

# POLICY ENVIRONMENT BRIEF

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## AGRICULTURE

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"INCREASING CIVIL SOCIETY PARTICIPATION IN NATIONAL POLICY DIALOGUE IN ARMENIA" ENPI/2013/334643

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## ABOUT THE INITIATIVE

Economic Development and Research Center (EDRC) is a non-partisan think-tank aimed at analysing and monitoring of public policies and programs. Since 2001, EDRC carried out numerous projects with a special focus to budget analyses in various sectors.

Convinced of the crucial importance of direct interrelation between public programs with programmatic goals, objectives and targets as well as implementation efficiency and public satisfaction regarding these programs, EDRC strives to professionally contribute to policy development processes and discussions.

In collaboration with OXFAM GB, the “Increasing Civil Society Participation in National Policy Dialogue in Armenia” project was launched in 2014. EDRC works to increase budget literacy and analytical capacities of Civil Society Organizations and will carry out monitoring and evaluation of budget programs and public policies.

The “Policy Environment Brief: Agriculture” is an analytical publication targeting a large audience from various groups of society. It aims to increase awareness and create bases for efficient cooperation between the civil society and public sector and promote more informed discussions and decision-making.

The main sources of information used for developing this publication are the policy documents and strategies, State Budget Laws and MTEFs, and other documents and data.

For comments and suggestions please contact EDRC: [info@edrc.am](mailto:info@edrc.am).

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**POLICY ENVIRONMENT BRIEF: AGRICULTURE**

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ECONOMIC DEVELOPMENT AND RESEARCH CENTER (EDRC)

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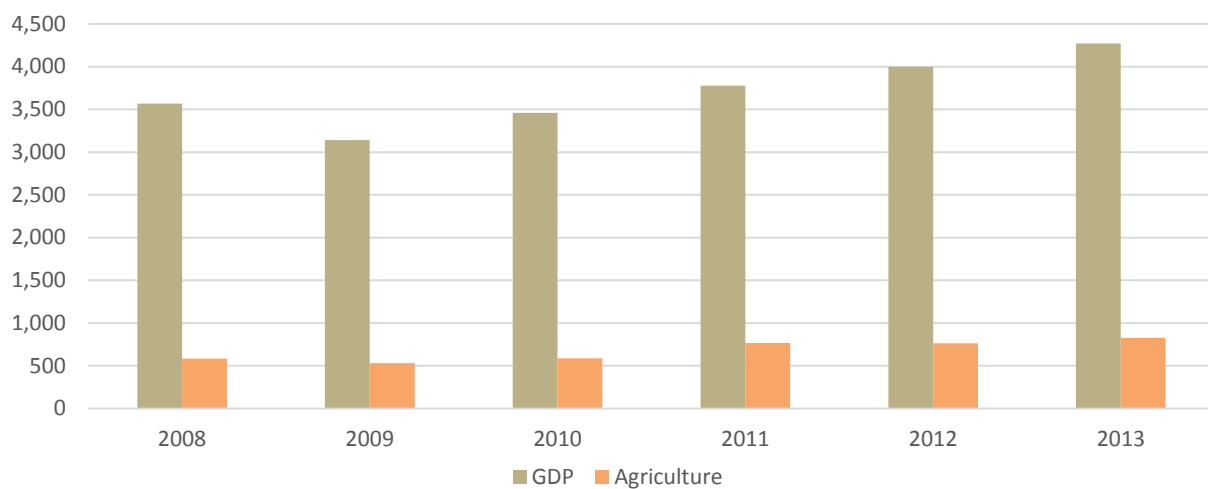
# AGRICULTURE IN ARMENIA

## SECTOR PROFILE

After the recent global economic and financial crisis, the Armenian agricultural sector has regained its importance for the economy. During 2010-2013, Agriculture cumulatively grew by 12%, and so provided for 0.7 percentage points of the annual economic growth in this period. As other sectors lagged behind, in 2013 agriculture had the largest contribution to economic growth and was good for 1.4% of the total growth.

As illustrated, the share of the sector in the total economy grows from 16.3% in 2008 to 19.3% in 2013.

Figure 1: GDP and Gross Agricultural Product Dynamics in 2008-2013, bln AMD



Source: NSS of RA, EDRC estimates

Among Armenia's Marzes the most productive provinces with regard to agriculture are Armavir, Ararat and Gegharkunik, of which the cumulative gross production reached 465.2 billion AMD in 2013. This equals to 50.6 percent of the total agricultural output of Armenia.

With regard to land area, Armenia is generally considered a land-poor country. Usable agricultural lands make about 69% of the country's total area. The total territory which is suitable for agriculture in Armenia comprises 2.1 million hectares of which 22% is arable land and very dependent on irrigation. The remaining is grasslands and pastures and perennial plantations.

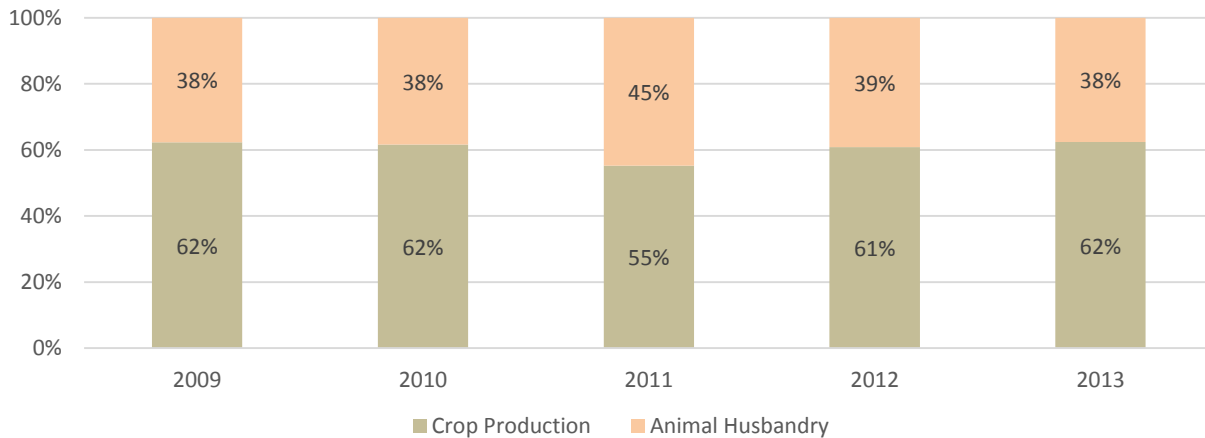
With regard to agricultural production, the main land users are private farmers who together own 74.2% of privatized arable lands, 90.0% of perennial crop areas, and 46.2% of grasslands. The forest land area in Armenia is currently 334.3 thousand ha, of which 289.4 thousand are forest covered areas. This is 11.2% of the country's total land area.

