a lack of suitable machinery and equipment, water for irrigation and knowledge of good farming practices. Lands were divided into more than 1.2 million plots with an average of three separate land parcels per farm. On average, a private farm has 1.4 hectares of farmland, including 1.06 hectares of arable land.

The reform brought numerous problems since the farming and marketing systems were structured to the standards of large agricultural enterprises. Like in many other countries in the region, there was a transfer of a substantial percentage of the non-agricultural labour force to agricultural activities, following the collapse of collective and state farming, land privatization, and formation of the small rural farms. For many households this was the main post-transition coping strategy. This resulted in about a twofold increase of employment in agriculture, compared with the pre-reform period.

Agriculture is a major economic sector in Armenia, accounting for 18.6% of GDP in 2010 (25.5% in 2000), employing 38.6% of the population in 2010 compared to 18.6% in 2000. The major part of gross agricultural product, 97.2%, is produced by peasant farms and 2.8% by agricultural organizations.

Agriculture growth rates have fluctuated considerably over the last decade. However agriculture has maintained its central importance to employment and rural incomes, as well as to domestic food supply, and as a source for expansion of exports in food and beverage products. According to the latest Rural Employment Survey, total average household income (including own consumption) from crop and livestock production, and processing amounts to around 45,000AMD, around \$110, per month (from crop production and processing two thirds, from animal production one third, correlating with overall production figures showing 68% from crops and 32% from livestock production).

Fertile volcanic soil allows cultivation of wheat and barley as well as grazing for animals. Irrigated crops include apricots, peaches, plums, apples, cherries, walnuts, quince, figs, pomegranates other fruits and grape, the basis for the world-known brandy. Armenia has limited land resources - arable land (hectares per person) only 0.15Ha in 2009 (FAO⁴), arable land constituting only 16.8% of the total country land area. Agricultural production is heavily biased toward crops, which in 2006 accounted for 64% of gross agricultural output. Irrigation is required by most crops. However, the cheap energy cost regime of Soviet time allowed for the building of an electrically powered irrigation system. Consequently, combined with a fragmented pattern of land use, the 1990s crisis led to a collapse in the use and dilapidation of the irrigation network.

The effective organization of agricultural production is seriously hindered by the small sizes of farms created by land reform and bad practices in agriculture. The dynamics of land use is a key

⁴ Land under temporary crops (double-cropped areas are counted once), temporary meadows for mowing or for pasture, land under market or kitchen gardens, and land temporarily fallow. Land abandoned as a result of shifting cultivation is excluded.

problem, and indicator. In 2010 the total agricultural crop area was 2.83m Ha, compared to 3.0m Ha in 2009. Only feed crops have increased - by less than 2% in 2010 as compared to 2009.

Land Tenure and Use

The legal basis for land privatization was the Land Code adopted in 1991 and the “Law on Agricultural and Rural Collective Farms”. These legal acts provided regulations for the multiple forms of land ownership: state, private and collective farms. The arable lands and perennial plantations were privatized while the pastures and hayfields remained the property of state and municipalities which could be rented or granted rent-free for long-term use. Some of them were later auctioned.

As of July 1, 2012, private sector, i.e. the farmers, 340,000 private farm households, and commercial entities own about 22.1% of agricultural land, 47% are under community ownership, and 30.2% belong to the state. The private sector share is especially high in arable land (71.8%) and perennial plantations (90.4%).

State Statistics show that 32% of land is not used, for reasons that include proximity to dangerous or mined zones near the Armenia-Azerbaijani border, some arable lands are remote from the settlements, or too small to farm., This results in a low level of cultivation of arable land: in 2010 this amounted to only 63% utilisation, implying that 0.17m Ha of arable land, about 37% of the total, was not cultivated in 2010.

Structure of Agricultural Lands by Land Type and Ownership (as of 01.07.2012)⁵

	Land Type	Total	Land Title, 000's Ha				
			Farm households	Legal Entities	Commune	State	Foreign
1	Arable Land	448.5	322.2	2.4	109.8	12.8	0.1
		100	71.8%	0.5%	24.5%	2.9%	0.0%
2	Perennial crops	33.4	30.2	1.1	2.1	0.01	0.002
		100.0	90.4%	3.3%	6.3%	0.0%	0.0%
3	<i>Incl. orchards</i>	19.2	17.2	0.5	1.5	0.0	0.0
		100.0	89.6%	2.6%	7.8%	0.0%	0.0%
4	<i>Vineyards</i>	14.2	13.0	0.6	0.6	0.0	0.0
		100.0	91.5%	4.2%	4.2%	0.0%	0.0%
5	Hayfields	121.6	56.3	0.3	34.5	30.5	0.0
		100.0	46.3%	0.2%	28.4%	25.1%	0.0%
6	Pastures	1056.3	16.7	11.5	571.6	456.4	0.1
		100.0	1.6%	1.1%	54.1%	43.2%	0.0%
7	Other	392.6	9.1	3.1	246.2	134.2	0.04
		100.0	2.3%	0.8%	62.7%	34.2%	0.0%
8	Total	2052.4	435.5	18.4	964.2	633.9	0.2
		100.0	21.2%	0.9%	47.0%	30.9%	0.01%

Source: State Cadastre

As of July 1, 2012, the total area of irrigated lands was 154,400 Ha, which is a drastic drop compared to 1990s when the total area of irrigated lands was 275,000 Ha. The reasons for such a fall relate to poor maintenance and dilapidation of the irrigation infrastructure, taking pumping

⁵ http://www.cadastre.am/storage/files/pages/pg_5039182166_HanrBal_22.pdf

station out of service due to high prices for electricity, lack of working capital for agricultural activity etc. Thus, currently 56% of previously irrigated lands are not irrigated or cultivated.

In this context, the key issues are the salinization and alkalization of soil caused by improper irrigation, pest and disease management, lack of crop rotation, proper nutrient cycle techniques and good agricultural practices in land management. Land degradation, lack of means for cultivation, inefficient production system, lack of irrigation, outward migration, and other reasons result in vast amounts of unused or underutilised lands.

It is therefore critically important to increase the level and efficiency of land use in line with the best international practices. In this context, land consolidation is a strategic objective to be achieved. For that to be achieved, numerous synergized efforts including legislative measures, state support, irrigation rehabilitation, production diversification, cooperation development and other programmes need to be elaborated and implemented.

Agriculture Employment

Agriculture continues to be the largest labour absorbing sector. According to official data, around 45% of the total employed population in the country is engaged in agriculture. In fact, this number might be lower, as this count is based on land ownership rather than on actual employment. Other studies show that this figure might be closer to 24% of the population in full-time employment equivalent⁶.

Agriculture production and trends

Among 915 communities in the Republic of Armenia, 866 communities are rural. Currently the private sector ensures the production of the largest portion, 98%, of gross agricultural product in Armenia. A considerable portion of incomes of the population living in rural areas is created through agricultural production and paid labour in agriculture.

According to data from the **national food balance**, the level of self-sufficiency in terms of the most important types of food products, calculated on the basis of their energy value, is 58-60 %. A high level of self-sufficiency in the country is maintained in the case of potatoes, various types of crops and melons, fruits, vegetables, grapes, milk, sheep meat, eggs, while in case of wheat, legumes, sugar, oil, poultry meat and pork the level of self-sufficiency is still low.

Armenia relies heavily on grain imports: in 2011, cereal imports amounted to 437,472t, which is 2% below the 2007–2010 average. Cereal imports during the first three months of 2012 amounted to 101,000t, a level similar to 2007–2011, but at a lower relative cost. The annual report for 2011 from the Ministry of Agriculture indicated that production of all main crops exceeded 2010 level (which was very unfavourable year for agriculture). Thus, Armenia remains vulnerable to international market dynamics, and with an anticipated rise of world food prices the issue of food security becomes more and more relevant and important.

Main crop production 2006-2011

Crop	2006 to 2010	2010	2011	2011 growth 2010	2011 growth 2006-10
	'000s Tons			Percent	
Grains	356	326	441	35	24
Potato	570	482	557	16	-2

⁶ Armenia Sustainable Development Program, 2008, Para 340

Vegetables	796	708	787	11	-1
Melon	174	133	181	37	4
Fruit and berries	265	129	239	86	-10
Grape	208	223	230	3	11

The largest and most valuable export commodity still remains brandy, with 2.53m litres produced in January–February 2012, an increase of 43% against the same period in 2011. Among the other export commodities are fresh and canned fruits and vegetables, including juices. The latter group demonstrated significant growth in 2003-2011.

Processed food	Exports 2010	Exports 2003-2010	Growth
Canned foods	\$7.4million	\$61.5million	0.2%
Juices	\$3.4million	\$15.7million	19.9%

Source: UN Comtrade

Livestock

The landscape, climate and natural conditions favour animal husbandry. Cattle, pig, poultry and sheep breeding are the most developed branches of animal sector. Animal husbandry seriously suffered during the transition period. The area under forage crops dropped and production of concentrated feeds ceased since 1990. The Soviet centralized system with large farms and fodder producing facilities was replaced by small farms, each with 1-2 cows, a few sheep or pigs. As of January 2012 the overall number of cattle was 599,243, 98.7% of them are kept by small family farms.

In 1997, compared to 1990, the number of laying hens as well as pigs decreased 4 times, sheep 3 times, and cattle almost twice. During the same period, meat production volume diminished more than twice (poultry 10 times), milk around 40%, and eggs almost 3.4 times. The years 2003-2007 were a turning point for the livestock sector when noticeable growth in number of livestock heads, and animal product volumes was recorded. Since that time, the sector has experienced slow but steady growth, with increasing head count and productivity. However, the domestic production of major livestock products, does not fully meet self-sufficiency. The table below illustrates levels for production and self sufficiency for major livestock products in 2008 and 2010.

	2008 Production, 000 tons	2008 Self- sufficiency ratio, %	2010 Production, 000 tons	2010 Self- sufficiency ratio, %
Egg	31.7	99.7	38.6	99.2
Milk (without butter)	661.9	97.6	600.9	97.2
Beef	49.3	72.6	48.0	84.8
Pig	7.5	31.4	7.9	39.9
Sheep	7.4	100	8.2	100
Poultry	6.7	14	5.4	12.3

Milk: In 2009 about 653,000 tons of milk was produced, plus 17,459 tons of cheese and 2,853 tons of ice cream. No single dairy processing company dominates in the market for major dairy products. There is a significant demand for milk for processing. Seasonality of milk production and volatility of prices constrain growth of cheese production.

Cattle breeding, the most developed sector with 600,000 heads and more than 25% share in overall production. Cattle quality has regressed due to a lack of genetic improvement (artificial insemination), resulting in annual milk yields of only 2,206kg (2003-2011 data). Efforts by the MoA at genetic improvement of the local breeds, and importing highbred and productive animals adapted to Armenian conditions brought positive results, and needs to be continued. A serious constraint for productivity growth is limited domestic production of animal forage, absence of concentrated feed production, problems with pasture management, inadequate veterinary services, disease management, and overall poor maintenance.

Sheep breeding is another important sector with the potential to double from current 560,000 heads to 1.1 million by 2020. Recent exports to Iran further increased profitability and growth of the sector. However, sector development has to be structured in a way to avoid overgrazing and land degradation of the pastures, endangering the sustainability of the pastures and biodiversity.

Poultry breeding traditionally has been among the most intensively developed sectors. Currently 6.8 million heads provide a 100% self sufficiency in eggs, yet only 12.3% in poultry meat constrained by the high cost of imported feeds. The industry is dominated by several large commercial farms providing 66% of overall output, and the rest by small-scale family operations. Further expansion will depend on an availability of domestic feed grains.

Dairy goat breeding, from being a marginal branch of the livestock industry has developed in the last 10 years, mainly by genetic improvement through AI and a proper forage base. Yields of milk have doubled from 0.7 to 1.5 litres per day. This has created opportunities for small-scale, high value goat cheese production facilities with good export potential.

Commercial aquaculture (fish farming) is a new and dynamic sector. Private investment has established a number of large and profitable fish farms. The high value fish and caviar products are exported to Russia, the Ukraine, Georgia, Kazakhstan, USA, Canada and UAE. Some of these companies have moved towards vertical integration and started feed production and fish processing plants. The development of this business is constrained by environmental concerns, on abuse of water resources of the Ararat valleys where most of the fish breeding farms are located. The growth in number of fish farms is combined with expansion of their locations from Ararat Valley to pre-mountainous and even mountainous regions. The establishment of cooperatives in the fish industry is notable, whereby fish farms jointly purchase fish fry and concentrated feed or market fish products.

The livestock sector faces serious challenges, such as unsustainable pasture management, persistent livestock diseases, processing and marketing constraints, and low productivity. Additionally, there are huge fluctuations in milk supply, with most milk produced in the summer months, on a summer-grass regime, and almost no production in winter and spring. These challenges limit the capacity to exploit opportunities stemming from increasing domestic demand. Imported meat now accounts for significant portion of national meat consumption due to low livestock sector productivity, and the unreliable supply of meat and milk. The dairy and meat sectors are competitive on the domestic markets.

Animal health and control of disease remains a problem as livestock are housed or kept in small numbers, and forage communally, leading to communicable diseases. These difficulties are shown in the numerous diseases, including zoonoses that are evident in different parts of the livestock sector.

Fresh fruit and vegetable sector

This is a major sector, but two-thirds of fruit and vegetable cultivation is concentrated in the Ararat valley close to Yerevan. The products are used for fresh consumption on the domestic market, processing at the numerous canneries with some products, mostly fruits, exported. Apricots, grapes, cherries, peaches, and plums are the key fruit exports while potatoes and tomatoes are the main vegetable exports. The main export market for fruits and vegetables is Russia (90% share). Other markets are Georgia, Iraq, Kazakhstan, Ukraine, and Belarus.

In 2011, the export of agricultural produce from Armenia amounted to \$230 million, which was around 18% of total exports. Export of vegetable products (including fruits) was \$21.6 million. The largest share, in value terms, is held by grapes (over 50%), apricots, peaches, and cherries. In terms of volume, leading export items are apricots, grapes and potatoes. There are about two dozen exporters of fresh fruits and vegetables in Armenia.

Crop	Tons		
	Exports 2009	Exports 2010	Exports 2011
Apricot	12,096	2,500	7,000
Grape	3,700	6,200	6,339

Source: UN Comtrade

Among the bottlenecks affecting sector performance are fragmented land plots, limited input availability, outdated production techniques, post harvest technologies and techniques, lack of infrastructure, and inefficient marketing system. The highly perishable fresh produce has significant, about 30% according to some estimates, losses due to non continuous cold chain and post harvest handling management. Production volumes fluctuate extensively and impact the ability of exporters to service their markets.

Climatic conditions aside, many other factors including the lack of long term contracts, short term financing, contribute to a scenario impacting the ability of exporters to invest in logistics and distribution services infrastructure. Seasonality is another important factor that also impacts prices and availability of logistics and distribution services infrastructure. To increase the competitiveness and ensure access to the other than Russian markets, conformity to international standards, and SPS control measures have to be addressed.

Wines and Spirits

Production of wines and brandy has a long history in Armenia with the first brandy making facility established in 1887, currently owned by the Perno Ricard Company. In the Soviet era several large wine-making factories were producing significant amounts of wine, sparkling wine (champagne style) and brandy. Since that time, many vineyards were destroyed or replaced by wheat to solve food security problems. In the last 10 years the number of vineyards and wineries, and brandy making factories has started to increase, along with their exports.

Alcohol (mostly brandy) consistently occupies second place in the structure of Armenian exports after mining products. Currently, brandy accounts for 92-93% of the overall structure of the product group, with only 7-8% for wines. After the 2008 economic crisis, the volume of alcohol exports dropped considerably, although 2011-2012 has seen an expansion in production and exports. The major market for Armenian brandies and wines remains the CIS market: 90% of the exported brandy and 60-65% of wines.

	Exports 2010	Export 2003-2010	Annual Growth 2003-2010
Brandy	\$95.2m	\$685m	7.6%
Wine	\$2.9m	\$10.7m	34.4%

Source: UN Comtrade

The last 20 years has seen a drop in brandy quality. Some of the producers lost export markets due to the world financial crisis and some vineyards were destroyed. However, exports to Russia were maintained, due to a relatively low price. While the quality of Armenian brandy still enjoys a good reputation, the quality of the wine is not always consistent with international standards. Though significant efforts were made in the last 10 years to address the problem, as yet it remains uncompetitive.

Brandy production grew by 21.5% in 2011 as compared to 2010, mostly due to the post-crisis restoration of the Russian market rather than major changes in the production process. The quality increase issue is to be addressed by the recently created Association of Armenian Brandy Producers, which plans to create quality control laboratories for its members' products, and award certificates from 2013.

