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MANEC

BULLETIN

#1

for businessmen and general public

**Agriculture in the
Context of Regional
Economic Collaboration**

**Government's Policy in the
Agriculture Sector:
Reforms and Achievements**

May - 2003

ARMENIA

Agriculture in the Context of Regional Economic Collaboration

**GOVERNMENT'S POLICY IN THE AGRICULTURE SECTOR
REFORMS AND ACHIEVEMENTS**

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INTERNATIONAL CENTER FOR HUMAN DEVELOPMENT

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F o r e w o r d

This is the first issue of Research and Development Unit's Bulletin studies series in the framework of Virtual Agricultural Wholesale Market project implemented by the International Center for Human Development. VAWM project is implemented in partnership with American University's Center for Global Peace.

This first issue is devoted to the policy of the Armenian Government on Agricultural sector of economy. In this study we present what has been done and what kind of developments have been achieved within last 5 years in purpose of acknowledgment of wider public and interested sides.

Introduction

Agricultural sector is an imperative part of the Republic's economy. In 2000, 2001 and 2002, the share of agriculture in GDP made up 23.1, 25.0 and 23.1 percent, correspondingly. Moreover, 28 percent of the Republic's economic growth for 2001 was obtained owing to agricultural sector. Over 335 rural economies and 100 business enterprises established in Armenia at present produce about 98 percent of agricultural products. Nowadays, the share of agriculture private sector is 97-98 percent not counting the drought of 2000, which resulted agricultural products reduction of 2.5 percent. Thus, during 1998-2001 growth rates in agriculture were average 8.5 percent per annum, and in 2001 - 11.6 percent. In consequence of indicated growth in this very sector Armenia took sufficient lead over CIS countries and the output produced in 2001 covered the 125% of 1991 level, while the majority of CIS countries still haven't achieved the level of 1991.

Plant growing

Plant growing has a huge share in agriculture gross production. This sub-sector is capable to ensure its further development through comparatively small investments due to both traditionally grown and newly put into circulation crop expansion as well as the latter prolificacy level enhancement. Agricultural crop expansion stability trend is recently observed being mainly conditioned by domestic market demand. In 1998-2003 certain positive advancements exists vis-à-vis product structure and production volume. Hence - in accordance with November 2002 data - unpredictable harvest of grain crop was reaped that exceeded the previous year's by 11.6 percent. In 2002 potato harvest exceeded that of 2001 rate by 7.2 percent resulting in Armenia's self-sustainability re potato production. There is much progress in water-melons, vegetable and industrial crop production volume. According to estimations the plant growing gross production would exceed 2001 rate for about 8 percent.

Animal breeding

Animal breeding provides 40.7 percent (2001 data) of agriculture gross production. Poultry and cattle breeding make particular advancements. There are noticeably growing trends in pig and dairy cattle breeding industry. Even though the organization of a modern sector

equipped with high technologies requires much investment, the business activity increases here. Particularly poultry breeding is being retrieved in a range of huge farms on account of fostering domestic market, which resulted eggs import drastic decrease to Armenia.

Through the recent 5 years fish-farming is rapidly growing. This sub-sector production already exceeds domestic market gross demand, and the preference would be given to processed products.

The economic growth recorded in agricultural sector recently, (excluding natural disasters of 2000) except for climatic conditions, was certainly the outcome of a variety of measures taken in agricultural sector that created preconditions for the sector further development and maintenance.

Realization of Agricultural products

Notwithstanding the low level of realization of agricultural products by rural economies, nevertheless, throughout 1998-2002, as a consequence of the progress made in agricultural and food sector the latter's level exceeded for about 8 points making 49.9 percent in comparison with that of (41.7 percent) in 1997.

The major outcome of the investments and a range of successful transactions conducted in agricultural and food sector is the fact that many food processing companies - accessing solid markets for their finished products - started to work with farmers on contract basis via providing advance payments, fertilizers and curatives. The framework of concluded contracts with farmers gradually expands due to production rearmament, investments in new technologies, enhancement of existing capacities and new production introduction. The list of agricultural products being procured from farmers on contract basis is expanding as well as contract prices. At present, the processing companies obtain fruit, vegetable, industrial crop (tobacco), dairy products, etc; and 2/3 of population food demand is satisfied by domestic production.