As a result of the privatizations that happened directly after the independence, currently there are about 340,000 private farms in Armenia. In the new conditions of economic governance, land use has been radically changed and the cultivated areas have been divided into more than 1.2 million plots.

The sectorial structure of agriculture has been quite skewed towards crop production as the output generated through crop production amounts for about 62% and Animal husbandry for about 37.6% of

the total agricultural output. Although the percentual shares have remained the same nevertheless the gross agricultural output in both areas has grown by more than 40%.

Figure 2: Structure of the Agricultural Sector in terms of output, 2009-2013



Source: NSS of RA, EDRC estimates

The main crops are cereals (of which 90% is wheat and staples) and potatoes, followed by vegetables, legumes and oil seed crops. Livestock includes cattle, pigs, and some sheep and poultry. Since 1990, the areas subject to crop production have increased by about a quarter. The areas used for potato production in particular have increased by more than 40%.

In general, the total area can be divided into a number of agricultural regions. Such a division is based on factors such as natural and economic conditions, as well as production specialization. The Ararat valley for example is specialized in wine production, vegetable and fruit-growing. It also has a relatively well developed dairy and meat production, and industrial poultry production. Ararat Valley is generally considered a leading agricultural region and is recognized for relative high productivity per hectare.

With regard to fish farming, currently, Armenia has about 350 registered fish farms, the total water surface of which comprises 2,587 ha, with 11.5 thousand tons of yearly fish output. The potential for fish and fish product processing in Armenia is believed to have large potential, nevertheless ecologic issues exist, such as the sustainability of water use etc. Crayfish, rainbow and river trout, and sturgeon are the most commonly processed products at present. Crayfish are mainly fished in Lake Sevan, while the other species are mainly farmed.

## SECTORIAL CHALLENGES

There are various challenges that the sector currently is facing which reach beyond production and involve processing and market access. One of the main production related challenges involves low productivity. Although agriculture is the largest sector in the economy, the productivity in the sector remains low and is one of the overarching sectorial issues. This is also reflected in the fact that the sector only generates about 19.3 percent of the GDP, when about 36.3% of total employed or 70.3% of the rural employed are active in the sector.

Various factors can be identified which lay behind the low productivity levels. One of the main underlying factors involves the lack of economies of scale due to highly fragmented production

structure. As a result, a large share of the sector remains on the level of subsistence farming. This is one of the key constraints to enhancing agricultural productivity.

Production related issues due to the high fragmentation also involve increased input costs, limited profits, and scarce financial means. Low productivity is also caused by poor seed production systems, insufficient and inadequate use of fertilizers and pesticides, and poor farm management practices. Although the government has set out to tackle the issue of fragmentation by for example promotion of cooperative farming practices yet this still is a major concern. As other production related challenges the following can be highlighted:

- Obsolete machinery and equipment reduce safety and productivity levels and result in high operation and service costs.
- Irrigation issues remain to exist as there still are management and infrastructure problems in this regard.
- Capacity gaps of farmers exist, these include both technical and agro management skills.
- Climate change (decreased and variable precipitation, higher temperatures, reduced river runoff, increased frequency and severity of extreme events) and lack of risk-mitigation strategies and affordable agro insurances.
- Lack of economic infrastructure including but not limited to collection, storage and processing infrastructure.
- Poor resource management. The arable land is not cultivated effectively as about 33% or 150 thousand ha of arable agricultural land is not used in a targeted and productive manner. Improved resource management could significantly contribute to food security. This is also the case with pasture management as due to poor management a very large share of pastures are degraded and not used effectively.

Other challenges involve:

- Marketing and standardization. This is among others influenced by the ability of farmers to find suitable markets, low bargaining power due to small scales and the Lack of adequate quality infrastructure which hampers development of exports and investments in the sector.
- Uncontrolled woodcutting in the 1990s due to the fuel and energy crisis has caused great damage to the forests and many forested areas have lost their environmental properties leading to severe soil erosion.
- The demand for credit by farm businesses is not satisfied particularly for operating capital as well as for investments in equipment and infrastructure. This is mainly related to market terms for the available loans and demand for collateral.

## STRATEGIC POLICY FRAMEWORK

### NATIONAL STRATEGIC FRAMEWORK

Taking into account the importance of Agriculture regarding national food security, rural development and poverty alleviation in Armenia, the RA Government announced the agricultural sector to be a prioritized one and has adopted various strategic documents on different levels, which promote, organize and regulate development of the sector.

Currently the main focus of agriculture sector policy remains on enhanced production and food security. The main national development programs and key documents that set out the Government's policies for overall economic development, as well as for agriculture, agro-industry and rural development include:

**Perspective Development Strategic Programme for 2014-2025 (PDSP).** The increase of employment through creation of quality and well paid job opportunities is the main objective of the PDSP. The strategy sets the following main priorities:

- Growth of employment, development of human capital,
- Improvement of the social protection system, and
- Institutional modernization of public administration and governance

Agriculture and village development perspective of the PDSP includes:

1. Development of commercial agricultural organizations, cooperatives and family farms integrated with market infrastructures through application of intensive technologies;
2. Stable food security of the population and meeting demands of agriculture processing raw materials through realistic combination of food security interests and comparative advantage of external trade of agriculture and food products;
3. Increase of gross product in agriculture due to increase of labour productivity, comparative reduction of the number of people employed in agriculture and use of part of surplus workforce in non-agricultural sphere through service and trainings.
4. Processing of produced agriculture raw materials at SME production units;
5. Domination of production of agriculture products with high added value in the plant cultivation and animal husbandry intra-branch structure;
6. High level of food security of the country population, ensuring self-sustainability for basic foodstuffs, reduction of rural poverty and migration.