The GoA plans to significantly increase the volume of brandy exports to \$150-180 million per annum by 2015 and by 2020 to \$250-300 million. There is some scepticism about these plans, as the planned growth is not backed by a proper raw material base. However, the government is taking certain steps towards diversification of brandy exports. This programme also implies a decrease of export share to Russia (from the current 90% to 65% by 2020)⁷.

Use of Inputs

The use of agricultural inputs has seriously decreased since land privatization as a result of the economic problems and shortages. An overview of chemical use (UNECE Environmental Performance Review) showed only 40,000-50,000 tons of mineral fertilizers were applied in 2000 (less than 3% of levels in Soviet times). The use of pesticides was also drastically reduced from the 1988 total pesticide use of 6,295 tons down to 411 tons. More recent figures from the Ministry of Agriculture show a relative increase of pesticide imports, in response to better pesticide related law enforcement in Armenia. In 2003 total import of pesticides was 206 tons, in 2008 - 518 tons. In 2012, import of mineral fertilizers is about 35,000 tons where 25,000 were imported under state subsidy program. There is no monitoring or assessment of the actual use of agrochemicals, with a danger of misuse and bad practices.

Almost 100% of fertilizers and chemicals are imported. The inputs market is characterized by the high degree of monopolization where the largest importer holds, according to some estimates, a share of 80-90% of the pesticides market. At the same time, the farmers often complain about the quality of imported inputs. The restart of domestic production of fertilizers is not a realistic prospect in the upcoming few years. There is a need to improve use of fertilizers and chemicals in terms of its accessibility, proper management and safe use as this directly relates to food safety issues as well.

Environmental Issues

The major environmental problems are considered to be a massive de-forestation, the level of Lake Sevan (the biggest fresh water reservoir in South Caucasus), land degradation and soil erosion, waste management, including management of those wastes inherited from past

⁷ Source: <http://vestnikkavkaza.net/analysis/economy/27302.html>

accumulations of pesticides, industrial wastes and obsolescence, as well as loss of biodiversity and uncontrolled use and over exploitation of natural resources.

The environmental concerns around agriculture in Armenia were highlighted in the Environmental Performance Review (EPR) of Armenia, 2000, prepared by the UNECE and aimed to assess different sectors from point of view of their impact on environment and to identify ways for improvement. Under the pressure of environmental organizations, in the framework of Armenia's obligations to several environmental global and regional treaties and conventions, more attention started to be paid to the integration of environmental concerns into the economy, such as Environmental Impact Assessment (EIA) procedures for projects, policies and strategies; introduction of environmental fees and natural resource use payment tariffs, etc. The environmental action plans, such as National Environmental Action Plan I and II, Lake Sevan Action Plan, the National Action Plan to Combat Desertification are reference points on environmental problems and sustainability issues.

Climate Change

Calculations show that the average air temperature in Armenia will increase by 1.7°C and precipitation will decrease by about 10% by 2100. Intensification of the desertification processes can be expected. In a country like Armenia, with a strong agricultural sector that makes an important contribution to GDP, climate change impact on agriculture could have a serious effect on the economy as a whole. The efficiency of plant cultivation in Armenia could be reduced by 8-14%. Pasture and cattle-breeding will be affected drastically. The number of cattle may decline by 30% and production by 28-30 %.

Climate change is expected to have three main effects on Armenia's crops. First, the appropriate zone for growing each crop will likely move upwards in altitude 100 m by 2030 and 200-400 m by 2100. Second, the combination of higher temperatures, increased evaporation and lower precipitation levels, will lead to a loss of productivity for most crops. Third, changing weather patterns may cause damage to crops and agricultural lands.

Within the UN Framework Convention on Climate Change (FCCC) obligations the National Strategy for Limitation of Greenhouse Gas Emissions was developed by the Armenian Government. In agriculture the main direct emissions are caused by burning of agricultural residues and cattle breeding. 93% of the emissions in CO₂ equivalent are caused by the energy sector. Consequently, an emission limitation strategy was developed based on the principle provisions of the Energy Master Plan of the Republic of Armenia for the period up to 2010. The effect of agricultural activities for implementation of Energy Master Plan are based on prevention of water losses from irrigation systems and the application of gravity-based irrigation. As chemical fertilizers are almost 100% imported, the climate effect of their production, which is substantial as a result of energy use, is not considered in Armenian policies.

Good Agricultural Practices

Conventional agriculture can produce high yields with high externally sourced inputs, including fossil fuels, synthetic fertilizers, pesticides and irrigation water. Misuse can result in pollution, overuse of water, land degradation, and overall depletion of natural capital. Usually, externalities such as soil erosion, loss of bio-diversity, contamination of water and improper pesticide use, are not factored into production costs. The impact of bad practices does however increase costs substantially, on many levels.⁸

⁸ Organic Agriculture. A step towards the Green Economy in the Eastern Europe, Caucasus and Central Asia Region. Case studies from Armenia, Moldova and Ukraine, UNEP, 2011.

Armenia has yet to introduce systems such as GLOBALG.A.P., the international standard for safe, sustainable agricultural production worldwide, setting voluntary standards for the certification of agricultural products. There are no service providers supporting this standard. The introduction of such a system requires the consolidated efforts of the state and stakeholders. State policies do not require or promote the good practices (cross compliance mechanisms in subsidy arrangements), nor is there any assessment or monitoring system.

Organic agriculture and certification services do exist in Armenia. The Armenian organic certification body ECOGLOBE is internationally accredited and is included in the official list of EU and Swiss equivalent certification bodies. The general intention is to increase export capacities via BIO labelled commodities. Additionally, with donor support from EU and Switzerland, ECOGLOBE has allied with a Georgian partner, Caucascert, in forming a regional certification scheme for the EU market under the “Green Caucasus” trade mark. Environmental legislation, for example the Law on Specially Protected Natural Areas (SPNA), identified organic agriculture as a permitted economic activity in the SPNAs of Armenia. Currently, organic certified production is a small niche with high potential for growth as prioritized in the Strategy for Agriculture and Rural Development for 2010-2020.

Considered actions and support for the mainstream adoption of good practices, through education, extension, professionalism and use of state funds to link subsidies with cross compliance requirements are central to reducing losses arising from bad and inappropriate practices.

Water Resources

Armenia’s water resources constitute 9 billion m³ annually, of which 2 billion m³ is being used. During the Soviet period, due to the extremely cheap cost of electricity, instead of construction of upland water reservoirs enabling a gravity fed movement of water, electrically powered water-pumping systems were widely constructed.

Rivers and lakes

The Republic of Armenia features 9480 small and medium rivers, 23,000 km in length. The average total annual flow amounts to 7.19 million m³, including tributaries of the transboundary rivers Araks and Akhuryan. In Armenia the volume of water annually consumed from transboundary rivers, Araks and Akhuryan, amounts to 940 million m³. In terms of size and national economic use, Lakes Sevan and Arpi have a more important national role. In addition, there are over one hundred small lakes, some of which dry out during the dry season. From 2004, the volume of water intake has not substantially changed. Given the hydro potential of the rivers, significant water use has been registered during the past ten years for hydro-electric generation - 3.3 billion m³ a year, or about 50 % of the surface water flow within the country.

Lake Sevan

The state of Lake Sevan, the biggest alpine lake in the Caucasus, is one of the major ecological concerns in Armenia. The lake waters and the natural resources of the basin are considered as a cornerstone for the development of Armenian economy. The catchment basin of the Lake occupies one sixth of the total territory of Armenia and includes major water resources of the country. Due to unsustainable use, the Lake’s ecosystems and resources have been deteriorating for decades. With the recent efforts of the GoA and with international assistance, the water level has started to rise through channelling the river Arpa water stock to the lake and regulation of irrigation water flow from Sevan. These measures ceased water level down streaming so the

level went up from 1,896 in 2001 up to about 1,900 in 2012 with further rise anticipated to 1,908 m by 2030.

Irrigation Water

Armenia has adopted new water quality standards. The quality of water flows from Armenia to neighbouring states complies with accepted standards. Between 2000 and 2006 more than \$100 million has been spent to increase the capacity and to strengthen upland water reservoirs. Nonetheless, irrigation systems still require huge investment. The current irrigation systems transfer water with 50% losses (the best parts of the irrigation system are Shamiram and Argishti channels that are 2000-3000 years old). Furthermore, during the watering process itself, half of the water is being lost because of old technologies and poor management systems.

The State Committee for Water Management under MTA is the main state body responsible for irrigation water. Addressing these issues, state priorities in the MTEF 2012-2014 framework are identified as follows:

- Increase the reliability and efficiency of irrigation system maintenance, reduce losses, improve the quality of water and collector drainage services;
- Rehabilitation and modernization of irrigation systems and on-farm irrigation networks;
- Improve water system management, and public – state partnership development.

According to the latest land balance, July 2012, 207,800 ha of irrigated lands were used, of which agriculture lands are 154,000 ha including arable land of 120,000 ha, perennials 32,600 ha and pastures 1,500 ha. Also, about 53,000 ha of kitchen gardens as well 400 ha of forests are irrigated.

State Water Committee Programs

Name of the program	Implementation Period	Amount, million USD	Beneficiaries contribution	Loans	State
Rehabilitation of irrigation systems	1994-2001	52	-	-	-
Irrigation systems development programme	2001-2007	30.82	2.07	24.8	3.89
Dam safety 1 st phase	2001-2007	30.3	-	26.6	3.7
Dam safety 2 nd phase	2004-2009	7.5	-	6.75	0.75

Transforming the failing irrigation system was a key part of the MCC Compact, 2007-2011, which funded rehabilitation of 17 pumping stations, improving and modernizing their capabilities with state-of-the-art pumps and engines, and automated system to monitor the irrigation system. After recent renovations, upgraded irrigation canals have maintained water levels during the growing season, at reduced energy cost, expanding the area under irrigation with reliable water availability, which encourages investment in higher value crops and provides the cash flows to pay the water user fees necessary to operate and maintain the irrigation system. MCA improvement programme upgraded systems covering 47,000 ha.

Water user fees are collected and managed by formal Water User Associations (WUAs) across Armenia. In these WUAs, water management software uses geographic information system technology to monitor the system and its users. The management systems also allow the associations to map and track all of the plots of lands being irrigated and water use fees due. The WUAs are still in development, management needs to be strengthened and wider user participation enabled.

Potable water and Sanitation

In all towns of Armenia industrial and household waste waters (1.8-2.0 billion m³) are collected (drained) through sewage collectors and networks. The existing drainage system serves to collect (drain) approximately 70-80% of wastewaters in urban areas. In rural areas, in the majority of cases, there are sanitation systems. Of the 20 wastewater treatment plants built up to 30 years ago, none are currently operating. Only the “Aeration” water treatment plant in Yerevan is operational.

The Second Poverty Reduction Strategy Paper (2008) states, that “the access to safe water supply in rural settlements” should increase from 45% of the population in 2001 to 70% by 2012 (and 2015). As OECD 2007 “Financing strategies for rural water supply and sanitation in Armenia baseline simulation” mentions “The Poverty Reduction Strategy Paper” does not mention water sanitation as a priority. Deficiencies are most acute in rural and isolated communities where water supply and quality are inadequate. Half of the country’s water distribution network is more than 30 years old and suffers from constant and substantial losses. Many rural water networks receive only a few hours of water per day or week. Backed by World Bank, KfW, Asian Development Bank and the EBRD loans, authorities have significantly improved the operation and performance of five water companies. Nevertheless, more than 550 villages in mountainous areas are currently not connected to a centralized water system nor assisted in repairing existing or installing new water systems.

Other initiatives also support the development of efficient and sustainable water resources management systems as well as water supply rehabilitation in targeted rural areas through small scale infrastructure projects. USAID also supports the development of a waste water treatment facility in one of the country’s tourist resorts, Dilijan, through a partnership with the Government of Armenia, UNDP and Coca-Cola. In addition, a new partnership effort will help establish solid waste management systems in selected provinces and boost the collection and recycling of plastic containers to reduce pollution.

Energy

The main elements of energy supply are natural gas imports, and Armenia’s aging nuclear power plant, Metzamor (which provides about 42% of the country’s electricity). There is a lack of energy supply diversification. To help Armenia achieve energy security, some donor efforts support renewable energy and promote investment for energy efficiency and sustainable use at the national and regional levels. Part of the rural development programme is gas supply to rural communities for household use. In the past 10 years the number of rural communities with access to gas reached 576 out of 866.

Roads and communications

In the last 5-6 years Armenia has made notable progress in improving or rehabilitating its central and rural roads. Most of the roads rehabilitation activities are funded by international donor organizations, WB, ADB, MCC and others. After a decision to stop the activities of the Rural Road Rehabilitation Program (RRRP) within the framework of MCC Compact in 2009, the GoA assumed responsibility to invest 16.1 million USD to complete the first package of works. The Lifeline Roads Improvement Project funded by WB in 2009 has repaired 240 km of rural roads linking 44 rural communities to main highways and towns (by 2012). The works are ongoing. The project expanded access of rural communities to agricultural markets and social infrastructure, as well as increased non-farm income opportunities by improving the condition of rural roads. Another large project aimed at upgrade of road connection is “North-South Corridor” which envisages rehabilitation of the Agarak - Kapan-Yerevan-Bavra road. This links with Georgia’s southern corridor, providing a connection to the Black Sea ports of Poti and

Batumi, key shipment points for Central Asia's exports. The 7-year project is funded by ADB and started in 2012.

The situation with communications is better in terms of mobile communication penetration into the rural areas. Currently, the coverage of the three mobile service providers is close to 100%. At the same time, Internet accessibility for rural areas is at a much lower level, compared to Yerevan and other larger towns, though the situation shows some recent improvement. According to InternetWorldStats.com 2011 report Armenia tops the list of CIS countries by its internet usage index, at 47.1%.

Foreign Direct Investment⁹

Armenia is a member of the: IMF, World Bank/IDA, IFC, WTO, OSCE, Council of Europe, UN/UNCTAD/UNESCO, MIGA, ILO, WHO, WIPO, INTERPOL, EBRD, the Asian Development Bank, IAEA, World Tourism Organization, World Customs Organization, International Telecommunications Union and the Organization of the Black Sea Economic Cooperation (BSEC). Armenia became the 145th member of the WTO in February 2003.

The investment support policy of the Republic of Armenia is a core directions of economic policy "Open Doors". The Law on Investments (1994) provides the legal basis for foreign investment in Armenia. No legal distinctions are made between domestic and foreign companies and no restrictions exist on the percentage of ownership of a local business that foreign investors can acquire.

In 2009 Armenia's FDI inflows accounted for 8.9 % of GDP, a 330% increase on 2005, but down by 17 % from the 2008 level, the peak year for FDI. Agriculture accounts for about 1% of FDI, the Food and Beverage sector about 5 %. The majority of FDI is directed to communications, power and gas supply, and the mining industry. The most significant foreign investments in Armenia came from Russia (energy and metals), France (communications, spirits), and Argentina (air transportation and agriculture).

Years	2004	2005	2006	2007	2008	2009	2010	2011
FDI, \$ mln	217	287	305	582	1000	732	483	631

Source: <http://www.mineconomy.am/uploads/20122609155031710.pdf>

Trade

The share of food and agricultural raw materials in the commodities structure of external trade (according to data from 2004-2008) is 14.4% of export and 17.1% of import. According to 2008 data, the value of imports is 4.1 times more than that of exports, the value of imports of food and farm raw materials being 3.6 times more than the value of exports of the same group. Moreover, cognac alone accounts for over 64% of export of this group of products, pointing to a need to diversify exports. The improvement of the trade balance and its structure are issues of strategic importance.

Gradual internationalization has been an important process. Accession to the WTO in 2003, FAO, IFAD and other international organizations is an important impetus for development as well as for legal and technological regulation, including the agriculture sector, to be in line with international requirements, an imperative for attracting foreign investment and developing external trade. Armenia has now a liberal trade and investment regime, according to a WTO Secretariat report on the trade policies and practices of Armenia. The comprehensive "Customs Administration Strategy for 2008-2012" was further elaborated through the development and

⁹ http://www.fao.org/fileadmin/user_upload/Europe/documents/Publications/AI_briefs/Armenia_ai_en.pdf

introduction of a Strategic Action Plan in Dec 2009. Strengthening enforcement mechanisms is one of the key goals for Armenia in meeting its WTO commitments. Armenia currently has incentives for exporters (no export duty, VAT refund on goods and services exported) and foreign investors (income tax holidays, and the ability to carry forward losses indefinitely). Armenia has no quantitative restrictions on exports or imports. Armenia also signed free trade bilateral agreements with eight countries and with the CIS.