In accordance with the set objectives and envisaged programs the government has adopted the following targets regarding sectorial development in the sustainable development strategy:

**Table 1: Agricultural Development Targets**

	2012	2017	2021	2025
<i>Value added in agriculture (GDP, bln dram),</i>	764.0	1,116.7	1,524.7	2,046.8
<i>Value added in agriculture, y-o-y % change</i>	9.5%	4.0%	3.8%	3.5%
<i>Value added in agriculture, % of GDP</i>	19.1%	17.9%	16.3%	14.6%
<i>Labour productivity in agriculture, thousand drams</i>	1,748	2,554	3,487	4,682
<i>Non-farm labour productivity, thousand drams</i>	4,396	6,440	9,009	12,562
<i>Non-farm employment in rural area, thousand persons</i>	108.2	116.2	121.2	126.2
<i>Credits to agriculture, mln Drams</i>	91,890	162,229	251,982	379,206
<i>Credits to agriculture-to-GDP ratio, %</i>	12.0%	14.5%	16.5%	18.5 %
<i>Designated use of arable land, %</i>	67,9%	74.0%	82.0%	90.0%
<i>Weighted average rate of marketability, %</i>	56.1%	60.0%	67.0%	75.0%

Source: Perspective Development Strategic Programme for 2014-2025

**The Strategy for Sustainable Agricultural and Rural Development of Armenia for 2010-2020”** (2010); The overall objective of this strategy is to overcome the impact of the economic and financial crisis and contribute to the modernization and competitiveness of the Agricultural industry through developing anti-crisis mechanisms. The sub-objectives regarding development of the agro-food sector include:

1. Addressing the effects of the financial and economic crisis in agriculture and agro-food industry; strengthening the integration links,
2. Developing agricultural inter-field cooperation for the establishment of diversity farm management in the agrarian sector,
3. Improving agricultural and agro-processing products sale and increasing export volumes,
4. Enhancing agricultural competitiveness and fostering “know-how” technologies,
5. Effective use of land, water, labour and intellectual resources to improve the productive potential of the agriculture sector,
6. Developing a food safety system in line with the international standards,
7. Expanding non-agricultural employment in rural areas and improving farm income of the rural population,
8. Developing community infrastructures in rural areas,
9. Strengthening agricultural support services and improving their accessibility,
10. Improving branch structure of agriculture and promoting production of high-value products,
11. Protecting natural and environmental landscapes; developing agro-tourism and organic agriculture.

**The National Food Safety Strategy and an Action plan** (2011); this strategy and its Action Plan seek to bring Armenia’s 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 Food Security Concept** (adopted 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.

**The 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:

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

**Cattle Breeding Strategy.** The Ministry of Agriculture has structured its cattle breeding strategy on two main axes, namely: 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 for 2007-2015; aims to import at least 1000 heads of heifers of Simmental, Holstein and Swiss breeds by 2015.

**The Strategy of Export-Led Industrial Policy (2011),** indicates 11 sectors that have export potential. The focus in agriculture as a resource based sector will be on food production (particularly brandy-making, canned food production, wine-making, mineral water production, juice production, fish-breeding, fruit and vegetables). The main directions of the government policy in this regard are effective implementation of the agricultural strategy, provision of international quality certification infrastructure (including bringing national standards and quality control system into conformity with international standards), introduction of quality control systems and supporting access to new markets.

## INTERNATIONAL COMMITMENTS

### *EU-Armenia Partnership*

The EU-Armenia relations are governed by the EU-Armenia Partnership and Cooperation Agreement (PCA) which was signed in 1996 and entered into force in 1999. This partnership provides for closer political and mutually beneficial trade and investment relations as well as economic, social, financial and cultural cooperation.

The objective of the European Neighbourhood Policy (ENP) is to share EU's stability, security and prosperity with neighbouring countries. The ENP is designed to prevent the emergence of new dividing lines in Europe by offering neighbouring countries closer political, security, economic and cultural cooperation. The European Neighbourhood Policy Action Plan for Armenia, adopted in 2006, provided a comprehensive framework for closer cooperation.

The Country Strategy Paper 2007-2013 (CSP) for Armenia set out the overall objectives of EU assistance, encompassing all its instruments and programmes for this period. Based on the CSP, National Indicative Programmes (NIPs) for the ENPI were adopted for the periods of 2007-2010 and 2011-2013 which identified the priority areas for bilateral EU assistance to Armenia. Under the NIP 2011-2013 this translated into priority support for three strategic categories:

- i. Strengthening of democratic structures and good governance;
- ii. Further support to trade and investment, regulatory alignment and reform;
- iii. Support for socio-economic reform and sustainable development

Agricultural issues were addressed under the third strategic category of NIP and particularly with the sub-priority 3.1 *Regional and Rural Development*. The specific objective of this sub-priority was to reduce economic and social disparities between the regions, to promote agricultural reform and rural entrepreneurship. The expected results under this sub sub-priority were:

- Enhanced entrepreneurship in the regions.
- Improved business environment in particular for SME development.
- Implementation of reforms in the agricultural sector to increase productivity and trade.
- Increased employment opportunities in the regions.

In late 2013, the RA Government drafted the new “List of Activities for 2014-2015 to ensure the Implementation of the RA-EU ENP Action Plan” which was approved by the National Security Council and endorsed by the RA President in April 2014. The interventions of this action plan regarding agricultural development are listed below.<sup>1</sup>

- Enhance competitiveness of the Armenian agricultural sector and gradual increase of food security through legislative improvement, creation of an enabling and competitive business environment, and enhanced funding of institutional structures.
- Development of the food security system, enhanced monitoring and improved quality of services offered in sanitary and phytosanitary areas.

<sup>1</sup> Unofficial translation of the Directive N NK-53A of the RA President of 23 April 2014 “On Approving the List of Activities for 2013- 2014 to ensure the Implementation of the Republic of Armenia -EU ENP Action Plan”. The directive also includes specific results, actions and responsible institutions for the actions.

- Build the capacity of the public sanitary and food safety and phytosanitary service centre and modernization of the regional centres, creation of a unified management system for veterinarians and botanists, technical enhancement through application of EU best practices, methodological and consultative support and staff training.
- Building the capacity of the State Service for Food Safety and its regional centres.
- Development and application of safety control mechanisms for food of animal origin and animal feed.
- Certification of institutions that address food security according to international standards.
- Development of laboratory and laboratory referent system in the health sector, and
- Placement of an antimicrobial drug resistance surveillance system

In November 2014, a Memorandum of Understanding was signed between Armenia and the EU, launching the Single Support Framework for EU-support to Armenia. The new Single Support Framework (2014-2017) identifies the following three main sectors of intervention:

1. Private sector development
2. Public administration reform
3. Justice sector reform

The EU will support agricultural development in Armenia through the Private sector development support sector. The overall objective of this support sector will be to create employment opportunities by enhancing private sector development in Armenia. The specific objectives will be:

1. To improve the national business and investment climate for the small and medium enterprises;
2. To improve the economic competitiveness of Armenian regions.

For each of the specific objectives the main expected results and indicators for measuring these results are contained in the sector intervention framework which is presented in ANNEX 1.

### ***UN Development Assistance Framework (UNDAF) for 2010-2015***

Armenia was admitted to the United Nations on 2 March 1992, and in December of that year the United Nations established an office in Yerevan. Since then Armenia has signed and ratified a number of international treaties.

The United Nations system supports Armenia in achieving its national development priorities and meeting the human rights challenges. Armenia's UNDAF is the programme of cooperation between the UN system and the Government of Armenia, setting the framework for all UN Agencies and their development projects in the country. 2010-2015 has four major priorities for cooperation:

- Inclusive and sustainable growth is promoted by reducing disparities and expanding economic opportunities for vulnerable groups.
- Democratic governance is strengthened by improving accountability, promoting institutional and capacity development and expanding people's participation.
- Access and quality of social services is improved especially for vulnerable groups.

- Environment and disaster risk reduction is integrated into national and local development frameworks.

Four thematic working groups bring together experts around the priorities of the UN Development Assistance Framework 2010-2015. Issues with regarding general development of rural areas and particularly agriculture are mainly addressed by the Agency Outcome 1.1: National policies, strategies and programmes reduce disparities between regions and specific vulnerable groups. The focus of UN support in this regard will encompass strengthening national and local capacities to support the diversification of income-generating opportunities targeting the most vulnerable and will build on, but not be limited, to the sustainable use of natural resources and developing the potential of cultural and natural heritage industries.

## LEGAL FRAMEWORK

Currently, the main legislative framework for agriculture and rural development in Armenia involves the:

### Land use and ownership

1. **Civil Code.** The Civil Code was adopted on 5 May, 1998 and entered into force on 1 January 1999. It covers a wide range of issues including the right of ownership and other property rights of land. In the chapter on legal persons (Articles 117 through 121), it to some degree also mentions association and group formation but does not completely regulate issues such as registration and dissolution of cooperatives.
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 for 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. **Law “On Amelioration of Agricultural Land”** adopted on May 20, 2005, this law regulates the relations related to amelioration of agricultural lands for the purpose of maintenance and increase in soil fertility, protection from erosion and salting and inclusion of less fertile soils in the agricultural circulation.
4. **Technical Regulation on land rehabilitation and classification of degraded lands.** Adopted in May 2006, here requirements for the land reclamation, and the technical regulation for classification of lands exposed to reclamation were elaborated, setting forth the requirements for land reclamation; the classification of disrupted lands per reclamation directions and types of further utilization, based on their suitability.

### Environmental protection and forestry

5. **Law on Principles of Environmental Protection.** Adopted in July 1991 the law establishes the environmental policy of RA to ensure conservation of environment and regulation of use. As well as to create necessary legal basic to develop environmental legislation on regulating relationship of soil, water, atmosphere air, flora and fauna forest conservation and sustainable use.
6. **Forestry Code.** Adopted on the 24<sup>th</sup> of October 2005, the forest code regulates issues related to sustainable forest management, guarding, protection, rehabilitation, afforestation and rational use of forests and forest lands of the republic of Armenia and also with forest stock taking, monitoring and control of forest lands.

### Water use and management

7. **Water Code.** Adopted by the National Assembly of the Republic of Armenia on June 4, 2002, the water code presents the concept of universal watershed management. It separates the functions of state authorized bodies for water systems and water resources and covers sustainable, integrated water resource management.

8. **Law “On Water User Associations”** adopted in July 2002, the law has been passed to facilitate operation and maintenance of lower level irrigation systems. The objective of the Law “On Water Users’ Associations and the Federation of Water Users’ Associations”, is to define the operational basis of Water Users’ Associations and Federations of Water Users’ Associations, the grounds for establishment and termination thereof, as well as the principles of relationships with state bodies and other bodies aimed at increasing the operational effectiveness of the Republic of Armenia irrigation system (Article 1).

#### **Food security, Sanitary/Phytosanitary**

9. **Law “On Food Security”**, adopted in 2002, this law regulates the relations in the sphere of providing of food security of the Republic of Armenia, and also determines main channels of state policy by regulation of this sphere.
10. **Law “On Protection of Achievements in Selection”**. The Law on Achievement in Selection (adopted on November 1999) – regulates the relationships regarding creation, legal protection and exploitation or use of the plant variety selection achievements. This involves provision of rights and usage of selection of sorts. Chapter 19 of this Law envisaged publications of new achievements in selection and broad public access to this information
11. **Law “On Seeds”**. This was adopted on May 20, 2005, regulates the registration of seeds sorts, correlation of seeds production, reproduction, certification, conservation, sale, and use;
12. **Law “Law on Pedigree Livestock Breeding.”** adopted on 20<sup>th</sup> of May 2005, this law outlines the requirements for physical persons and legal entities that deal with pedigree animal breeding and procedures for reproduction of pedigree animals. The law regulates relations regarding the intensification of livestock-breeding, receiving of pedigree materials, creation of new pedigree types of farm animals, conservation of their reproduction, as well as the protection of critically endangered pedigree types.
13. **Law “On Veterinary Service”** adopted on October 24, 2005, this law regulates the sphere of veterinary medicine the relations between the authorized state body and the physical and legal entities operating in Armenia. Article 8 of the law ensures animal security from infectious and non-infectious diseases through preventive and anti- epizootic, mandatory diagnostic and hygienic measures. The Article 11 of the law specifies state veterinary control over production, maintenance, transportation and processing of food products and raw materials of animal origin, combined fodders and silage at all stages.
14. **Law “On Food Safety”** adopted in November, 2006, this law regulates food, food contact materials and food additives and biologically active in the import, export, production, handling, processing, packaging, labelling, transportation storage, sale, trade and public catering provision of services in the field of safety relationships.
15. **Law of the Republic of Armenia on Plant Quarantine and Plant Protection** adopted in (2006) this law determines the legal, economic and organizational bases governing the plant protection and plants quarantine and regulates the relationships between public bodies involved into plant protection and plant quarantine and administrative bodies with non-public organizations and individuals.