Business Environment and Competitiveness¹⁰

According to the Global Competitiveness Report 2012-2013, Armenia has significantly improved its position by 10 points, and currently holds rank of 82 out of 144 countries. The five main problems in doing business continue to be: corruption, inefficient government bureaucracy, access to financing, tax regulation, and inadequate education of the workforce.

In order to access export markets and transact with exporters, a prerequisite is conformity with international product standards and certification requirements. The status and performance of the national system for food safety, animal and plant health represents the most significant technical barrier to trade in the agriculture and food sector. At producer and processing levels control systems, quality management and food safety are cornerstones for food standard and certification conformity, including GLOBALG.A.P., ISO and HACCP.

Monopolization, while not included in the report, adversely impacts competition limiting competitiveness of the products. For example, the high degree of monopolization of agricultural inputs (fertilizers and pesticides) converts to higher cost of production of primary agricultural produce and losses in quality. Access to credit has improved over the years, but mostly in Yerevan; for farmers and rural businesses, the issue is remains challenging.

¹⁰http://www.fao.org/fileadmin/user_upload/Europe/documents/Publications/AI_briefs/Armenia_ai_en.pdf

3. Government Policy for the agriculture and rural development sectors

3.1. Description and assessment of the state of the art' in national regulations

In the framework of the European Neighbourhood Policy, the implementation of the Action Plan will significantly advance the approximation of Armenia's legislation, norms and standards to those of the European Union. In this context, it will build foundations for further economic integration based on the adoption and implementation of economic and trade-related rules and regulations aimed to enhance trade, investments and growth. It will furthermore help to devise and implement policies and measures to promote economic growth and social cohesion, to reduce poverty and protect the environment, thereby contributing to the long-term objective of the sustainable development. On 6 May 2009 the President of the Republic of Armenia adopted the List of Actions for 2009-2011 to ensure the implementation of ENP Armenia-EU Action Plan, Presidential Order NK-68-A.

Globalization of the international economy and increased consumer awareness have added "Quality infrastructure" as a focal area, including standardization, metrology, accreditation, testing, technical control, certification and regulation, and market surveillance. The Government has undertaken serious steps towards the development of the national quality infrastructure. "The reform of the quality infrastructure strategy of the Republic of Armenia" has been developed and later adopted by decision of the Government of Armenia N1693, December 16, 2010.

The aim of the decision was to ensure long-term orientation of the national quality infrastructure development and to reform the existing system to meet international and European requirements. This reform envisages legal, institutional, capacity strengthening and awareness-raising. The Strategy, which is planned to be implemented by 2020, is intended for gradual compliance with European requirements for full integration of Armenian quality infrastructure into the global system. New laws on «Standardization», "Technical Regulations", "Ensuring the unity of measurements" and "Accreditation" have been developed and adopted by the National Assembly, February 8th, 2012.

EU product safety regulating provisions are represented in the Law "On Technical Regulations" defining responsibilities for producers. Overall 43 international standards were adopted in 2011: regulatory laws in the fields of technical regulation, standardization, metrology and accreditation for the integration of national competences in standardization, metrology, accreditation, conformity assessment and market surveillance.

The new Food Safety Strategy for 2010-2015, and Action plan, adopted in November 2011 seeks to bring the food system in line with relevant EU legislative and institutional requirements. The aim of the Strategy is to minimize the administrative burden on Armenia's farming community and agro-business operators by updating regulations and scrapping obsolete standards. The Strategy is being implemented with the assistance of EU Twinning Programme and the EU Advisory Group. The State Food Safety Service is currently developing amendments to the Law on Food Safety according to EC Regulation 853¹¹. In total 54 new functions and competencies have been assigned to the agencies. The National Assembly adopted a new law on "Technical Regulations" which replaced the Law on "Conformity Assessment". Under the previous law ministries were allowed to develop technical regulations and determine

¹¹ Regulation (EC) no 853/2004 of the European Parliament and of the Council of 29 April 2004 laying down specific hygiene rules for on the hygiene of foodstuffs

implementation conditions. The new law assigns this competence directly to the GoA.

The main legislative framework for agriculture and rural development includes:

1. Civil Code of RA
2. Land Code of RA: provides for private ownership of the land and agricultural means. Further development of the legislation will adapt to the new stage of economic development: for effective use of land types, especially arable land it is foreseen to have stricter sanctions in the “Land Code” for improper use of land and comprehensive support for the land parcel unification. The latest version of the Land Code was adopted in 2000.
3. Forestry Code
4. Water Code ensures sustainable, integrated water resource management.
5. Law “On Agricultural Census”
6. Law “On Organic Agriculture”
7. Law “On Seeds”
8. Law “On Achievements in Selection”
9. Law “On Food Security”
10. Law “On Amelioration of Agricultural Land”
11. Law “On Plant Sanitary”
12. Law “On Utilization of Agricultural Machinery”
13. Law “On Animal Feed”
14. Law “On Veterinary”
15. Law “On Food Safety”
16. Law “On Animal Breed Husbandry”
17. Law “On Changes in Law of RA on VAT”
18. Law “On Water User Associations” has been passed to facilitate operation and maintenance of lower level irrigation systems.
19. Law “On Local Self-Governance”.
20. Technical Regulation on land rehabilitation and classification of degraded lands
21. Law "On Small and Medium Entrepreneurship State Support".

In order to implement a well structured policy in the agricultural sector, in November 2010 the Government adopted the “Strategy for Rural and Agricultural Development, 2010-2020”. The Strategy defines 17 groups of objectives that include, in particular, introduction of anti-crisis mechanisms, intensification of agricultural production, development of agricultural co-operatives, ensuring food security, improvement of the productivity of land use, development of organic farming and other priority directions of the sector.

Currently, the strategy is reflected in law, so state budget fund provision is not mandatory. Consequently there is inadequate or absence of provisions. To commit implementation of the Strategy a Law “On Agriculture” will have to be introduced, to regulate the legal status of agricultural producers, include main elements of state agricultural policy, performance and monitoring provisions (accountability) of the development programs, competence of the agriculture management bodies and other relevant issues.

Despite the fact that cooperative development is a government priority, no Law on Rural Cooperation exists to regulate the formation and functioning of farmer cooperatives / producer organisations. Currently the legal status of cooperatives is as production or consumer cooperatives. These types of cooperatives are under the regulations of Civil Code which provides no specifics for rural cooperatives. In Armenian law cooperatives are considered as non-profit organizations, which undermine their ability to receive loans, participate in tenders,

and compete with other commercial firms. Another constraint for operating as cooperatives is that the VAT threshold of 58.35mln AMD (approximately EUR110,000) is set for a farm enterprise, which would be exceeded in the case of joint producer cooperation within one legal entity.

The issue of VAT exemption and thresholds for producer cooperatives / organisations is a major issue regarding barriers to formation and to motivate the formation of such cooperatives. A Draft Law on Cooperatives has been submitted by MoA, but many important provisions such as minimum number of members, investment mechanisms, accounting and book keeping, cooperative alliances and secondary cooperatives, cooperative transformation mechanisms, management structures, cooperative auditing, penalty provisions etc. were considered inadequate.

Economic policy towards cooperative development should be complemented by instruments such as: preferences to cooperatives for state procurement, incentives for cooperative development, discounted procurement of machinery, targeted crop production, assistance with sales and marketing, tools for establishing private-public partnerships between such cooperatives and the state.

3.2. Description and assessment of the current and planned Governments agriculture and rural development policy interventions and/or strategies

National Development Programme

The key documents setting out the Government policies for agriculture, rural and agro-industry development include the: (i) Sustainable Development Program for 2009-2021 (the Second Poverty Reduction Strategy); (ii) Strategy of Agriculture Development (2010-2020); (iii) Cattle Breeding Program, 2007-2015; (iv) Food Security concept (2011) and Food Safety Strategy 2010-2015, (v) Land Consolidation Concept (2011) and other directly and indirectly relevant country strategies.

The *Sustainable Development Programme* (SDP), approved by the government in October 2008, states that sustainable economic growth is a major factor contributing to poverty reduction. It has 3 main goals for 2009–2021: reduce poverty, including eliminating extreme poverty and ensuring human development; deepen economic growth; and accelerate the development of lagging regions.

The SDP acknowledges low productivity in agriculture as a major challenge for agriculture and rural development. The GoA envisages that state support will be continued in 2008-2021 and be directed towards an increase of productivity, support to infrastructure, subsidies, financing, encouraging processing and advanced technologies, and service provision. According to the SDP, one of the main priorities for the Government policy in agriculture would be progressive growth of agriculture products export and their increase in overall export share. Increase of self-sufficiency through import substitution and increase of domestic production still remains a priority (as was further confirmed by the Food Security Concept). Agriculture development forecasts are based on the following policy framework:

- Shift to more intensive development of agriculture
- Small farms will remain the basis of the production, but larger, commercial farm creation is encouraged and anticipated to grow from current 2.8% of gross agricultural output up to 18% by 2021
- Support to service providers, primary processing, supply and marketing cooperative development
- GoA will continue investment in irrigation, roads as well as other directions such as seed and livestock breeding works, extension services, risk mitigation measures (including anti-hail stations and risk insurance systems)
- Subsidies for mitigation of regional disparities, creation of equal opportunities for agricultural production and promoting high value agriculture
- Employment in agriculture will not grow; instead SME development in non-agricultural areas will be encouraged. Diversification of off-farm employment through SME development
- Increase in availability of finance for agriculture

It is envisaged that the budget share of state support to agriculture, while growing in absolute terms, *will decrease from the current 1% to 0.6-0.7% in 2021*. The SDP provisions and philosophy has laid a basis for Strategy of Agriculture and Rural Development 2010-2020.

Food Security Concept (adopted by GoA decree on May 18, 2011) defines goals to increase self-sufficiency for main commodities by 10-15%, in for the period 2011-2020, and the programmes to be implemented. For this purpose, (in line with the Strategy for Agriculture and Rural Development) the Concept establishes target food balance for each commodity (wheat, potatoes, meat, milk and other major commodities). Certain provisions of the Food Security

Concept are implemented through the state programmes for seed and livestock breeding. The policy actions in the area intersect with food safety programs such as legislative changes, modernization of the laboratories, facilities, and infrastructure; certification of laboratories, setting up early warning and response systems for hazardous food identification, introduction of ISO standards, state risk assessment for GMO containing food, state control over all stages of food production and transportation.

Land Consolidation Concept was adopted in 2011 to address the challenges coming from highly fragmented land plots and low productivity of agriculture. The Concept sets directions for land consolidation through:

- Support to non-agricultural employment and rural SME development
- Cooperation development through consolidation of land plots
- Integration of primary agriculture and processing (vertical integration)
- Legislative changes aimed at preventing land abandonment or inappropriate use (e.g., using arable land for pasture)
- Improvement of investment climate to attract larger investors
- Risk mitigation: risks of outward migration, social and political risks

The process of land consolidation should be balanced, with provision of alternative employment for the rural population. These directions are in line with EU rural development policies and proportional development of the regions. The actions to be implemented are envisaged in SDP implementation programs. However, this process is developing very slowly, and funding is very limited. MTEF envisages only 0.68% for new, innovative programs (including pilot programs for land consolidation). The concept states the timeframe and requested funding for implementing these directions. Therefore, the process needs to be stimulated and land consolidation needs to be stated as a priority.

In the past decade, *agricultural policy* has been implemented through a number of government supported programs. These programs have been directed towards development of primary seed breeding and cattle breeding, combating the most dangerous plant diseases, maintaining health of livestock, ensuring food safety, improving the ameliorative condition of land, maintaining and developing irrigation systems, ensuring accessibility of credit, infrastructure development, subsidizing farmers in the most unfavourable agricultural zones, agricultural counselling and introduction of advanced technologies. Among the instruments are GoA decisions adopted during 2007-2012 on provision of partial subsidies for procurement of mineral fertilizers, diesel fuel, loan interest rates, import of pre breed heifers and other decisions, which are directly regulated and support agriculture and rural development. However, the scale of implementation of strategies in agriculture and rural development is still far from the targets and needs.

The Ministry of Agriculture has structured its *cattle breeding strategy* on two main axes: improvement of the genetic properties of the Caucasian breed and importing pure breed and highly productive animals adapted to Armenian conditions. “The cattle breeding program in the Republic of Armenia for 2007-2015” programme aims to import more than 1,000 heifers of Simmental, Holstein, Swiss breeds by 2015. There are already positive results with reports of significant yield increases. The overall self sufficiency level of milk in Armenia is about 98% (not including butter).

In 2010-2011, a number of programs were implemented to develop seed breeding: “*Wheat seed growing and seed production development in 2010–2014*”; “*Development of barley production*”; “*Development of barley seed production*” and “*Development of corn (maize) seed production*”. These programs included importing of elite seeds from Russia in 2011-2011, and corn in 2008

from Georgia and Hungary for reproduction. There were also wheat and barley subsidies for seed growers to maintain seed prices for seed producers.

The Ministry of Agriculture is responsible for developing and implementing policies in agriculture and forestry. The legislative framework for *environmental protection* is incomplete and lacking enforcement mechanisms. Supervision, control, and ministerial functions are insufficient and fragmented. The main focus of agriculture sector policy remains production and food security. Other key strategic documents worth mentioning are environmental policies and plans, such as National Plan to Combat Desertification (2002) and other documents in the light of Armenian obligations in the framework of international environmental treaties.

In 2007-2011 Hayantar (Armenian Forest, a subsidiary of the MoA) implemented various afforestation and reforestation programs covering 14.5 thousand Ha. However, the problems of illegal logging, inefficient forest management and chronically low funding of forestry sector raises serious concerns.

A post-Soviet *National Forestry Policy* was developed in 1995, based upon the principles of conservation, reforestation, and sustainable multi-use of forest resources. In October 2005, Armenia adopted a new Forestry Code, whose specific goals include organization of a forest extension service, promotion of private forest nurseries, and promotion of community awareness of sustainable forestry practices. Resource limitations prevent the full implementation of an effective forestry policy. Most significantly, laws curtailing illegal logging, primarily for firewood, have not been enforced. In addition to the efforts of the government, NGOs have also become active in rehabilitating forests and combating desertification.

Organic agriculture is part of Armenia's *sustainable development concept* and is a priority area in agro-food policy. Organic farming is considered a business opportunity for farmers and investors involved in agriculture and food production. These interventions are mostly donor-driven and supported, no state budget support is provided.

Territorial governance and local self-governance

A concept for proportional territorial development in Armenia has been developed and approved by the RA Government June 30, 2011. The Concept envisages assessment of individual communities, territories and marzes (regions) by using aggregate indicators describing both the quality of life and the level of economic development. As a result, it will be possible to measure each planned project in terms of its impact on the mentioned indicators and ensure proportional territorial development. Regional activities were carried out supporting elaboration of marz development programmes.

The poorest communities are concentrated along the borders, in mountainous areas and in earthquake zones. Shirak in north-western Armenia, Lori in north and Gegharkunik in the central part of the country are among the poorest provinces. Unbalanced regional development worsens the social conditions of the rural population and results in a steady increase in migration. This is especially true for the border and mountainous villages, where the poverty level and unemployment rate are most severe. Due to low investment attractiveness, these areas have minimal potential for entrepreneurship and few opportunities to increase the income of the population. The GoA adopted several legal acts promoting the development of unfavourable areas:

- The Land Code stipulates that state and community owned land in regions close to the border, mountainous, alpine, disaster areas and abandoned settlements be donated to families for agricultural activities, and/or for building houses. Those families must not have participated in land privatisation in the past, or acquired land for construction of a house.
- The Law “On Education” stipulates privileges for teachers in state secondary schools throughout border, mountainous, and high mountainous regions.
- The conceptual program and Action Plan for resolving the priority issues of the RA border and alpine communities were approved by the GoA, 21 April, 1999 decision No. 246.
- The measures for the development of mountainous communities and the guiding principles for their fulfilment were approved by the GoA, 22 March, 2001 decision No. 222. These include: the strengthening of sparsely populated communities, the expansion of transport and engineering infrastructural networks, and so on.
- In order to strengthen the border zone areas, the adoption of the “Law On the comprehensive development plan for the border areas of the RA” (2002, May 20, HO-356-N) with its addendums and amendments is especially important.
- State programs for SME development adopted annually on the basis of the “Law on State Support to Small and Medium Entrepreneurship” give priority to rural, especially border and mountainous communities.
- In 2009-2010, state-owned land plots located outside of administrative borders of communities were transferred to communities.
- Since 2005, the amount of state social benefit is based on the vulnerability score of the family, place of residence (borderland or high mountainous), number of children in the family (4 children and more).

State budget resources provided for agriculture and rural development

The main budget revenue sources from agriculture are land tax, irrigation water fees, income tax, VAT from large agri-enterprises and farms and contributions to the state social insurance fund. Agricultural producers and land owners are subject to other taxes including real estate tax and customs duties. Land owners pay land tax in Armenia based on the category (fertility) of the soil. The VAT threshold is 58.35mln AMD (approximately EUR110, 000).