16. **Law “On Phyto-sanitation”** adopted on November 27, 2006, this law regulates in the sphere of phytosanitation the relations between the authorized State body (RA Ministry on Agricultural) and the physical and legal entities operating in Armenia. The law prescribes details related to plant protection means, pesticides and fertilizers, particularly their import and transportation, use, maximum permissible concentration residues in soil and plant product. The responsibilities of the physical and legal entities involved in agricultural activity in case of using plant protection means and fertilizers, as well as soil cultivation have been defined by the law.
17. **Law “On Animal Feed”** adopted on June 9, 2008, this law regulates the import, export, transportation, use, marketing, labelling and packaging of fodders, as well as fodder additives. Besides, this law prescribes the requirements for production, transportation and maintenance of silage fodders.
18. **Law “On Organic Agriculture”**. The Law on Organic Agriculture is approved by National Assembly of Armenia in 8 April, 2008. The law stipulates the process of organic production and the main provisions on labelling requirements for organic products.

#### Other

19. **Law "On Small and Medium Entrepreneurship State Support"**. Adopted by the National Assembly on 5th of December 2000, along with the “Concept for SME Development Policy and Strategy in Armenia”, the law introduces and coordinates the SME state support toolkit. The Law stipulates the SME identification criteria, the main priorities of state support, and the principles of the state policy on SMEs.
20. **Law “On Local Self-Governance”**. Adopted in May 2005, this law sets out the role of local self-government in enforcing government by the people in the Republic of Armenia, as well as the notion, bodies, general principles, powers, and legal, economic, financial bases of their operations and the respective guarantees, and to regulate relations between the state authorities and local self-government bodies.
21. **Law “On Agricultural Census”**. Adopted on the 27<sup>th</sup> of November 2008, the Law on Agricultural Census regulates relations on preparation, organization and execution of agricultural food (crop and livestock products) producer's census in the Republic of Armenia, processing, summarizing, publishing, storing and use of derived results.
22. **Law “On Changes in Law of RA on VAT”**. In order to promote the activity in agriculture without formation of a legal person according to the Contract of Joint Activity and to create equal conditions of taxation with entrepreneurs in separate agricultures for minimum threshold for payment of value added tax, appropriate amendment to the RA Law “On Value Added Tax” was made in 2011 (HO-126-N of May 6, 2011) according to which “In accordance with the Contract of Joint Activities each entity (participant) engaged in agricultural production shall act as a separate tax payer pursuant to the procedure prescribed by the legislation of the RA.

## INSTITUTIONAL FRAMEWORK

Currently the main institutions involved in the promotion of agricultural development in Armenia are:

- ***The Ministry of Agriculture (MoA)***

The mission of the MoA 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 MoA would be a natural competent authority. More information is available on: [www.minagro.am](http://www.minagro.am)

- ***Agricultural Support Republic Center, CJSC***

The Agricultural Support Republic Center (ASRC) is a national level organization, established by the RA government in 2002. The mandate of the ASRC is to facilitate and support capacity building for researcher-advisor-farmer linkages by providing information and advice on the latest research and technology achievements. ASRC closely works with the provincial/regional (*Marz*) Agricultural Support Centres, local government bodies, research centres, agricultural enterprises, and international agencies.

- ***State Food Safety Service***

The State Food Safety Service (SSFS) under the MoA assesses conformity of food products' with applicable standards, regulates the administration of veterinary and sanitary services, ensures control and imposes sanctions. SSFS has a key role regarding Sanitary and Phytosanitary (SPS) measures. Particular emphasis is given to the ENP Action Plan in the area of SPS and the Food Safety Strategy which involves: 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. More information is available on: [www.ssfs.am](http://www.ssfs.am)

- ***Small and Medium Entrepreneurship Development National Centre***

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. SMEDNC is authorized to provide state support to small and medium entrepreneurship through implementation of annual SME State Support Programs with resources allocated from State budget. More information is available on: [www.smednc.am](http://www.smednc.am).

- ***RA National Statistics Services***

The National Statistics Services will for the first time in Armenia's history carryout an agricultural census. The objective of such census is to collect information on agricultural land, livestock quantities, agricultural equipment, agricultural buildings and structures, human and material potential and level of utilization thereof and compile a comprehensive statistical database on the Agricultural sector.

## BUDGET AND BUDGET PROGRAMS

### BUDGET OVERVIEW

In general the agricultural budget has been characterized with low spending levels and unstable growth rates. In 2014, AMD 23.8 bln are allocated to “Agriculture, Forestry, Fishing and Hunting” which exceeds the 2013 financing level by AMD 5.6 bln or 30.8%. As a consequence, agriculture sector expenditures constitute 1.9% of total budget expenditures and 0.5% of the GDP.

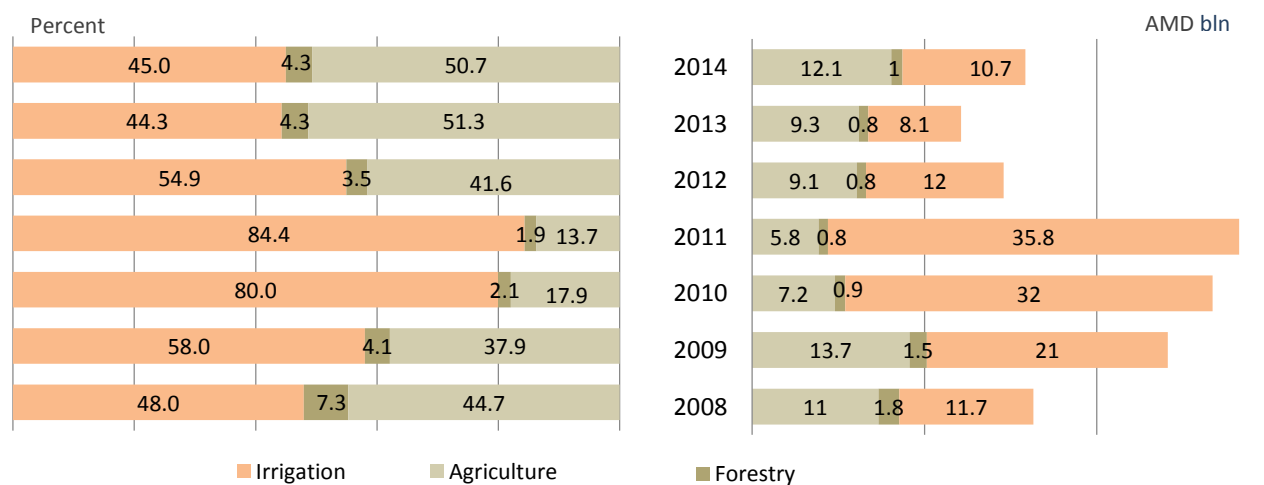
The share of agricultural expenditures in the total budget expenditures has decreased during the previous years and is low. Budget expenditures in agriculture on average have decreased by 6.7% annually during 2008-2013. The agricultural budget currently only exceeds the budgets allocated to “Environmental Protection” and “Recreation, Culture and Religion” which to some degree reflects the priority that is given to the sector in terms of budget allocation.

As illustrated in Figure 3 budget allocations to the agricultural sector are classified into forestry, irrigation and agriculture, of which agriculture is the largest and accounts for 50.7% of the budget allocated to this sector, equalling AMD 12.1 bln in 2014. Expenses in agriculture include consulting, expert, research, infrastructure improvement, capacity building and strengthening, as well as support programs provided to farms.

The next largest category is “Irrigation”. Expenses in this category are projected to increase by 32.8% in 2014, which is the highest increase in all three classes. The share of allocations to “Irrigation” in the total sector financing will increase by 0.7 percentage points. This class covers expenditures on irrigation system maintenance, operation and improvement.

Forestry is the smallest category in the group and includes 2 programs on forest protection. Allocations to this category are projected to increase by 30.1% in 2014, while their share in total group allocations will remain at the same level as in 2013 - 4.3%.

Figure 3: Agriculture Budget Breakdown and Trends in 2008-2014



Source: 2014 Annual Budget Law, 2008-2013 Annual Budget Implementation Reports, EDRC calculations

The 2015-2017 Medium-Term Expenditure Framework of the Government of Armenia, with regard to the agricultural sector is presented in the following table

**Table 2: Financing of the Agricultural Sector in 2015-2017\*, (AMD mln)**

	MTEF		
	2015	2016	2017
<b>Agriculture, Forestry, Fishing and Hunting</b>	26,168.6	27,074.2	32,483.4
<i>GDP ratio (%)</i>	0.52	0.49	0.53
<i>Share in total public expenditures (%)</i>	1.97	1.89	2.04
<b>Agriculture and Forestry</b>	12,458.5	11,079.6	12,893.7
<i>GDP ratio (%)</i>	0.25	0.2	0.21
<i>Share in total public expenditures (%)</i>	0.94	0.77	0.81
<b>Irrigation</b>	13,710.1	15,994.6	19,589.7
<i>GDP ratio (%)</i>	0.27	0.29	0.32
<i>Share in total public expenditures (%)</i>	1.03	1.12	1.23

\*administrative maintenance expenditures are not included

Source 2015-2017 - Medium-Term Expenditure Framework

## BUDGET PROGRAMS

A total number of 23 public agricultural programs were budgeted in 2014. This is a lower number compared to the number of projects that were implemented in 2013, yet, the total budget of AMD 12.1 bln exceeded the 2013 expenditures by 29.2%.

The agricultural budget is clearly concentrated as the two largest public programs together constitute 58% of the sectorial budget, while the largest 5 programs make up for about 80% of the budget<sup>2</sup> allocated to the sector. The two largest programs will be partially co-financed by external donors. The total list of agricultural budget programs is presented in ANNEX 2.

The largest agricultural budget program is the **Rural Capacity Development Project**, implemented with foreign financing. The program aims to provide rural population with access to production and high-productive technologies, as well as rural infrastructure development. In 2014, AMD 5 bln are allocated to this project or 41.8% of total allocations. These allocations exceed the 2013 budget by AMD 2.3 bln or 86.6%. The following activities are planned under the project in 2014:

- Support of production of fruits and nuts, horticultural production through “Armenian Fruit” JSC,
- Connection to gas supply and provision of water supply in 25 communities, creation of rural transport system,
- Development and provision of loans for horticultural activities, ensuring access to finance for small and medium enterprises.

<sup>2</sup> Calculations are based on the sum of all components of the project: e. g. Rural Capacity Development Projects includes 4 components which are expressed through 4 separate programs or lines in the Budget.

- External financing to the Rural Capacity Development Project is provided by IFAD, Kingdom of Denmark and OPEC International Development Fund. In total 73% of the allocations (AMD 3.6 bln) will be financed from credit proceeds, 3.7% (AMD 187.2 mln) from grant proceeds, while 23.6% (AMD 1.2 bln) – will be in the form of co-financing from the Government of Armenia.

**Table 3. Breakdown of the Rural Capacity Development Project Financing**

	Programs	2013 AMD mln	2014		2014/2013 %
			AMD mln	Share	
1	IFAD grant project	83.7	77.4	1.5	-7.5
2	IFAD credit project	359.0	1,396.9	27.7	289.1
3	Kingdom of Denmark grant project	0.0	155.2	3.1	100.0
4	OPEC International Development Fund credit project	2,256.9	3,407.4	67.6	51.0
	<b>Total</b>	<b>2,699.5</b>	<b>5,037.0</b>	<b>100.0</b>	<b>86.6</b>

Source: 2014 Annual Budget Law, 2013 Annual Budget Implementation Report, EDRC calculations

The next largest program is the **Community Agriculture Resource Management and Competitiveness (CARMAC)** which is, again, partially financed by external donors namely the WB and GEF. This project was launched in 2011 and is expected to be completed by 2016.

The project aims to support rural communities with livestock-breeding orientation through the creation and development of more sustainable and competitive systems of grazing land use and livestock breeding. The following activities are planned under this project in 2014:

- Introduction of grazing land and livestock management systems in communities, implementation of grant projects in selected communities,
- Strengthening of agricultural support services: productivity improvement of agricultural produce, services to ensure livestock health, provision of trainings,
- Improvement of quality of agricultural produce through provision of competitive grants, cooperation, introduction of new production and new technologies in Marzes.