The State budget 2012 provides for subsidies amounting to 18.42billion AMD (1.7% of budget expenditures) and grants of 98.91 billion AMD (9.2% of budget expenditures). The total agriculture provision is 11.485billion AMD (1.07% of budget expenditures), for irrigation systems 12.95billion AMD (1.2 % of total budget expenditures) and for forestry 0.76 billion AMD.

Budget Expenditures for 2008-2013, million AMD

Years	Budget	Total	Including		
			Agriculture	Forestry	Irrigation
2008	Planned	33,051.0	11,545.7	1,918.1	19,586.9
	Actual	24,482.5	10,951.9	1,789.1	11,741.5
2009	Planned	35,934.0	11,698.2	1,831.5	22,404.3
	Actual	36,112.2	13,671.2	1,488.2	20,952.8
2010	Planned	n/a	7,809.3	916.0	n/a
	Actual	40,036.6	7,171.7	853.3	32,011.6
2011	Planned	36,289.9	6,438.3	789.8	29,061.8
	Actual	42,382.1	5,808.4	822.8	35,750.9
2012	Planned	25,200.2	11,485.6	762.7	12,951.9
2013	Planned	21,936.0	10,060.1	771.6	11,104.2

Source: based on Ministry of Finance data, www.minfin.am

Agriculture allocations in 2008-2011 are significantly lower than allocations for irrigation. At the same time, agriculture funding almost halved in 2010-2011. However, even these amounts were not fully financed as is the case with forestry. The year 2013 budget envisages a 56% increase for agriculture compared to year 2011. Forestry funding again shows a negative trend.

The state budget provisions include subsidised loans to the agricultural sector. Special conditions were offered to 225 most vulnerable communities. A Governmental decree was approved on 7 March 2012, No. 317-N, for the prolongation of subsidies in 2012. In 2011, a number of legislative decisions were passed to support the development of agriculture: six laws were approved by the National Assembly, 52 decisions were adopted by the Government and four by the Prime Minister, related to various sub-sectors of agriculture such as food safety, animal health, application of agricultural machinery, protection of new varieties of crops.

To fund priorities stated by ARD Strategy for 2010-2020 amounts envisaged by the budget are not enough, therefore additional funds are needed by both donor support and public-private partnerships.

State financing of priority agricultural programs, million AMD

	Programmes	Years			
		2008	2009.	2010.	2011.
1	Plant protection	300.0	300.0	150.0	101.0
2	Livestock vaccination	1353.8	1531.4	1000.0	1000.0
3	Extension services (GAMKs)	141.5	183.1	293.1	293.1
4	Diagnostics and laboratory testing of animal diseases	184.3	217.4	185.0	190.9
5	Preservation and improvement of agricultural lands, rehabilitation of engineering infrastructure	369.1	844.7	547.1	710.4
6	State subsidies to land users	1645.0	1602.4	558.0	1498.1
7	Cattle Development Program	500.0	500.0	0.0	301.2
8	Cattle Development Program (in the framework of “Grant Assistance Program for poor farmers” by Government of Japan)	0.0	0.0	345.0	0
9	State program on wheat and barley seed production	105.1	188.2	76.6	0
10	Forest preservation, protection and reforestation	1465.5	1465.5	765.5	708.0
11	Reforestation by the partnership funds established in the framework of “Food production growth” program by Government of Japan	400.0	300.0	0.0	0

Source: Ministry of Agriculture data

Medium-Term Budget Framework (MTEF, 2011-2013)¹²

In order to strengthen the budget process, the Medium-Term Budget Framework (MTEF, 2011-2013) for the agricultural sector addresses the following objectives in agriculture:

- legislative changes in agricultural sector and improvement of agricultural management;
- maintenance and improvement of soil fertility;
- harvesting high-quality agricultural products and reduction of losses;
- provision of the population with safe food products of vegetarian and animal origin (imported and local);
- protection of the population against diseases infectious both for humans and animals;
- improvement of productivity in agriculture;
- provision of farming households with high-quality seeds;
- preservation, reproduction, protection and sustainable management of forests;
- promoting good practices, adopting new technologies and providing consulting services;
- Introducing and deepening the system of service provision to agricultural land users.

The policy for the period of 2011-2013, aims at the increased efficiency of the sector and servicing regional activities. As a result, opportunities will be created for further development of agriculture, increase of population in rural areas, increase in real incomes of farming households, enhancing the level of food supply and security in the country and a reduction of poverty. Detailed provisions are set against actions against each budget provision. At the same time, the improvement of the level of food safety in the country remains as a basic challenge of the agricultural development policy over 2011-2013. The programme “Subsidies to the interest rates of the credits provided for agricultural sector” forms a part of the state budget programmes, implemented by the state organization “PIU of Economic Development of Rural Areas”.

¹² <http://www.minfin.am/up/mtef/2012-2014MTEF%20final%20version.pdf>

Programmes included in the MTEF and budget (thousand AMD)

	2011	2012	2013
World Bank:			
The Community Resources Management and Agricultural Competitiveness Project	1,484,255	1,933,543	2,085,980
Urgent rehabilitation of irrigation systems program	4,252,466.8	0	0
International Fund for Agricultural Development (IFAD):			
Rural Capacity Building Project	1,349,870	1,152,504	1,152,504
Marketing opportunities for the farmers' grant program	20,860	0	0
OPEC fund for International Development			
Rural Capacity Building Project	1,920,305	2,190,279	2,190,279
Denmark			
Support of the 'farmers marketing opportunities' grant program	259,544	0	0

There are insufficient state resources to address the range of problems constraining agriculture and rural development. Nevertheless there are many initiatives driven by international organizations and NGOs to support rural communities with capacity building and towards diversification of rural economies. As examples, higher value methods of production such as organic agriculture, agro- and eco- tourism and relevant local businesses, access to internet in rural communities, SME development with elements of trade, tourism, hospitality, and handicraft production have been provided.

3.3. How correspondent Government programs fit into the ENPARD approach

The policies and programmes of the GoA, collectively, address the main pillars of an ARD programme

1. To improve rural livelihoods by facilitating inclusive economic growth and sustainable development of rural areas
2. To contribute to food security by ensuring more sustainable provision of affordable food, while at the same time contributing to increasing food safety and raising quality standards to better benefit from export markets
3. To improve administration of agriculture and rural areas by developing institutional and stakeholders' capacities, including design and management of agricultural strategy

However there are limited budget resources available for what is a selective implementation of priorities. There is also no consideration of the methodology or actions, or budget frameworks that would support these headline actions.

The priorities and programmes of the MoA directions, in general, correspond to Axis 1 - Improving Agricultural Productivity, Market Efficiency and Food Safety and Quality Standards. Many of the territorial development and SME support programmes developed by the Ministry of Territorial Administration and MoE respectively are in line with ENPARD Axis 2 - Development of the Rural Economy (Diversification, infrastructure). A more comprehensive conformity with ENPARD programme would require wider participation of relevant ministries, civil society, farmers, processors, research and other stakeholders to coordinate development. Conclusions of the Armenian delegates to the Regional Technical Workshop in Brussels on Nov 19, 2012 highlighted the top three priorities as (detailed in Section 8.2, below):

1. Fragmented land holdings and lack of producer cooperation and integration
2. Lack of food security in strategic cereal and animal origin products
3. Under-developed food safety system: sanitary-veterinary

4. Assessment of institutional capacity

4.1. Assessment of government institutions for managing, implementing and monitoring an ENPARD approaches

State Authorities

1. The Ministry of Agriculture mission is to develop and promote state policy to develop the agro-food sector, by raising competitiveness and productivity, by rural development, as well as ensuring food safety (State Food Safety Service, SFSS) and the security of the country by providing for the means for the growth of social welfare. MoA is also in charge for state of forestry in all its aspects. Being the central body, responsible for agriculture and rural development, the Ministry of Agriculture would be a natural competent authority together with the MTA.

The capacity of MoA taken alone will not be enough to manage, implement and monitor an ENPARD approach. It would require a specialised department in the MoA to coordinate the process of implementation and communicate with an Advisory Council and other relevant stakeholders. To ensure proper managing and implementing of an ENPARD approach, capacity building is necessary. This applies to training of the personnel as well as strengthening the analytic capacity of the Ministry which is constrained by the lack of proper agricultural statistics and registers. Functions and competencies related to rural development programs are to be defined.

2. State Service for Food Safety subordinated to the r the Ministry of Agriculture has a key role in the EU and international trade integration process, especially (with support from the EU Advisory Group under the direct supervision of the Prime Minister) regarding Sanitary and Phytosanitary (SPS) measures, in preparation for DCFTA negotiations. Particular emphasis is given to the ENP Action Plan in the area of SPS and the Food Safety Strategy: effective implementation and enforcement of legislation, practical performance of food and feed safety control system, issues of animal and plant health, laboratory capacity and assistance in preparation and exercising of training programs for the competent authority.

The Food Safety Inspection, under subordination of the Food Safety Service, has not enough tools and authority to monitor food safety; laboratories are not properly equipped and do not comply with international regulations. The SFSS capacity needs to be seriously strengthened and the risk prevention and risk inspection functions separated.

Extension Service

Agricultural extension service has an important role in the agriculture and rural development sector, through consultancy, training and information on good agricultural practices. Agricultural extension services are provided by so called Agriculture Support Centres (GAMKs) in each of 10 regions of Armenia. Since their establishment in 1999 intensive training has been provided to centres' experts during several support initiatives. However, their inefficient structure and a lack of financing results in a limited capacity. Despite the articulated need for provision of quality extension services from the farmers, their growth is limited by farmer ability to pay a real rate for the services and weakened links with research. This gap is partially covered by donor initiatives and various NGOs. As GAMKs are closest and most available resource to the farmers, their participation in an ENPARD preparation and implementation will be pivotal, but their capacity needs to be strengthened and efficiency increased.

3. Ministry of Territorial Administration mission is to develop, promote, and monitor implementation of the state policy in the field of local self-governance and regional administration in the marzes and communities. Currently, MTA develops, coordinates and implements regional development policy and coordinates relevant regional authorities and rural municipalities' activity. In addition, MTA oversees the State Irrigation Committee, Migration State Service and National Archive of State Non-Commercial Organizations. Rural development is a duty of this Ministry but competences are not well defined. MTA coordinates regional administration and infrastructure (for example, electricity and gas) development functions. The activities under Axis 2 of an ENPARD approach fit MTA activities and competencies.

4. Ministry of Economy mission is widening and deepening of the country's integration into a world economy: acquiring international and benchmarked quality and level for an external economic activity; ensuring working trade institutions and infrastructures; ease of trading, and, as a complementary measure, adoption of internationally well-proven trade promotion and development tools and schemes. MoE is a designated authority for EU negotiations on DCFTA, which provides a framework for serious and lasting institutional reforms in a range of spheres and a real guarantee to effectively implement the above mentioned actions: SME development, protection of consumer rights, export expansion and promotion. Quality infrastructure improvement program is also under MoE authority.

5. "Small and Medium Entrepreneurship Development National Centre of Armenia" Fund: (SME DNC of Armenia). In 2000 Armenia GoA acknowledged the development of small and medium entrepreneurship as a priority for economic development as it was stated in the "Concept for SME Development Policy and Strategy in Armenia" adopted the same year. After adoption of the relevant Law "On Small and Medium Entrepreneurship State Support" SME DNC was established in 2002. The competence for SME development policy (strategy), as well as SME development and state support annual programs is with the Ministry of Economy and the SME DNC is the main implementing organization. The Centre provides technical, informational, and financial support to micro, small and medium enterprises. Financial support comes in the form of the loan guarantees, and in some cases, equity financing.

In 2012 the SME DNC introduced a new strategic direction "Local Economic Development". The purpose is to identify the economic potential of communities, and to undertake economic development initiatives to enhance local competitiveness. As a result, the German PACA (*Participatory Appraisal of Competitive Advantages*) method and the Japanese OVOP (*One Village, One Product*) concept have been developed. These concepts imply the creation of local specialties, high value added products, competitive in internal and external markets, to build value chains by a participatory analysis of local community economy.

Over the years, SME DNC has accumulated considerable experience in supporting SME with branch offices in all 10 regions. In line with GoA priorities for rural development, their activities are to be directed towards rural and border areas. Its major focus are micro-businesses rather than SMEs. After the 2009 financial crisis the level of state support dropped significantly, from 600 million AMD in 2009 down to approximately 150 million AMD in 2011. Notably, out of this amount only 50 million AMD are earmarked for programme implementation, while the rest, 100 million AMD, are for the Centre's operations. This required the Centre to concentrate mostly on provision of business trainings for start-up entrepreneurs. SME DNC actively cooperates with various donors. SME DNC is a member of Enterprise Europe Network, EEN. The Network offers support and advice to businesses across Europe and helps them make the most of the opportunities in the European Union. In 2012 SME DNC put efforts to increase its

financing support to start-up entrepreneurs, from 25 in 2011 to 100 and plans to further expand it to 200 in 2013¹³.

6. Armenian Development Agency (ADA) is a state agency established by the GoA with the mission to attract and support foreign investors and promote Armenian products abroad, support business and investment climate improvement. Its Annual budget for 2011 was 503 million AMD with only 148 million AMD provided by the state and the rest provided by donor organizations. Again, as in case with SME DNC, out of 148 million of state support 125 million AMD were earmarked for operational costs. In 2011-2012 the agency took a leading role in arranging participation of Armenian food and beverage companies at several large international trade shows in Russia, Dubai, Germany and some other countries. ADA functions are more related to the processing sector rather than agriculture and rural development,

7. Local and regional authorities: At the regional (marz) level there are agriculture and environment protection departments, whose function is to support regional and environmental programs at the marz level, participate in the regional socio-development program preparation, study major agricultural problems and submit to the Government. In case of natural disasters (hails, floods) they assess the damage and submit the suggestions. Their participation is important for any ARD program, but their capacity needs to be strengthened through provision of technical upgrade and training.

To ensure effective participation of government institutions in managing and implementing an ENPARD approach, preparation would require:

- Assigning competence and functions between institutions and staff training (MoA, MoE, and MTA).
- Consultation and elaboration of a focused and detailed programme reflecting Armenian priorities and EU experience and practices.
- Preparatory projects – to put in practice lessons learned from New Member States on successful measures and implementing structures leading to pilot project.

¹³ <http://www.finport.am/view-lang-rus-newsarticle-17973.html>

4.2. Assessment of agriculture and rural economy stakeholders for managing, implementing and monitoring an ENPARD approaches

Civil Society and NGOs

Civil society organizations and NGOs along with farmers associations and private sector are active stakeholders of agricultural and rural reforms. There are a number of organizations active in the field such as the Centre of Agricultural and Rural Development (CARD), Green Lane, Shen, Armenian Organic Agriculture Foundation (AOAF), OXFAM, Heifer International, Save the Children, World Vision and others.

They provide advocacy, support for agricultural and community development, capacity building, extension services, consultancy via rural income generation and access to market projects in Armenia. Most of them are non-budget organisations, based upon donor driven and financed initiatives. Most of these organizations have operated in Armenia for 10-15 years and work in the majority of regions. Civil society involvement in the agriculture management is still not adequate, since at best they participate in strategic documents discussions. However, their involvement in implementation and monitoring is very limited because the governing bodies do not always encourage their involvement. Their experience and capacity to plan implement and monitor programs within an ENPARD framework is quite large and could be utilized.

A coordination circle needs to be established, where a structured dialogue could take place between the state and civil society. This would also contribute to their capacity building. One of the model initiatives in this area is the recently formed *Agricultural Alliance* uniting donor programmes, local and international NGOs, and research institutions, whose activities will be aimed at donor cooperation and coordination, joint advocacy and lobbying, exchange of experience and awareness raising on the implementing program and a dialogue with state authorities.

Farmer Organizations and Cooperatives

There are number of various farmer organizations such as the Federation of Agricultural Associations, National Farmers Union, Meat Producers Association, Milk Producers Association, Agrarian Farmer Union, Farmer Movement, Union of Agricultural Cooperatives, Armenian National Organic Association, Greenhouse Association and others. Despite the existence of numerous associations, the level of farmer organization and co-operation is far from ideal. Many of them are grant oriented, lacking a business mentality necessary to successfully produce and market. However, their participation should not be underestimated and their capacity needs to be strengthened.

Regarding farmer cooperatives, there were efforts in recent years to stimulate their establishment and growth. There are about 109 rural cooperatives involved in dairy, fruit and vegetable production as well as other sectors. Among their weaknesses is a lack of clear vision, poor management, and financial sustainability. A strong focus on their capacity development is required.