Budget allocations to this project constitute 16.2% of allocations to agriculture. AMD 1.9 bln are allocated to this project in 2014, which is 41% more than in 2013. About 9% of total allocations will be financed from GEF grant proceeds, 71% from the WB credit proceeds, while the remaining 20% from the Government co-financing.

**Table 4. Breakdown of the CARMAC Project Financing**

	Contribution	2013 AMD mln	2014		2014/2013 %
			AMD mln	Share	
1	GEF grant	0.0	204.3	10.5	100.0
2	WB credit	1,386.9	1,746.7	89.5	25.9
3	<b>Total</b>	<b>1,386.9</b>	<b>1,951.0</b>	<b>100.0</b>	<b>40.7</b>

Source: 2014 Annual Budget Law, 2013 Annual Budget Implementation Report, EDRC calculations

The third largest budget program is **Vaccination of Agricultural Animal Stock** with total allocations of AMD 1.1 bln. Allocations to this program increased by 4.1% since the previous year, while the share of the program will constitute 9.4% of the total class allocations. The program includes implementation of measures to prevent and treat infectious animal diseases, purchase of vaccines and remuneration of

veterinarians. It is worth noting that increased allocations to this program in 2014 are determined by increased remuneration of veterinarians, meanwhile, 9,383,799 cases of vaccinations are projected against 10,689,872 cases in 2013.

In 2014, AMD 872.5 mln are allocated to **Subsidization of Interest Payments on Agricultural Loans**, which is an increase of 38% compared to 2013. Notably, the program aims at increasing affordability of agricultural loans and implies provision of subsidies by the Government for 4-6% of interests on agricultural loans borrowed from commercial banks. Subsidization of 6% is used in poorest communities and for poor agricultural farms. Loan repayment starts in 6 months from the date of borrowing, loan term is mostly 1-2 years with a maximum limit of AMD 3 mln. Commercial banks are partners of the program and more than 90% of the loans are provided by “ACBA-Credit Agricole” bank. This program started in April 2011.

AMD 550 mln are allocated to **State Support to Agricultural Land Users**. This amount remained the same in 2014 and constituted 4.6% of total allocations to agriculture. This program aims to provide assistance to seed-breeding and increasing local production of grain through more efficient resource utilization and to reduce imports. The program activities include importing high-quality seeds and fertilizers, diesel and re-selling to farmers at affordable prices.

## AGENCY BUDGET BREAKDOWN

Agriculture Programs financed by the 2014 budget are mainly implemented by four agencies namely the Ministry of Agriculture, State Service for Food Safety of the Ministry of Agriculture, Staff of Government of RA and the National Statistical Service of RA. The table below summarizes the breakdown of allocations in Agriculture sector per implementing agency.

**Table 5. Agriculture Sector Allocations by Agencies**

Agency	Number of programs	2013 AMD mln	2014		2014/2013	
			AMD mln	Share	%	AMD mln
Ministry of Agriculture	14	5,295.3	5,838.6	48.4	10.3	543.3
RA Government Administration	4	3,013.7	5,037.0	41.8	67.1	2,023.2
State Service for Food Safety of the Ministry of Agriculture	4	1,023.6	1,037.4	8.6	1.3	13.8
National Statistical Service of RA	1	0.0	141.7	1.2	100.0	141.7
<b>Total</b>	<b>23</b>	<b>9,332.6</b>	<b>12,054.6</b>	<b>100.0</b>	<b>29.2</b>	<b>2,722.0</b>

Source: 2014 Annual Budget Law, 2013 Annual Budget Implementation Report, EDRC calculations

## ALIGNMENT OF POLICIES WITH PROGRAMS

It can be concluded that the main focus of the RA government policies that are aimed to support the development of the Agricultural sector are in general aligned with the Single Support Framework of the EU to Armenia. This is predominantly focused on support towards creation of a more enabling business environment for the agricultural sector and improved competitiveness of the sector in general.

The largest two support programs that are (partially) financed by the state budget, and together makeup for about 60% of the total budget allocated to the sector, have a strong focus on enhancing the competitiveness of the Armenian agricultural sector. This involves the Rural Capacity Development Project aimed to promote high-productive technologies and the second largest program the Community Agriculture Resource Management and Competitiveness.

Although the RA government has also prioritized other agricultural development issues on a policy level, nevertheless, allocations to these large projects leave a small share of the budget available to the remaining priorities. In line with this, state support of budget programs that have a specific focus on issues such as improved sanitary and phytosanitary structures and services in 2014 only received 1.15 percent of the total budget allocations to the sector. This is the case while enhanced and improved service provision offered in sanitary and phytosanitary areas are one of the highest priorities announced by the Government in its action plan to realize the ENPI action plan.

Similarly, from the total 23 programs that are implemented in support of the agricultural sector, only 4 are implemented by the State Service for Food Safety and have a specific focus on improving the food safety situation. These projects together makeup for about 9 percent of the total budget allocated. Food safety is again a policy priority yet compared to other policy priorities, the actual budget allocations to it remains to lack behind.

# ANNEX 1 NIP SECTOR INTERVENTION FRAMEWORK

Sector 1 - Private sector development

**Overall objective:** To create employment opportunities by enhancing private sector development in Armenia

Specific objective 1 - <b>To improve the national business and investment climate for the small and medium enterprises</b>		
Expected results	Indicators	Means of verification
<b>1.1.1 Increased business opportunities and access to finance for small and medium enterprises</b>	<ul style="list-style-type: none"> <li>Ranking in international comparisons on doing business and competitiveness</li> <li>% of SMEs with access to finance and investment</li> <li>Number of registered and operational SMEs disaggregated by region</li> <li>Implementation status of the national SME Support Strategy and the level of its alignment with best EU / international practices</li> </ul>	<ul style="list-style-type: none"> <li>Legal acts adopted, and/or amended</li> <li>Ministry of Economy and Ministry of Finance reports and statistics</li> <li>Reports by international organisations (WB 'Doing Business', WEF 'Global Competitiveness Index', EU, etc.)</li> <li>Small Business Act Assessment Report</li> </ul>
<b>1.1.2 Strengthened public private dialogue and partnership</b>	<ul style="list-style-type: none"> <li>Number of projects developed through PPP according to international best practices</li> <li>Status of the legal framework for PPP and level of alignment with international best practices</li> </ul>	<ul style="list-style-type: none"> <li>Ministry of Economy and Ministry of Finance reports and statistics</li> <li>Reports from business associations</li> <li>National budget, legal acts adopted, and/or amended</li> <li>Reports by international organisations</li> </ul>
<b>1.1.3 Improved labour market efficiency</b>	<ul style="list-style-type: none"> <li>Average duration of unemployment</li> <li>Percentage of graduates from higher education and VET establishments employed</li> </ul>	<ul style="list-style-type: none"> <li>Ministry of Labour and Social Affairs reports and statistics</li> <li>Reports by international organisations (WB, UNESCO, ETF, etc.)</li> </ul>
Specific objective 2 - <b>To improve the economic competitiveness of Armenian regions</b>		
<b>1.2.1. Increased investment and business opportunities in targeted economic sectors and regions</b>	<ul style="list-style-type: none"> <li>Number of regional cluster and value chain initiatives launched and operational in priority sectors to be identified</li> </ul>	<ul style="list-style-type: none"> <li>Ministry of Territorial Administration reports and statistics</li> <li>Reports by business associations</li> <li>Reports by international organisations (WB, IMF, etc.)</li> </ul>
<b>1.2.2. Strengthened capacity and performance of farmers associations and cooperatives</b>	<ul style="list-style-type: none"> <li>Status of the legal framework and alignment with international best practices</li> <li>Number of farmers and farmers associations with access to capital and financing facilities</li> <li>Number of new business oriented farmers groups officially registered and operational, covering both agricultural and nonagricultural activities</li> </ul>	<ul style="list-style-type: none"> <li>Legislation adopted</li> <li>Results of the national agricultural census</li> <li>Ministry of Agriculture reports and statistics</li> <li>Reports by international organisations (FAO, etc.) and CSO's</li> </ul>

## ANNEX 2 AGRICULTURAL EXPENDITURE PROGRAMMES

	2013 AMD mln	2014		2014/ 2013 %
		AMD mln	Share	
OPEC International Development Fund Rural capacity development project	2,256.9	3,407.4	28.3	51.0
WB Community resource management and competitiveness project	1,386.9	1,746.7	14.5	25.9
IFAD Rural capacity development project	359.0	1,396.9	11.6	289.1
Vaccination of agricultural animal stock	1,091.8	1,136.5	9.4	4.1
Subsidization of interest payments on agricultural loans	634.5	872.5	7.2	37.5
National and regional executive and governance bodies' administration and operation	501.1	728.6	6.0	45.4
State support to agriculture land users	550.0	550.0	4.6	0.0
National and regional executive and governance bodies' administration and operation (Ministry staff)	311.9	420.4	3.5	34.8
Agricultural consulting services	297.2	346.5	2.9	16.6
Laboratory diagnoses of agricultural animal diseases, laboratory analyses of raw materials of animal origin, agricultural crops and plant protection means	239.2	293.0	2.4	22.5
WB Community resource management and competitiveness project: GEF grant	0.0	204.3	1.7	100.0
Rural capacity development: Danish Kingdom grant	0.0	155.2	1.3	100.0
Plant protection measures	97.0	150.0	1.2	54.7
Organization and implementation of nationwide agricultural census	0.0	141.7	1.2	100.0
Veterinary-sanitary, food safety and phytosanitary services	123.5	128.4	1.1	4.0
WB Food safety capacity development grant project	31.3	108.9	0.9	248.3
IFAD Rural capacity development grant project	83.7	77.4	0.6	-7.5
Agrochemical analyses of soil and measures to improve soil fertility	48.7	62.3	0.5	28.1
Seed quality inspection and state seed testing measures program	51.9	57.8	0.5	11.4
Veterinary quarantine restrictions by the Police under the Government of Armenia	49.8	49.8	0.4	0.0
Laboratory analyses of food	10.0	10.0	0.1	0.0
Improvement of phytosanitary system and support to professional capacity development	5.8	5.8	0.05	0.8
Artificial insemination of agricultural animals	5.1	4.5	0.04	-12.0
IFAD Farmer market access project	24.4	0.0	0.0	-100.0
IFAD Farmer market access grant project	59.3	0.0	0.0	-100.0
Payment fees for laboratory analyses imported food and food of animal origin	94.4	0.0	0.0	-100.0
Material encouragement and system development fund of the SSFS of the MoA	173.2	0.0	0.0	-100.0
Farmer market access: Kingdom of Denmark grant	230.6	0.0	0.0	-100.0
Development of grain and fodder crop production	615.9	0.0	0.0	-100.0
<b>Total</b>	<b>9,332.6</b>	<b>12,054.6</b>	<b>100.0</b>	<b>29.2</b>

Source: 2014 Annual Budget Law, 2013 Annual Budget Implementation Report, EDRC calculations

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## ABBREVIATIONS

AMD	Armenian Dram
bln	Billion
CARMAC	Community Agriculture Resource Management and Competitiveness
CJSC	Closed Joint Stock Company
CSO	Civil Society Organizations
CSP	Country Strategy Paper
EDRC	Economic Development and Research Center
ENP	European Neighbourhood Policy
ENPI	European Neighborhood and Partnership Instrument
ETF	European Training Foundation
EU	European Union
FAO	Food and Agriculture Organization
GDP	Gross Domestic Product
GEF	Global Environmental Fund
GMO	Genetically Modified Organism
GoA	Government of the Republic of Armenia
ha	hectare
HH	Household
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
ISO	International Organization for Standardization
JSC	Joint-Stock Company
mIn	Million
MoA	Ministry of Agriculture
MTEF	Medium-Term Expenditure Framework
NIP	National Indicative Programme
NSS of RA	National Statistical Service of the Republic of Armenia
OPEC	Organization of Petroleum Exporting Countries
PDSP	Perspective Development Strategic Programme
PPP	Public–Private Partnership
RA	Republic of Armenia
SSFS	State Service for Food Safety
SME	Small and Medium Enterprise
SMEDNC	Small and Medium Entrepreneurship Development National Centre
SPS	Sanitary and Phytosanitary
SSFS	State Service for Food Safety
UN	United Nations
UNDAF	United Nations Development Assistance Framework
UNESCO	United Nations Educational, Scientific and Cultural Organization
VAT	Value Added Tax
VET	Vocational Education and Training
WB	World Bank
WEF	World Economic Forum



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