Service Providers and Professional Unions:

The **Centre for Agribusiness and Rural Development Foundation (CARD)** is a “one-stop-shop” economic development organization working in Armenia reducing rural poverty, advancing sustainable agriculture and agribusinesses and increasing the standard of living throughout the Caucasus. Their main directions are agribusiness and marketing, rural development, food safety, mostly funded by USDA. CARD is a result-based organisation with a highly trained team of Armenian and international development professionals with broad

experience in agricultural development from market place to export. CARD offers the most complete set of agribusiness services to the agricultural sector in Armenia, as acknowledged by virtually all stakeholders. Their capacity to support the planning and implementation of an ENPARD type approach is undoubtedly high. In addition, CARD provides commercial services in bringing world known, high quality inputs, machinery and equipment as well as agricultural finance.

There are other organizations providing a range of agriculture and rural development services in the field. Among them are, for example:

- a) Quality assurance services, monitoring agricultural and food produce quality and residue control. Already a focus of technical assistance within the regional and country support initiatives, for example BMZ German project in strengthening of food testing laboratories in the Caucasus (several labs are selected for support to achieve international ISO 17025 accreditation).
- b) In the organic sector, a local business company ECOGLOBE, provides organic certification services, international trade and capacity building initiatives expanding to the regional level.

The financial sustainability of these services will mainly depend on the stimulation of demand at farming and production level, and continuing donor initiatives.

Private Sector

The private sector is yet another important stakeholder. The larger entities, like exporters, processors, wholesalers deal with the large base of small supplier farmers, therefore, their development eventually affects the well-being and progress of small farms. Large producers, processors, exporters and other private businesses may be the good partners for establishing private-public partnerships and support development of the farmers.

4.3. Assessment of the need for training of the agriculture and rural economy stakeholders, including private sector, to utilize ENPARD approaches

State financing for the agriculture sector halved in 2010 due to the economic crisis. There is little overall funding for rural community development, protection of landscape and ecology, other than that provided within the context of donor and IFI funded measures.

The MoA has limited resources and available personnel to take on an extended area of competence. The need for training, extension and preparation for an ENPARD approach is necessary also for other state structures, including the MTA, regional authorities (agriculture department), and most significantly at community level.

National and local capacities and their understanding and involvement would need to be enhanced for communities to play their integral role in specifying and owning local initiatives. Given the importance of farmer cooperation, and the lack of capacity of the farmer associations and cooperatives, increasing capacity and providing for the enabling instruments is central.

5. Review of existing ongoing programmes

5.1. Review of existing programs

The EU programme of financial and technical cooperation supports Armenia's reform agenda. A significant number of projects are currently being carried out across a wide-range of sectors, regions and cities in Armenia. EU assistance focuses in particular on support for democratic development and good governance, regulatory reform and administrative capacity building, nuclear safety, civil society, as well as Vocational Educational Training. EU funding for projects in Armenia is provided in the form of grants, contracts and increasingly budget support. The high-level EU Advisory Group launched in Armenia in April 2009 also actively assists Armenian authorities in their reform efforts.

The relations between the Republic of Armenia and the European Union, including the trade and economic cooperation are regulated by the Partnership and Cooperation Agreement (PCA), signed on April 22, 1996 and entered into force on July 1, 1999. Negotiations on the EU-Armenia Association Agreement: were officially launched in Yerevan, 19 July 2010. This agreement will replace the acting Partnership and Cooperation Agreement. The provisions on the establishment of a Deep and Comprehensive Free Trade Area (DCFTA) between the EU and Armenia will be an integral part of the Association Agreement.

EU

Budget Support Component of the AM FSP 2007: technical efficiency in the area of animal health and phytosanitary policy

- Combating rural poverty in Vayots Dzor region through promoting dynamic and sustained development of agricultural cluster in the milk processing sector and improving milk producers' and processors' access to agricultural supplies and services
- Rural Income Generation Project: *Ararat province*
- Strengthening agricultural potential of Armenia's rural communities through capacity building for introducing successful models of mainstreaming farmers associations and agricultural cooperatives of Armenia
- Strengthening of animal origin food and feed safety control in Armenia
- Support to the revitalization of agriculture at the municipality of Jujevan through attainment of new agricultural methodology and environmental stability

Bi-lateral aid from EU countries

German Technical Cooperation programs includes support to SME, beekeeping and organic agriculture sectors, environment and biodiversity, value chain development based on wild plant resources and organic agriculture. These aspects are mainly included in regional development programs, capacity building and Public-Private-Partnership concepts.

The Netherlands, IFAD and the World Bank are engaged in various agriculture and agri-business projects. Swiss project assistance to Armenia is provided in the fields of Economic Development and Employment, Disaster Risk Reduction, Recovery and Reconstruction. Rural market and value chain development apply the so-called making markets work for the poor approach.

Agricultural machinery is provided to farmers via Armenia- Japan (2KR) and Armenia-China bilateral cooperation. FAO and UNDP had a project for organic regulation and stakeholder

analyses and the Dutch Ministry of Foreign Affairs via Avalon Foundation supported organic and agro-environment initiatives. Several projects were supported at NGO level and supported by EU and other governments, such as Germany, The Netherlands, Norway, Switzerland, other countries.

German Technical Assistance (GIZ)

A priority area of cooperation is sustainable economic development, with a particular emphasis on creating an appropriate framework for sustainable development. GIZ work on behalf of BMZ mainly focuses on municipal and economic development and on legal reform and advice.

KfW

German Financial Cooperation with Armenia began in 1995 and operates in the areas of financial sector development for SMEs, in investment in renewable energy and regional power transmission, in rehabilitation of water supply systems in Armavir, Gyumri, Vanadzor and surrounding villages, with future plans for waste management sector.

German PTB

In the framework of its regional projects supports Armenia' quality infrastructure development and compatibility in areas of capacity building of food testing and energy sector labs (2010-2016).

The EBRD

EBRD is the largest single investor in Armenia with investments of more than EUR 200 million in all major sectors of the economy. The EBRD's strategy in Armenia is to "target primarily the development of the local private sector that is small and medium-sized enterprises and the banking sector."

FAO¹⁴

FAO assists the Government of Armenia to implement a rural enterprise and small-scale commercial agriculture development project funded by the World Bank.

- **EMPRES** animal health component: the Emergency Prevention System for Transboundary Animal and Plant Pests and Diseases (EMPRES) focuses on several livestock diseases in Armenia. Armenia is also currently benefiting from a project on brucellosis control.
- **National TCP Projects**
 - TCP/ARM/3302 - Apricot Genetic Resources Conservation and Utilization
 - TCP/ARM/3203 - Afforestation and Reforestation
 - National FAO-Government Cooperative Programmes (GCP) in Armenia:
 - GCP/ARM/003/GRE - Support for Pesticide Quality Control and Residue Monitoring in Armenia
- **GCP/ARM/004/GRE - Support for Abattoir Development in Armenia**
- **Regional projects**
 - EC/FAO Project on improvement of decision making in food security via establishment of information system.
 - Capacity building of small farms via introduction of seed production, irrigation technologies and animal registration systems
 - Prevention of foot-and-mouth disease in Caucasian countries (Georgia, Armenia and Azerbaijan) and capacity building in reaction in emergency situations

¹⁴ last updated: 29 June 2011 <http://www.fao.org/countries/55528/en/arm/>

USAID

USAID programs are focused on (a) completing the next stage of reforms, (b) institutional development of the governing and regulatory bodies, and (c) ensuring the delivery of safe, reliable, affordable and accessible public services. Upgrades to the rural infrastructure were the subject of MCA assistance, which ended in 2010, where the rural infrastructure was built-up in many regions, including roads and irrigation system within the component “*From Water to Market*”.

- **Assistance to the Energy Sector to Support Energy Security and Regional Integration (ESRI)**
- **“Revive a River”**: Municipality of Dilijan, the Coca Cola Corporation, and the Government of Armenia (through EBRD funding and Municipality of Dilijan) will install a wastewater treatment plant on Aghstev River.
- **Collection & Recycling of Plastic Refuse** public private partnership program is designed to improve the quality of potable water sources by the collection and mechanical recycling of plastic containers
- **Clean Energy and Water Project**: promote integrated energy and water planning, advice the Government of Armenia.
- **Enterprise Development and Market Competitiveness (EDMC)** raise incomes and employment by promoting growth in selected value chains (VCs) with export potential.

World Bank

- Community Agricultural Resource Management and Competitiveness Project
- Irrigation rehabilitation emergency project
- Social investment fund III second additional financing
- Lifeline roads improvement project

The World Bank initiated in 2011 the preparation of a concept of sustainable agriculture for Armenia and fed into a larger WB policy report on Agriculture and Rural Development. This review describes the directions highlighted in the WB concept. The **WB survey on sustainable agriculture in Armenia** resulted in a 10 point policy agenda is proposed for priorities and actions that can help foster the conditions for promoting more sustainable farming systems in Armenia.

IFC

IFC Armenia Investment Climate Reform Project (2011-present): improve the investment climate in Armenia by increasing the effectiveness of regulation in four key areas, of which one is food safety.

IFC Armenia Food Safety Improvement Project (2012- present): increase the competitiveness of Armenian food producers by improving their food safety practices

IFAD¹⁵:

IFAD in Armenia shift in focus from food security alone to include market-oriented agricultural production as well. New IFAD investments in Armenia favour effective responses to rapid changes in the business, financial and agricultural sectors as the country’s economy continues on the road to recovery.

Swiss Development and Cooperation (SDC) Agency

Under the Cooperation Strategy 2008-2012 the intervention and analysis in the *Economic Development and Employment* domain is guided by the so-called “make markets work for the

¹⁵ <http://operations.ifad.org/web/ifad/operations/country/home/tags/armenia>, www.ebrd.com/pages/country/armenia/strategy.shtml

poor” (M4P) approach and the principle of “pro-poor growth”. Projects focus on rural market development, aiming to support and strengthen selected agriculture value chains such as dairy, meat, vegetables, as well as mixed farming and increase the livelihoods and economic security of the rural population in selected geographic areas.

5.2. Benchmarks in the framework of agriculture and rural development policies

Cooperation between the EU and its Eastern European partners - the Republic of Armenia, the Republic of Azerbaijan, the Republic of Belarus, Georgia, the Republic of Moldova and Ukraine – is a crucial part of the Union's external relations. In the field of regional policy, a dialogue is in place with Ukraine and work programmes agreed with Georgia and the Republic of Moldova. Large programmes on regional development are ongoing in Ukraine and Georgia and discussions are ongoing with the governments of Armenia and Azerbaijan on their respective preparation of regional development strategies.

In the field of agriculture and rural development, sector dialogues are taking place. To strengthen the cooperation in the field of agriculture with partner countries, the Commission has started work on a general approach to support this sector through ENPARD. It is expected that ENPARD will help partner countries to operate more effectively in foreign markets, to benefit fully from the future DCFTAs, to stimulate farming domestically and to promote long-term agricultural and rural development strategies.¹⁶

Despite the understanding of multifunctional role of agriculture and importance of rural development the real situation in rural areas is far from ideal. To address an ENPARD approach supporting Rural Community Empowerment and Livelihoods Enhancement, rural communities should fully participate in the process. Become empowered in considering and determining priorities and being involved in implementation of development, including co-financing. This involvement will include rural households, leaders in rural communities, civic groups including public private partnerships, and the active involvement of business. Budget frameworks and sources of funds will have to be identified.

Benchmarking the process will relate to:

- Empowering the rural communities by strengthening the capacity of the local administration and facilitating the participation of the local communities in rural development activities.
- Identifying and implementing demand-driven agricultural production and post-harvest projects and diversifying rural activities and employment opportunities and market access.
- Increasing levels of understanding of opportunities to respond to climate change and management of natural resources by the development of specific regional and community programmes that focus upon appropriate and good practices.

The development process would have to be benchmarked for both quantitative and qualitative outcomes. A central issue is good practices, as evidenced by the amount of arable land that is being marginalised and set aside. Benchmarking should include the qualitative aspects of promoting more sustainable and adaptive farming systems, a Code of a Good Agricultural Practice for Armenia, standards and regulations integrated within the support and subsidy systems.

¹⁶ EaP: Roadmap to Autumn 2013 Summit
http://ec.europa.eu/world/enp/docs/2012_enp_pack/e_pship_roadmap_en.pdf

6. Bottlenecks and SWOT analysis

6.1. Sectors specific SWOT analysis

The agricultural production sector is vulnerable to a series of risks of both a natural and anthropogenic character with a strong, negative impact on agriculture. Food self-sufficiency and food safety are priority of the Agricultural Strategy of Armenia, 2010-2020. The development of this strategy utilised a SWOT.

SWOT Analysis for Agriculture and Rural Development

Strengths	Weaknesses
<p>Rural Development</p> <ul style="list-style-type: none"> • GoA recognizes the importance of rural development and local participation • GoA provides state support to SME development through SME DNC activities • Rural businesses (for example, processing) are close to raw materials and resources • Rural businesses have good value adding potential • Low entry barriers to business start-up • Availability of skilled human resources • High level of gasification of rural areas • Liberal market system • Conditions for telecommunications and Internet availability • Cooperation with EU in food safety, animal health protection, renewable energy ongoing <p>Agriculture</p> <ul style="list-style-type: none"> • One of the major and prioritized sectors of national economy • Land and agricultural means privatized • Favourable climate conditions and diverse climatic zones • Land resources available for further growth • Low level of monopolization • Favourable tax environment for agriculture • Good reputation of Armenian products in CIS markets • Dynamic growth of certain sectors • Good potential for export increase 	<p>Rural Development</p> <ul style="list-style-type: none"> • No policy framework or instruments • Infrastructure and institutional development underdeveloped especially in remote areas • Low productivity and outdated technologies • Lack of business management skills and expertise • Limited local markets • Lack of access to markets, business services, information • Inefficiencies of local business environment • Local self-government bodies are not financially motivated to activate business in their communities, as it does not result in increased budget revenues; • Restricted access to pension scheme due to undefined legal status of land owners <p>Agriculture</p> <ul style="list-style-type: none"> • Fragmented land plots, semi-subsistence farming systems • Outdated farming and production systems leading to low productivity • Lack of modern machinery and infrastructure • High cost of agricultural inputs and services, including labour • Inefficient use of land resources • Poor agricultural practices lead to environmental problems • Unmet demand for investments and credits, • Low level of cooperation among producers, cooperative development not adequate • Quality problems, value chain inefficiencies, non-developed marketing linkages • Low level of extension and advisory services

Opportunities	Threats
<p>Rural Development</p> <ul style="list-style-type: none"> • Participatory assessment and development of local economic development strategies adapted for each region/village • Cooperation development (such as “One village, one product” initiatives) • Improvement of the irrigation and rural infrastructure by developing the roads and social structures to support rural development and income generation • Improvement of regional and local governance • Effective cooperation between local businesses, authorities and other stakeholders on the basis of LED strategies and priorities • Capacity building of rural municipalities to support business development • Decentralization of businesses • Increase of social protection of rural population <p>Agriculture</p> <ul style="list-style-type: none"> • Increase of agricultural production through land consolidation and intensification of resource utilization • Introduction of new farming systems, good agricultural practices • Modernization of infrastructure, machinery and processing facilities • Improve access to finance • Export market orientation, diversification of export markets and products • Improve quality and food safety to comply with European standards • Improve investment and business climate to attract investments • Strengthen research-extension-agriculture links towards sustainable agriculture • Modernization of quality infrastructure and management to access new markets • Promote sustainable agricultural practices and mitigate environmental risks 	<p>Rural Development</p> <ul style="list-style-type: none"> • Economic crisis may prevent industry reforms and general economic development • Local self government (municipalities) have very limited “survival” resources to support rural business development • Environmental risks (abuse of resources, forest logging, land degradation etc.) • Migration from rural areas • Closed borders and high transportation costs hinder export development • Disproportionate development of rural areas, gap • Unfavourable demographic dynamics <p>Agriculture</p> <ul style="list-style-type: none"> • Abuse of natural resources , non following sustainable agriculture principles may lead to environmental problems in mid- and long-term perspectives • Lack of political will to implement reforms and strategies • Quality and consistency of government strategies and their implementation • Frequency of natural disasters including drought, spring frosts and hail. Low level of disaster preparedness. • Regional political instability, geographical isolation • Increasing global competition • Vulnerability of agriculture to global climate changes • Risks of animal diseases transfers in the region

6.2. List of the most relevant priorities areas

A more sustainable model of rural development including an agriculture system that is better connected to the markets and offers families and farmers a more rewarding lifestyle and level of income is required. To this end, the most relevant priorities areas refer to intensifying agricultural production and marketing systems, improving land use, increasing efficiency of farming and production systems in compliance with good agricultural practices and an increase in the competitiveness of products.

The priorities may be structured as follows:

Axis 1 - Improving Agricultural Productivity, Market Efficiency and Food Safety and Quality Standards

- Effective use of agriculture production resources (especially land resources) through various types of cooperation, primary producer and processor integration, introduction of new technologies, etc
- Sustainable agriculture and rural development introducing good agricultural practices and cross-compliance mechanisms
- Modernization of production and processing machinery, equipment and technologies
- Provision of food security and increase self-sufficiency for major food products
- Food safety, product quality and SPS measures improvement; their approximation to European standards
- Improve market efficiency at domestic and overseas markets; improve cooperation along the value chains.

Axis 2: Development of the Rural Economy (Diversification, infrastructure)

- policy framework for rural development
- Community led Local Economic Development strategies/plans
- Support to non-farm employment through SME development
- Modernization of rural infrastructure
- Assistance to establishment of Private Public Partnerships at the local level

Horizontal capacity building support based, among others on Member States expertise; Capacity building of stakeholders of rural development strategies (e.g. farmers, civil society, water users); Institutional capacity building of national and local administration

7. Recommendations on actions that could be implemented in a bilateral context¹⁷

Year	Wheat Production		Wheat Imports	
	Quantity	% of Requirement	Quantity	% of Requirement
2002	285,000	18.26 %	300,000	158.62 %
2003	216,000	-24.21 %	300,000	0.00 %
2004	291,000	34.72 %	200,000	-33.33 %
2005	258,000	-11.34 %	250,000	25.00 %
2006	146,000	-43.41 %	170,000	-32.00 %
2007	254,000	73.97 %	217,000	27.65 %
2008	226,000	-11.02 %	359,000	65.44 %
2009	198,000	-12.39 %	350,000	-2.51 %
2010	225,000	13.64 %	257,000	-26.57 %
2011	225,000	0.00 %	387,000	50.58 %
2012	240,000	6.67%	325,000	-16.02%

USDA

At the same time a certainly of supply from traditional sources can no longer be taken as a given, following widespread drought conditions in the wider region, with increasing incidence, and severity. The drought year import figures illustrate the sensitivity of national supply chains for wheat. In parallel bad, or inappropriate practices, and border hostilities, are putting more and more arable land, which is highly limited, in size and by region, out of production.

On the rural development front the same position applies, a range of paper instruments and priorities, but a lack of resources to implement and enable actions, primarily aimed at making life in rural areas more tolerable, reduce outward migration, which somewhat ironically is pushing the price of labour in rural areas higher as the economically active leave in search of better conditions and lifestyle.

Wheat is the *de facto* index for primary agricultural support actions and food security in the South Caucasus. Armenia, in common with its neighbours, relies on wheat imports, every year. Armenia has to import more than half its annual wheat requirement, the staple primary commodity grain. In many ways wheat is the metaphor for agriculture, and a focus of national support actions. In the context of increasing incidence of natural and climatic constraints on production, this must continue to be the case.

¹⁷ EU / Armenia Action Plan http://ec.europa.eu/world/enp/pdf/action_plans/armenia_enp_ap_final_en.pdf

7.1. Identified gaps for development of agricultural and rural sector in the framework of future actions

Gaps and priorities in the region have been highlighted under three main directions:

1. Lack of a rural development policy

Identified as an important regional gap in the development of an ENPARD. The consideration of this gap is of primary importance in respect to:

- A common rural development policy and supporting mechanism;
- Local Action Groups - their role and formation;
- Development of a package of good agricultural practices together with enforcement and monitoring procedures.

2. Producer Organisations

A pressing issue and major constraint is related to land fragmentation and the instruments that could be used to develop the enlargement of holdings through cooperation and association. In this respect a regional position is needed on the formation of cooperatives / producer organisations. To define the products and services, and to set out the requirements to be eligible for support, where the basic features would be that they: be voluntary; contribute to the general aims of the regime, and; prove its utility by the scope and efficiency of the services offered to members.

3. The modernisation of the infrastructure

There are a number of value chains that are of relevance in the sector. The main constraints identified during the assessment, being:

- Low level of professionalism and training in rural communities
- Gaps in standards, regulations, legislation and comparative information
- Under-developed food safety system: sanitary-veterinary

3.1 Milk and milk products

In the EaP as a whole the most valuable commodity groups are milk and meat, for both domestic supply and international trade. In the milk sector, in most countries in the region, production is currently undertaken by households, utilising free access pasture and range lands. The milk and milk product supply chain is a primary candidate for consideration on a national basis, and regional basis, in dealing with the needs for modernisation, enterprise development and supporting reforms and legislative development. Issues include:

- Common and harmonised standards for dairy and dairy products in the region;
- Measures for the commercialisation of dairy (milk) production in the region;
- Measures to achieve accreditation status of farms (brucellosis free) for enterprises and communities in the region through the implementation of animal diseases prevention and control programmes, specially for brucellosis and tuberculosis, which can easily spread among animals and humans through milk and milk products
- Measures to achieve a higher quality and added value of milk products (e.g. geographical indications of milk products could be promoted following the successful GI on Georgian wines)

3.2 High Value Agriculture (HVA)

- The plant based value chain of especial importance to private household land users is HVA, in particular fresh fruits and vegetables. These products form important elements of family incomes and land use, domestic supply and international trade. Land use for HVA production includes nearby lands (kitchen gardens and yards) and arable lands in irrigated areas.

7.2. Proposals for actions in Armenia and the South Caucasus to address these gaps

The logical position would be to build on these very clear issues, but in the first case by:

1. **Balanced policy budgeting:** establishing **priorities** by balancing targeting with resources
2. Bringing into force the means to link support with a requirement for **good practices**, based upon an **agriculture codex**, so that support is conditioned on the need to abide by, and demonstrate such practice.
3. Develop a **rural development policy**, within the overall context of **regional development plans**, that targets measures clearly linked to agriculture and related environmental issues. In this case the list is well defined, not least related to pasturelands, water and the common infrastructure specific to agricultural development.

Coordination of EU Assistance

The ENPARD is a policy initiative for EaP countries where agriculture and rural development is important, and is declared as a priority area within the context of the country strategy plan, within the next programming round for ENP partnership and assistance programs, 2014-2020.

Armenia expects that the ENPARD dialogue will develop and progress into actions means and actions to improve the competitiveness of agricultural production, and measures to improve livelihoods and conditions in rural areas. This opinion was expressed by the officials during the ENPARD workshop held on October 12th, 2012 in Yerevan.

1. **Policy issues:** adaptive agriculture and rural development, in preparation for the next programming period, 2014-2020.
2. **Training and dissemination** to the Armenian authorities
3. **Interim preparatory pilot projects:** Sustainable agriculture approach
Rural development model

8. Identification of regional gaps and priorities and recommendations for future actions

Cooperation between the EU and its Eastern European partners - the Republic of Armenia, the Republic of Azerbaijan, the Republic of Belarus, Georgia, the Republic of Moldova and Ukraine – is a crucial part of the Union's external relations. The EaP countries form two discrete geographic blocks: the South Caucasian countries of Georgia, Armenia and Azerbaijan, and the Central European countries of Moldova, Ukraine and Belarus.

Eastern Europe (EE)

Belarus, Moldova and Ukraine

Eurasian steppe lands and black soils of Moldova and Ukraine, the marshes, forests and loamy soils of Belarus



South Caucasus (SC)

Armenia, Azerbaijan and Georgia

Trans-Caucasus, the borderlands of Eastern Europe and South-West Asia, defined by the Kura-Aras River Basin, between the Black and Caspian Seas



Platforms are the main tool of the Eastern Partnership (EaP) multilateral track. They reflect the four main areas of cooperation between the Eastern Partner countries and the EU, namely:

- Democracy, good governance and stability (platform 1);
- ✓ **Economic integration and convergence with EU policies (platform 2);**
- Energy security (platform 3) and
- Contacts between people (platform 4).

In accordance with the General Guidelines and Rules of Procedure of the Eastern Partnership Multilateral Platforms (5 June 2009), an “**Eastern Partnership Panel on Agriculture and Rural Development**” has been established. The Directorate General for Agriculture and Rural Development chairs the Agriculture and Rural Development Panel and Directorate General for Development and Cooperation assure consistency of the Panel's proposals with the EU development policies and guidelines.

The Panel objectives shall be the following, as confirmed by the participants of a regional technical workshop on "Agriculture and Rural development in the Eastern Partnership Countries held in Brussels on 19 November 2012:

- facilitate the exchange of experiences and best practices on sustainable development of agriculture and rural areas in the EU and in the Partner Countries, including on sector-specific strategies, policies and institutional capacities,
- serve to support further development and implementation of the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) – by identifying sector challenges common to the Partner Countries and supporting the Partners in designing common solutions to be applied at national and regional level,
- Improve consistency and avoid duplication of measures taken by Partner Countries at national and regional level.

Activities of the Panel shall include:

- Sharing of information and best practices between the Participants (in the form of presentations and exchange of views), including on policy approaches, procedural requirements (incl. stakeholder involvement), administrative and organisational requirements, etc.,
- Identification of areas of intervention that could be considered while identifying programmes to be co-financed by the EU and/or the international financial institutions (IFIs).

8.1. Assessment of regional variations and disparities in agriculture production and rural development, including the livestock sector

In general there are distinct differences between the South Caucasian and Eastern European countries that make up the Eastern Partnership. In the South Caucasian countries the 'self employed' smallholders make up 97.33% of all holdings and account for practically all production of plant and animal products. The 'self-employed' have, in common with the same categories in the Eastern European countries, no fiscal or statistical identity, paying no taxes other than levies or land taxes at local level. Statistics are very broadly based, practically anecdotal, with no data available on market participation, economic size, and actual working units.

The small land holdings held by the rural population following land distribution (except in Belarus) are subdivided into separate land plots, by type, including kitchen gardens. This combined with little association or cooperation, results in a peasant based agriculture. A lack of any packing, storage, Handling and distribution infrastructure and market networks constrains value adding through quality and longer season availability with high wastage.

A. Land Use: the EaP6 (SC3 & EE3) compared to the EU27¹⁸				
	SC3	EE3	EU27	TOTAL
Land area Total	18.63M Ha	84.51M Ha	400.42m Ha	503.56M Ha
Agriculture area Ha	9.91M Ha	53.92M Ha	170m Ha	233.8M Ha
Agriculture Area %	53.2%	63.8%	42.5%	46%
Arable 61%	3.25M Ha	42.62M Ha	97.3m Ha	143.2M Ha
Permanent 5%	0.57M Ha	1.33M Ha	10.9m Ha	12.8M Ha
Other 34%	5.60M Ha	9.97M Ha	61.8m Ha	77.37M Ha
B. Land Tenure: the EaP6 (SC3 & EE3) compared to the EU27				
Population Total	16.7m	58.82m	502.5m	578.02m
Rural %	45%	31.55%	23%	24.5%
Rural total	7.51m	18.56m	115.57m	141.64m
In agriculture %	44.3%	9.2%	5.2%	6.7%
In agriculture	7.4m	5.35m	26m	38.75m
Number holdings	2.7m	7.8m	14m	24.5m
Average size HH	1.48Ha	1.4Ha	14Ha	
Private / HH	97.33%	45.9%	47% ¹⁹⁾	63.41%
Agri-Enterprises	2.67%	54.1%	53%	

¹⁸ EU27 statistics drawn from EUROSTAT, EaP6 as available, and not on the same basis

¹⁹ Defined as less than 1 ESU = € 1200

A common feature of the South Caucasian countries, especially following the 2007 drought and restrictions on imports from traditional suppliers of grains, is a push to develop a reliable supply of foodstuffs, especially of wheat. This objective is being supported by area payments and input subsidies provided through treasury arrangements.

This push for grain production is itself forcing land consolidation / efficiency initiatives - both formal and through legislative arrangements for producer and agriculture cooperatives, combined with fiscal arrangements to lift barriers, including turnover and VAT thresholds. There are also significant problems in these countries regarding a requirement for irrigation and the consequent problems due to inappropriate practices with salinity, causing land losses to production as well as significant areas of unused land, simply left idle by the owners - many hundreds of thousands of hectares.

In contrast are the very large enterprises in Eastern Europe, in particular Belarus and the Ukraine. However, in the Ukraine and Moldova, there are also very large numbers of title holders of small agriculture land plots, including kitchen gardens, demonstrating the same problems and constraints to development as in the South Caucasian countries, just with better soils and climatic conditions.

The South Caucasian countries contain very large areas of state owned and communal pasturelands, which are used as the only source of grazing of animals, owned on an individual basis. The herding of animals on a large scale on these pasturelands, summer pastures on the highlands that also form borderlands, results in problems of both a lack of range / grassland management and animal disease control, in-country and trans-boundary. The list of zoonoses present and endemic in the area is extensive. In the Ukraine and Moldova livestock tend to be held by small-holders and grazed on near-by communal lands, there-by constraining production and putting great pressure on (unmanaged) pastures and on ground waters as the animals are housed on household yards.

Trade and enterprise development is a complex issue in all the countries, including negotiation of quotas and tariffs within the trading blocks, including the EU, the Customs Union and in the wider WTO context.

At national level the issues are more pragmatic, not least the incorporation of common rules and standards, information on performance and cost structures, and technical barriers, most significantly SPS.

8.2. Recommendations on actions that could/should be implemented in a regional context

Framework for multilateral cooperation

It is expected that ENPARD will help partner countries to operate more effectively in foreign markets, to benefit fully from the future DCFTAs, to stimulate farming domestically and to promote long-term agricultural and rural development strategies.

The main regional similarities that feature to a greater or lesser degree in each of the EaP countries' ARD sectors can be clustered in two distinct groups, namely (a) Agri-food supply chain constraints and inefficiencies and (b) Institutional and policy constraints and inefficiencies:

A. Agri-food supply chain constraints and inefficiencies:

- A.1 Fragmented land holdings and lack of producer cooperation and integration
- A.2 Low level of professionalism and training in rural communities
- A.3 Gaps in standards, regulations, legislation and comparative information
- A.4 Lack of food security in strategic cereal and animal origin products
- A.5 Outdated technology and lack of appropriate infrastructure in rural areas
- A.6 No codex or incentives for good agriculture practices

B. Institutional and policy constraints and inefficiencies:

- B.1 Under-developed food safety system: sanitary-veterinary
- B.2 No rural development policy, assigned competence or budget resources
- B.3 A concentration on production subsidies with no cross compliance mechanism
- B.4 A need to prioritise the many priorities & include within budget frameworks

All of the above challenges can be differentiated by scale in each country, approaches to sector support, policy priorities and objectives, and the extent of involvement in trade but the commonality of the challenges and some of the ways in which these might be overcome provide a platform for further consideration of regional activities that could provide support and benefits for all countries of the region. These support areas/ needs can be considered to fall within three broad thematic areas, as follows:

1. *Agriculture and Rural Development policy, institutional and regulatory framework development*

The rural populations in all EaP countries have long been taken for granted and often ignored in the policy and programming process. One of the consequences of this policy vacuum has been the gradual depopulation of rural areas as the economically active migrate to cities or abroad. These negative demographic trends, combined with a need for a vibrant working population to support agri-industry require a more robust policy and institutional commitment to be developed in response.

1.1 Rural development policy, competence and budget resources

- 1.1.1 Clear rural development policies, assigned competence and strategic priorities, supported by a defined budget framework

- 1.1.2 policies and programmes to promote food security in strategic cereal and animal origin products and realignment of production subsidies and support payments to ensure cross compliance / improvement in farming practices and standards

1.2 Standards and regulations

- 1.2.1 Fill gaps in agri-food product standards, regulations, legislation and comparative information on production (gross margins)
- 1.2.2 Develop systems to ensure food safety and animal health standards

2. Agriculture and livestock sector competitiveness and sustainable productivity enhancement

2.1 Land management and improving the environment

- 2.1.1 Develop policies and programmes to address fragmented land holdings and lack of producer cooperation and integration
- 2.1.2 Develop programmes to increase professionalism and vocational training of both farming and non-farming rural stakeholders
- 2.1.3 Promote improvements in the access and use of appropriate technology and appropriate infrastructure in rural areas
- 2.1.4 Develop sensible and manageable codex for good agriculture practices

3. Community-led rural development

3.1 Improve the quality of life and encourage diversification of economic activities

- 3.1.1 Promote more community driven rural development responses to improve conditions in rural areas
- 3.1.2 Promote support systems and measures to encourage (sustainable) diversification of rural economic, social and cultural activities

9. Conclusions and lessons learnt

This study, "*Assessment of the Agriculture and Rural Development Sectors in Armenia*" has reviewed the importance of agriculture and rural development sectors of Armenia, recognizing their significant proportion and importance for the national economy, and a crucial need for modernisation.

The study covered all stakeholders involved in the agriculture and rural development sectors, including representatives from governmental bodies, international organizations, donors, and non-governmental organizations. The information included in the study envisaged:

- background and key figures of agriculture and rural development sectors in Armenia;
- status of government policies for the agriculture and rural development;
- strategic priorities areas and key measures concerning the development of agricultural policy in Armenia;
- information of the EU- Armenia relations and the principles for supporting agriculture and rural development;
- the importance of identifying problems and solutions for agriculture and rural development;
- How correspondent Government programs fit into the ENPARD approach, and possibility of benefiting of EU funds through an ENPARD programme.

9.1. Conclusions

Armenian agriculture does not fully utilize its potential and currently has low productivity and competitiveness. Degradation of natural capital (land, water, forests etc.), decreased production of main crops and animal, biodiversity damages, volatility of ecological balance are among the issues challenging development of Armenian agriculture. Rural poverty, lack of employment opportunities and low level of rural livelihood are amongst the vulnerabilities of Armenian rural areas.

In October 2012, a Workshop (Annex 1), involving main stakeholders, was organised to identify and define national initiatives and priorities for agriculture and rural development sectors. The main findings and recommendations were that Rural Development is one of the identified priorities for the Country, and given the importance and contribution of the Agriculture and Rural areas in the national population share, employment, GDP and employment it is likely to stay as a priority. Currently the main policy framework is under revision and a number of legislative frameworks are in development.

Although a general awareness exists in the institutions and support mechanisms are prepared, over the years the lack of appropriate funding has resulted in limited agriculture and especially rural development support. Therefore it is recommended that ENPARD support would be aimed at supporting measures for both axes 1 and 2 types of activities. It is unlikely that the Government, due to the budget constraints, would be in a position to provide matching funding activities supported by ENPARD.

Overall, the conclusions and recommendations coming from this assessment are that:

- Agriculture and rural development are the priorities for Armenia and will continue to be in the mid-term perspective.
- Regulatory framework for agriculture sector development in general exists or is under review. The enforcement mechanisms and practices are lagging.
- In general, Armenian agriculture development and rural development priorities fit to ENPARD approaches Axes 1 and 2, but the list of priorities for ENPARD program development should be further “prioritized”.
- In “the Strategy for Agriculture and Rural Development 2010-2020” and other policy documents the main emphasis is on agriculture development which mostly relates to the ENPARD Axis 1. Rural development is present in the name of the document but is not elaborated.
- Rural development priorities are stated in various policy documents but are not put into one logical framework which requires their structuring and elaboration to match to Axis 2 direction.
- A capacity building component is overlooked in the priorities and strategies though this is an acute need; all levels in the state institutions and non-state stakeholders.
- Recommendations:
 - A more coordinated approach is needed. It is recommended to establish an ENPARD working group (likely under Prime Minister or within relevant ministries) and elaborate mechanisms to ensure coordination and transparency among the state bodies and other stakeholders and beneficiaries involved in the preparation process.
 - Prior to ENPARD programming, awareness on ENPARD philosophy and approach should be raised among all the stakeholders.
 - Preparation will need to include needs assessment of various sectors and determination of the most appropriate directions and pilot projects.
 - During the process of programming, participatory approach should be utilized with involvement of community leaders.

A technical support element within the ENPARD programme will be of special relevance, as it will assist in the build-up of the legislative and institutional frame of the country for implementation of ENPARD type approaches. The Ministry of Agriculture needs strengthening of their capacity and in particular in regards to analytical capacity to assess the implementation of their programmes. Addressing the issue of statistics is an additional priority. It is recommended that ENPARD approach in this programming period are channelled through implementing entities in close cooperation with the central and local authorities, as a way of institutional capacity building. This will ensure that the institutions are able to take a more proactive role in the implementation for the next programming period.

9.2. Common Regional Agenda Items for the Panel on Agriculture and Rural Development

1	<i>Agriculture and Rural Development policy, institutional and regulatory framework development</i>
1.1	Rural development policy, competence and budget resources
1.1.1	<i>Issue: No rural development policy, assigned competence, or strategic priorities within a defined budget framework.</i>
1.1.2	<i>Issue: inclusion of cross compliance mechanisms within state support measures aimed at improving food security in strategic arable (cereals) and animal products.</i>
1.2	Standards and regulations
1.2.1	<i>Gaps in standards, regulations, legislation and comparative information</i> <i>Issue: a need for common standards meeting international and EU standards, to include compliance measures - monitoring and inspection mechanisms for existing regulations</i>
1.2.2	<i>Under-developed system of food safety and animal health</i> <i>Issue: compliance with SPS standards especially veterinary-sanitary for animals and animal products</i>
2	<i>Agriculture and livestock sector competitiveness and sustainable productivity enhancement</i>
2.1	Land management and improving the environment
2.1.1	<i>Fragmented land holdings and lack of producer cooperation and integration</i> <i>Issue: the predominance of small and fragmented land plots leads to inefficient and insecure supply of agriculture products</i>
2.1.2	<i>Low level of professionalism and training in rural communities</i> <i>Issue: access to training and education for rural producers through extension services, farmer schools and college courses</i>
2.1.3	<i>Outdated technology and lack of appropriate infrastructure in rural areas</i> <i>Issue: outdated and inefficient systems for production and post harvest operations including storage, handling, distribution and markets</i>
2.1.4	<i>Regional codex for good agriculture practices</i> <i>Issue: Definition of a codex for good agricultural practices and the supporting mechanisms, including water and irrigation</i>
3	<i>Community-led rural development</i>
3.1	Improving the quality of life and encouraging diversification of economic activities
3.1.1	<i>Promoting community driven rural development</i> <i>Issue: mechanism to enable community participation in agriculture and rural development policy and strategy development</i>

The first proposed topic for the panel on agriculture and rural development (Technical Workshop 19th November, 2012, is: **'What is Rural Development?'**

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11. Annexes

Annex 1: Workshop report

Annex 2: Donor programmes in the sector

Annex 3: Comments from the MoA to the report

Annex 1: Workshop report

“Assessment of the Agriculture and Rural Development Sectors in the EaP countries” Yerevan, Armenia, 12 October 2012

1. Policy Documents related to Rural Development and Agriculture

In the past two decades the Government policy paid limited attention to the agriculture and rural sector. However the allocations recently started to improve. The State budget 2012 provides for direct subsidies amounting to 1.7% of the budget expenditures and grants with 9.2% of budget expenditures. In addition 1.07% of budget expenditures are spent for irrigation.

In the past decade, the agricultural policy has been implemented through a number of Government supported programs directed towards basic and priority goals²⁰, but the scale of intervention limited compared to the set targets and needs.

The strategic policies on agriculture in Armenia include:

- (i) Sustainable Development Program for 2009-2021 (Second Poverty Reduction Strategy);
- (ii) Strategy of Agriculture Development (2010-2020);
- (iii) Food Safety Policy (2005);
- (iv) Tax Administration Strategy for 2008-2011;
- (v) The SME development concept paper from 2000.

Armenia's Sustainable Development Program, approved by the government in 2008, for 2009–2021 aims to reduce poverty, eliminate extreme poverty, economic growth, accelerated development of underdeveloped regions.

The Strategy of Agriculture Development was prepared by the Ministry of Agriculture after which it was endorsed by the Ministry of Territorial Development and the Ministry of Justice. The process of adaptation of the strategy was long.

The Concept for SME Development Policy and Strategy acknowledges the role of SME in development, creating new jobs, raising living standards, and social and political stability.

For creation, development and increasing of competitiveness of community-based SMEs, in 2012 SME DNC of Armenia set a new direction in its policies, a “Local Economic Development” process that aims to identify the economic potential of communities, and to undertake economic development initiatives on that basis to enhance local competitiveness. The activities aim to create local specialties based high value added products which are competitive in internal and external markets. The process is ongoing.

The SME development policy and state support annual programs is part of the mandate of the Ministry of Economy, through the "Small and Medium Entrepreneurship Development National Centre of Armenia" Fund, established in 2002.

The policies of the government are more oriented towards poverty and food security rather than agricultural and rural development. The legislative framework for environmental protection is incomplete and is lacking enforcement mechanisms. Supervision, control, and ministerial

20 Development of primary seed production and livestock, plant and animal health, food safety, erosion, irrigation, access to credit, infrastructure, subsidizing farmers in the most unfavorable agricultural zones, extension and etc.

functions are insufficient and fragmented.

All stakeholders agree that there is a gap in legislations on rural development and non-agricultural income activities in rural areas.

Therefore most initiatives to support rural communities with capacity building and towards diversification of rural economies²¹ are driven by international organizations.

2. Support programs for Agriculture and Rural Development

The Ministry of Agriculture mission develops and promotes the state policy in the field of development of agro-food sector by raising the sector's competitiveness and productivity, rural development, as well as ensuring food safety and security including forestry.

Currently the Ministry is implementing the Cattle Breeding Program for 2007-2015 which is seen as priority due to the dramatic shrinking of the sector. The program aims to import at least 1000 heads of heifers of Simmental, Holstein, Swiss breeds by 2015

The support programmes implemented by the government aim at development primary seed-production²², centralized control of diseases of plants, livestock breeding, animal health, education, information and advisory spheres, forest preservation.

As prices for agricultural inputs are very high and highly restrictive for farmers to invest, the government is trying to intervene with price regulation. The government Has adopted a decree with several measures aiming at mitigation, such as support for credit interests, processing etc., however due to lack of funds none of the programmes are implemented. The insufficient state resources to address the range of problems constraining agriculture and rural development are a chronic problem in Armenia.

3. Participation of stakeholders in the preparation of policy documents and support programs

Participation of the civil society and the scientific community in preparation of policies and support measures including the Strategy on Agricultural development was ensured.

The Farmer Organization sector is fragmented and weak and supported by foreign projects. Most of the small farmers, 95%, are not organized or represented.

Civil society organizations, farmers associations and private sector in Armenia are active in the agricultural and rural reforms. However they are also often acting as extension services for the farmers which lack know-how to overcome problems.

Several active NGOs provide advocacy, support for agricultural and community development, capacity building, consultancy via rural income generation and access to market projects in Armenia.

²¹ organic agriculture, agro- and eco- tourism, access to internet, rural trade, tourism, hospitality and handicrafts

²² Distribution of elite seeds to farmers who return double quantity next year and distribution of mechanization

4. Statistics used in the preparation of policy documents and support programmes

The last agricultural census was done in 1920. Armenia has a specialized service that gathers information and produces publications with statistics. All stakeholders are using these publications as sources for data.

Armenia is currently looking for donors to support the new agricultural census. In addition the forestry census is additional priority for the Ministry of Agriculture.

5. Indicators and targets in the policy documents and support programmes

The strategy on Agriculture contains indicators or targets, as well as an inspection plan. Analysis of progress is done each three months.

All supported programmes must contain indicators which are defined by the cabinet of ministers.

Not all stakeholders agree that the control processes are implemented in accordance to what is prescribed, questioning the ability of the Ministry of Agriculture to analysis the progress as there is no department dedicated for monitoring and analysis.

6. Synergies with programmes implemented by other Ministries and other stakeholders

In regards to synergies between different ministries and coordination with donors there is a general opinion that inadequate exchange of information and poor coordination among agencies implementing policies and supervising projects persists.

Extension services are provided by the government agencies are seen as not adequate, and not addressing the farmer's needs. Therefore much of the extension is still provided by donor funded projects.

7. Investment support mechanisms and access to credits

Apart from few donor projects that have provided assistance to rural communities few initiatives based on investment support has been provided by the Government and in particular the Ministry of Agriculture.

Due attention has to be devoted to the problem of lack of credit access including high interest rates, small grace periods (6 months), lack of collateral and the generally low credit amounts offered to the farmers by commercial lenders.

Credit access for rural residents in general is considered as a mayor constraint and remains an issue compounded by the lack of cash in the rural areas.

8. Institutional setup for agricultural and rural development support

The Ministry of Agriculture is responsible for developing and implementing policies in agriculture, forestry and rural development.

Although this mandate is obviously excluding activities related to SMEs and local policies which seem to rest with the Ministry of Economy. The SME Development National Centre of Armenia is a governmental rural development promoting institutions.

9. Conclusions and recommendations:

- Rural development is one of the identified priorities for the Country, and given the importance and contribution of the Agriculture and Rural areas in the national population share, employment, GDP and employment it is likely to stay as a priority.
- Currently the main framework policies with many aspects being under revision and a number of legislative frames being in development.

Although general awareness exists in the institutions and support mechanisms are prepared, over the years the lack of appropriate funding has resulted in limited agriculture and especially rural development support.

Therefore it is recommended that ENPARD support is aimed for financing of support measures for both axes 1 and 2 types of activities for all rural inhabitants.

In addition, it is unlikely that the Government will provide matching funding activities supported by ENPARD.

- A technical support element within the ENPARD programme will be of special relevance, as it will assist in the build-up of the legislative and institutional frame of the country for implementation of ENPARD type approaches.
The Ministry of Agriculture needs strengthening of their capacity and in particular in regards to analytical capacity to assess the implementation of their programmes.
Addressing the issue of statistics is an additional priority.
- It is recommended that ENPARD approaches in this programming period are channelled through implementing entities in close cooperation with the central and local authorities, as a way of institutional capacity building. This will ensure that the institutions are able to take a more proactive role in the implementation for the next programming period.

Workshop Participants

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Annex 2: Donor programmes in the sector

EU Projects in rural development, territorial planning, agriculture and food security

- Budget Support Component of the AM FSP 2007
Sector: Food aid/Food security programmes
EU Contribution: € 3,000,000.00 (100% of total).
Implementing organisation: RA
Duration: from 02/2009 to 04/2013
Description: The Action location is Republic of Armenia. The overall objective is to improve allocative and technical efficiency in the area of animal health and phytosanitary policy
- Combating rural poverty in Vayots Dzor region through promoting dynamic and sustained development of agricultural cluster in the milk processing sector and improving milk producers' and processors' access to agricultural supplies and services
Sector: Agricultural education/training
EU Contribution: € 150,000.00 (88.24% of total).
Implementing organisation: Centre For Regional Initiatives NGO
Duration: from 12/2011 to 06/2013
Description: The overall objective of the suggested Action is to build capacities of municipalities and other local stakeholders in Vayots Dzor in combating rural poverty through promoting dynamic and sustained development of agricultural sector in the milk processing cluster and improving milk producers' and processors' access to agricultural supplies, services and modern technologies.
Location: Vayots Dzor marz, Republic of Armenia
- Rural Income Generation Project
Sector: Agricultural extension
EU Contribution: € 150,000.00 (75% of total).
Implementing organisation: Stitching Save The Children Nederland
Duration: from 12/2011 to 10/2013
Description: The overall objective of the action is: Increased households' (HH) income in most underserved rural communities of Ararat province through new gardening technology, which will be achieved through four specific objectives.
- Strengthening agricultural potential of Armenia's rural communities through capacity building for introducing successful models of mainstreaming farmers associations and agricultural cooperatives of Armenia
Sector: Agricultural extension
EU Contribution: € 150,000.00 (85.71% of total).
Implementing organisation: Intelligence for Sustainable Development (NGO)
Duration: from 12/2011 to 12/2012
Description: The overall objective of proposed Action is to contribute to the establishment and further development of farmers associations and agricultural cooperatives in Armenia through encouraging public-private partnership aimed at identification of target communities and sectors, assistance in structuring operational modalities and increasing professional capabilities of community stakeholders.
Location: Lori, Shirak and Tavush marzes, Republic of Armenia
- Strengthening of animal origin food and feed safety control in Armenia
Sector: Livestock/veterinary services
EU Contribution: € 1,000,000.00 (100% of total).

Implementing organisation: Koninkrijk Der Nederlanden

Duration: from 04/2012 to 01/2014

Description: Strengthen the relevant Armenian institutions (the Ministry of Agriculture, the State Inspectorate on Food Safety and Veterinary Services and the Central Veterinary Laboratory), by up-grading the safety controls system for animal-origin food and feed up to the EU-SPS and other international standards, in terms of legislation, enforcement, institutional building and general awareness

- Support to the revitalization of agriculture at the municipality of Jujevan through attainment of new agricultural methodology and environmental stability

Sector: Agricultural development

EU Contribution: € 99,750.00 (89.86% of total).

Implementing organisation: Staff of the Head of Jujevan Village Community, Marz Tavush, Ra (Village Municipality)

Duration: from 12/2011 to 12/2012

Description: The overall objective of the action is support to poverty alleviation in Jujevan and neighbouring communities by creating possibilities for community members to produce competitive agricultural production with relatively low costs to sell it in local and regional markets.

Location: Jujevan village, Tavush marz, Republic of Armenia

Bi-lateral aid from EU countries

German Technical Cooperation programs includes support to SME, beekeeping and organic agriculture sectors, environment and biodiversity, value chain development based on wild plant resources and organic agriculture. These aspects are mainly included in regional development programs, capacity building and Public-Private-Partnership concepts.

The Netherlands, IFAD and the World Bank are engaged in various agriculture and agri-business projects. Swiss project assistance to Armenia is provided in the fields of Economic Development and Employment, Disaster Risk Reduction, Recovery and Reconstruction. Rural market and value chain development apply the so-called making markets work for the poor approach.

Agricultural machinery is provided to farmers via Armenia- Japan (2KR) and Armenia-China bilateral cooperation. FAO and UNDP had a project for organic regulation and stakeholder analyses and the Dutch Ministry of Foreign Affairs via Avalon Foundation supported organic and agro-environment initiatives. Several projects were supported at NGO level and supported by EU and other governments, such as Germany, The Netherlands, Norway, Switzerland, other countries.

German Technical Assistance (GIZ)

A priority area of cooperation is sustainable economic development, with a particular emphasis on creating an appropriate framework for sustainable development. GIZ work on behalf of BMZ mainly focuses on municipal and economic development and on legal reform and advice.

The projects implemented as part of the BMZ Caucasus Initiative are an important element of GIZ activities in Armenia. Priority areas of cooperation for the Caucasus Initiative are:

- Sustainable economic development
- Democracy, municipal development and the rule of law
- Environment and natural resources

Within these priorities, various regional programmes are currently being implemented in Armenia in the following areas of activity: economic development, support for legal and judicial

reform, promotion of municipal development, and sustainable management of biodiversity in the South Caucasus: “Sustainable biodiversity management in the South Caucasus” and “Sustainable economic development – component on private sector development”

KfW

German Financial Cooperation with Armenia began in 1995 and is being implemented by KfW Entwicklungsbank on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ). It operates in the areas of financial sector development for SMEs, in investment in renewable energy and regional power transmission, in rehabilitation of water supply systems in Armavir, Gyumri, Vanadzor and surrounding villages, with future plans for waste management sector.

German PTB

In the framework of its regional projects supports Armenia’ quality infrastructure development and compatibility in areas of capacity building of food testing and energy sector labs (2010-2016).

The EBRD

In light of economic environment, the remaining transition challenges and EBRD’s ability to support the reform agenda in Armenia, the Bank has identified four main strategic priorities for the next strategy period:

- Developing the financial sector and improving access to finance
- Improving municipal and urban transport infrastructure
- Developing agribusiness and high value-added, export-oriented industrial companies.
- Improving the regulatory and institutional framework for sustainable energy and increasing value-added in the mining sector.

The EBRD is the largest single investor in Armenia with investments of more than EUR 200 million in all major sectors of the economy. The EBRD’s strategy in Armenia is to “target primarily the development of the local private sector that is small and medium-sized enterprises and the banking sector.”

FAO²³

FAO is assisting the Government of Armenia to implement a rural enterprise and small-scale commercial agriculture development project funded by the World Bank.

EMPRES animal health component: the Emergency Prevention System for Transboundary Animal and Plant Pests and Diseases (EMPRES) focuses on several livestock diseases in Armenia. Armenia is also currently benefiting from a project on brucellosis control. Although Armenia has never reported outbreaks of highly pathogenic avian influenza (HPAI), the country is a beneficiary under five ongoing HPAI projects. EMPRES plant health component: Armenia is affected mainly by the Italian Locust and is part of a recently approved regional project. This project includes nine countries (Afghanistan, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) and aims to improve national and regional locust management in the Caucasus and Central Asia. It was prepared on the basis of the experience gained within EMPRES. Its long-term objective is inspired by the EMPRES approach of promoting preventive control in order to reduce occurrence and intensity of locust outbreaks and avoid their development into major ones.

²³ last updated: 29 June 2011 <http://www.fao.org/countries/55528/en/arm/>

National TCP Projects

TCP/ARM/3302 - Apricot Genetic Resources Conservation and Utilization

Duration: March 2011 to February 2013

Budget: US\$ 355,000

The project will assist the Ministry of Agriculture in its effort to contribute to sustainable development through establishing the basis for the improvement and modernization of the apricot production sector which will lead to a significant increase in food security, employment opportunities and income generation. The main outcome of the project will be to reinforce the foundations of a solid apricot industry through the collection and preservation of apricot genetic resources and the introduction of suitable varieties and rootstocks and appropriate technology for fruit and planting materials production.

TCP/ARM/3203 - Afforestation and Reforestation

Duration: 2010 to 2012

Budget: US\$ 432,000

The project focuses on the development of human resources in the fields of seed collection, nurseries, plantations and natural regeneration. In close collaboration with the national Forest Program, it intends to implement capacity building measures as well as small pilot projects. The assistance is expected to contribute to the development of forests in Armenia through afforestation and reforestation and thus improve economic prosperity in rural areas and to lead to improved contribution of forest land use to sustainable development of natural resources, particularly forest ecosystem.

National FAO-Government Cooperative Programmes (GCP) in Armenia:

GCP/ARM/003/GRE - Support for Pesticide Quality Control and Residue Monitoring in Armenia

Duration: February 2009 to February 2013

Budget: US\$ 2,000,000

The development objective of the project is to contribute to sustainable development of the agricultural sector through less Hazardous agricultural inputs leading to improved agricultural practices, safer food and a cleaner environment as well as to the reduction of risks associated with the use of pesticides. Its medium-term objective is to enable the country to control the quality of pesticide products on the market in line with international standards and to carry out pesticide residue surveillance monitoring programmes in order to improve the quality of agricultural products.

GCP/ARM/004/GRE - Support for Abattoir Development in Armenia

Duration: February 2009 to February 2013

Budget: US\$ 1,622,000

The development objective of the project is to demonstrate and produce safe hygienic meat production in selected regions in Armenia. Its medium-term objective is to enable the livestock development institutions (both private and public) to effectively improve the safety and quality of meat and meat products.²⁴

Regional projects

- EC/FAO Project on improvement of decision making in food security via establishment of information system. The project is based on the ENP (GCP/GLO/275/EC). Duration and budget: 2010-2012 US\$ 4,518,075.

²⁴ <http://coin.fao.org/cms/world/armenia/en/Projects/NationalProjects.html>

- Capacity building of small farms via introduction of seed production, irrigation technologies and animal registration systems(GCP/RER/026/AUS).Duration and budget:2009-2012, US\$1,404,493
- Prevention of foot-and-mouth disease in Caucasian countries (Georgia, Armenia and Azerbaijan) and capacity building in reaction in emergency situations(MTF/INT/003/EEC) Duration and budget:2010-2012 US\$ 1,997,640

USAID

USAID programs are focused on (a) completing the next stage of reforms, (b) institutional development of the governing and regulatory bodies, and (c) ensuring the delivery of safe, reliable, affordable and accessible public services. Upgrades to the rural infrastructure were the subject of MCA assistance, which ended in 2010, where the rural infrastructure was built-up in many regions, including roads and irrigation system, as well as capacity building and technical assistance in higher value agricultural activities, provided to many thousands of farmers within the component “*From Water to Market*”.

- Protection of the environment is one of the most important factors during the selection and implementation of projects. **Assistance to the Energy Sector to Support Energy Security and Regional Integration (ESRI) (\$ 5.9mln)** program provides expert services to the Government of Armenia
- **“Revive a River”**: As part of this Global Development Alliance project, UNDP with the participation of the Municipality of Dilijan, the Coca Cola Corporation, and the Government of Armenia (through EBRD funding and Municipality of Dilijan) will install a wastewater treatment plant on Aghstev River.
- **Collection & Recycling of Plastic Refuse** public private partnership program is designed to improve the quality of potable water sources by the collection and mechanical recycling of plastic containers, which significantly contaminates water sources in Armenia (partnership between USAID, UNDP, private sector entity Eco Engineering, and various micro- to small-sized enterprises)
- **Clean Energy and Water Project**: promote integrated energy and water planning, advice the Government of Armenia on issues regarding sustainable hydropower development and water management, and help local communities and enterprises in selected water.
- **Enterprise Development and Market Competitiveness (EDMC)** (Implemented by the Pragma Corporation) project is designed to raise incomes and employment in Armenia by promoting growth in selected value chains (VCs) with export potential, with the overall goal of assisting Armenia to develop a more competitive and diversified private sector. To achieve these objectives, the project will (1) develop more productive enterprises and value chains by stimulating innovation, (2) enhance workforce skills and entrepreneurial development, (3) improve business environment by reducing regulatory burdens and addressing competitiveness challenges, and (4) facilitate effective financial intermediation. One of the selected areas is organic food production and organic value chains. July 2011-July 2016, \$17.5 million.

World Bank

- Community Agricultural Resource Management and Competitiveness Project, \$16m
- Irrigation rehabilitation emergency project, \$30m
- Social investment fund III second additional financing, \$7m
- Lifeline roads improvement project, \$25m

The World Bank initiated in 2011 the preparation of a concept of sustainable agriculture for Armenia and fed into a larger WB policy report on Agriculture and Rural Development. This review describes the directions highlighted in the WB concept.

WB survey on sustainable agriculture in Armenia

As a result of WB survey a 10 point policy agenda is proposed for priorities and actions that can help foster the conditions for promoting more sustainable farming systems in Armenia. This policy agenda is validated by reference to relevant policy initiatives / experiences from the European Union (EU):

1. Development and implementation of a new policy framework for building new “adaptive capacity” of agriculture
2. Continue development of Community Pasture/Livestock Management System of Armenia
3. Develop, promote and widely disseminate the Code of a Good Agricultural Practice for Armenia
4. Develop and implement a National Strategy and Action Plan for conservation of Agro-Biodiversity
5. Further piloting and establishment of farmers’ schools
6. Create a more enabling environment for small-scale rural businesses.
7. Prepare a National Organic Action Plan for Armenia.
8. Promote other alternative production systems with clearly defined linkage to market-place
9. Invest in research and extension for agricultural sustainability
10. Continue the piloting of Community led Local Development Plans.

IFC

Armenia Investment Climate Reform Project (2011-present)

Supported with funds from the Ministry of Finance of Austria, and the Ministry of Foreign Affairs of the Netherlands. The Armenia Investment Climate Reform Project aims to help improve the investment climate in Armenia by increasing the effectiveness of regulation in four key areas, of which one is food safety. Regulatory improvements are also needed in Armenia’s agribusiness sector, one of the country’s top employers. It is expected that regulatory reform in agribusiness and food safety would help increase Armenia’s competitiveness and create jobs. It is planned to help to introduce a risk-based inspection system at the Food Safety Agency contributing to the increased competitiveness of local food producers. There is a need to develop and implement a simplified and centralized procedure for the export of fruits and vegetables in Armenia. The action plan will be developed with engagement of agribusiness to stimulate public-private dialogue and encourage partnership development.

Armenia Food Safety Improvement Project (2012- present)

Supported with funds from the Ministry of Finance of Austria, the IFC Armenia Food Safety Improvement Project seeks to increase the competitiveness of Armenian food producers by improving their food safety practices through increasing awareness of food safety issues among food producers, facilitating access to market for local food producers by helping them implement food safety management systems, and building capacity of local consultants.

IFAD²⁵

The key elements of IFAD’s Strategy²⁶ include broad-based poverty reduction through agricultural growth and a focus on the poorest rural areas in the country, mainly in the highlands and border areas. IFAD also builds and strengthens local institutions by involving grass-roots

²⁵ <http://operations.ifad.org/web/ifad/operations/country/home/tags/armenia>

²⁶ <http://www.ebrd.com/pages/country/armenia/strategy.shtml>

groups in implementing and managing activities, and by making them responsible and accountable for those activities. The strategy includes targeting poor groups that have not benefited from growth in the agricultural sector.

IFAD investments support poor farm families so they can produce a surplus to be sold for additional income. Small- and medium-scale rural service providers such as traders, processors and suppliers also are targeted for support because of their important role as links between farmers and markets. Subsistence farmers continue to receive support, including small loans to improve their production. Because many farmers are increasingly showing interest in market opportunities, IFAD has shifted its focus from food security alone to include market-oriented agricultural production as well. New IFAD investments in Armenia favour effective responses to rapid changes in the business, financial and agricultural sectors as the country's economy continues on the road to recovery.

Investments have the objective of increasing production and productivity where the returns are highest, using private-sector development as the main engine for poverty reduction. IFAD loans support diversification of the non-farm rural economy, encouraging poor people to start up small and medium-size enterprises. The organization continues to direct resources towards improving the living conditions of rural poor people, mainly in mountain areas, and particularly those of women and other disadvantaged people. It supports the government's efforts to expand business opportunities for women in rural areas.

Swiss Development and Cooperation (SDC) Agency

Under the Cooperation Strategy 2008-2012 the core domain of SDC's intervention in the South Caucasus is Economic Development and Employment. The overall objective of the program is to reduce economic disparities, whilst maintaining economic growth and as such supporting the transition process. The program works towards the creation of a conducive and risk conscious business environment, which will lead to improvement and diversification of the income base in selected rural districts.

As a result of the above-mentioned objective it is expected that:

- Farmers and rural entrepreneurs acquire the knowledge and capacities to make more informed and efficient use of resources and market channels;
- Principles of disaster risk reduction with emphasis on prevention and reduction of vulnerability are applied at local level;
- The interaction between target groups and local self-government is enhanced through institutional capacity building and participatory decision making.

Under the Cooperation Strategy 2008-2012 the intervention and analysis in the *Economic Development and Employment* domain is guided by the so-called "make markets work for the poor" (M4P) approach and the principle of "pro-poor growth".

Projects focus on rural market development, aiming to support and strengthen selected agriculture value chains such as dairy, meat, vegetables, as well as mixed farming and increase the livelihoods and economic security of the rural population in selected geographic areas. The program primarily targets small rural enterprises and farmer families enabling them to develop from subsistence producers to market-oriented, small entrepreneurs.

Swiss rural development project in the South Caucasus is implemented in the Syunik region of Armenia. The financial allocation for technical cooperation is at 7-8 million CHF per annum (for South Caucasus).

Annex 3: Comments from the MoA to the report

Comments regarding SWOT analysis:

Strengths (RD)

Point 4 – The statement is about the potential of value added production and therefore should be relocated to the opportunities, since currently this potential is underutilized.

Strength (Agriculture)

Point 4 – this statement should be moved to opportunities.

Point 8 – please elaborate on the specific fields where dynamic growth is registered

Point 9 – this statement should be moved to opportunities.

Weaknesses (RD)

Point 1 – unclear and vague

Point 7 – unclear and vague

Point 8 – this statement does not reflect the reality, I would delete this comment

Weaknesses (Agriculture)

Point 1 – small and fragmented land lots should be left, however the second part of the comment about farmers hardly meeting their essential needs should be removed, since the essential obstacle and weakness is small and fragmented land lots that cannot exploit economies of scale. The poverty level in rural communities is a serious problem, but is not relevant in this context.

Point 7 - this comment is vague; I assume the authors entail access to credit resources, and issues with regard to collateral provisions and high interest rates, otherwise in Armenian text it points out on insufficient demand for loans and investments.

Point 8 – this point can be moved to opportunities, since further cooperation and creation of cooperatives can trigger growth in agriculture and contribute to productivity in the sector. This point is somehow reflected in point two in RD opportunities.

Point 9 – this statement targets three issues simultaneously. At first, product quality, it is unclear what author means in this point. It is also unclear what authors imply by ineffective value chain. Value chain analysis should be implemented for specific product groups to identify specific weaknesses; otherwise the statement is too general. Finally, market links are already mentioned in the text, so there is no need for repetition (e.g. comment on market access).

Point 10 – revision is necessary, I assume that authors imply “Information dissemination mechanisms and access and availability of information and advisory services”

Opportunities (RD)

Point 3, 4, 6 – this is more an action plan statement rather than opportunity

Point 8 – comment on social security in rural communities is unclear

Opportunities (Agriculture)

In this context it is necessary to highlight the DCFTA process, as the result of which locally produced products will get access to EU market.

Threats (RD)

Point 2 – I would refer to limited financial resources in general and not only in local self-governance level.

Point 4 – depopulation is not always a threat, if urban communities are developing faster and ensure employment opportunities and higher living standards. In this context further consolidation of agricultural land may bring about more effective agricultural sector.

Point 5 – the closed borders are not a threat but a weakness, since Armenia currently has two closed borders which also result in higher transportation costs.

Point 6 – this point should be moved to weaknesses

Threats (Agriculture)

Point 2,3 – this point does not reflect the reality. The government of Armenia is committed and actively implementing programs targeting development of the agricultural sector. Moreover, agriculture is a priority sector, which is reflected in several documents.