Irrigation system

Utilization of the Republic's irrigation system's capacity plays drastic role in agriculture productivity, farmers' strengthening and for servicing enhancement in current and a long-term perspectives. Irrigated land provides about 70 percent of plant growing gross

products. In line with the Republic's environmental conditions plant growing efficiency could be gained in 80 percent of arable land due to irrigation system.

Throughout 1997-2001, in order to improve the sector and increase its viability, main and second category canals of 140 km in length, irrigation systems of Karnut, Aparan, Sarnaghbyur and Mantash, 4 pump stations, and fertile land network of 10 000 hectare have been reconstructed in Armenia in the framework of irrigation system reconstructing project. Due to lack of financial resources, it becomes possible to additionally construct, reconstruct and renovate main and second category canals of 112.5 km in length, construct 1976 water measuring points, clean and deepen the collector-drainage system by 317.2 km, reconstruct 15 800 hectare fertile land networks. In fact, it was available to keep the system away from further collapse in the frame of the project, since canal certain parts, pump stations and numerous hydro-engineering constructions underwent erosion and were damaged during 1991-1995 as a result of lack of financial resources. Along with water waste amplification the latter also prevented agricultural crops irrigation process.

As a consequence of implemented work, approximately 151 000 hectare of the Republic land are provided with safe irrigation, on the one hand, and the whole system supplied with stable connection, on the other.

99 municipalities were also involved in the aforementioned activities and reconstructed fertile land irrigation network of 400 km on the land of 43 700 in length during 2001. Thus, the works started in the framework of irrigation system reconstruction project still in the process.

Agricultural financing

Investments throughout 1998-2002, made in agricultural sector for maintaining the sector viability were 196.1 billion Armenian Drams of which 66.1 billion AMD were in form of tax holidays. The indicated sum by the sources for financing consisted:

- State budget of the Republic of Armenia - 42.1 billion AMD;
- Investments in agricultural sector made by international credit programs – 78.5 billion AMD;
- The difference between market and actual price of imported products in form of grants to agricultural sector given by different countries and organizations – 3.9 billion AMD;

- International aids granted to the sector to prevent drought consequences – 5.6 billion AMD;
- Investments made in agricultural sector –196.1 billion AMD in total;
- Tax holidays provided to farmers – 66.1 billion AMD.

Investment process would prolong in 2003 and following years as well.

Loan and grant programs implemented in agricultural sector

Compliant with the agreement on Armenia Agriculture Reform Support Project - conducted between the Republic of Armenia and International Development Agency - the agricultural reforms project has being implemented in the sector since 1998. In the framework of the project farmers are given to make use of short- and medium-term credits. By and large, about 4 682 short-term sub-loans have been provided with amount of 4.3 million US dollars within the project implementation phase beginning from 1998 to 2001, and 41 medium-term sub-loans of 3.2 million US dollars. On account of current assets established by banks, another 4470 short-term loans of 5.4 million US dollars are given from 1999 to November, 2002, and 7 medium-term loans of 240 000 US dollars.

Since 1998 certain works have been carried out in the Republic's 454 municipalities under the framework of loan programs aimed at supporting agriculture development, including:

- 400 km of fertile land irrigation network has been reconstructed in 99 municipalities to make the irrigation of 44 000 hectare land available;
- 107 municipalities have been engaged in seed breeding on 2000 hectare land;
- drinking water pipes, schools, kindergartens and other institutions of public importance have been reconstructed in 71 municipalities;
- 361 municipalities were given with about 15 000 individual loans totaling 10 million US dollars owing to “HAYGYUGHPOKHBANK”;
- 78 farmers from 69 municipalities have been provided with loans by “Aniv” as “Small-scale business promotion” compound to foster the production in rural areas.

Current assets being established on the account of loan programs create preconditions to assure the continuity of providing loans in agricultural sector.

In 2003, the works would keep on going in 550 municipalities in the framework of which 300 km of water pipes are going to be reconstructed in 65 municipalities (to provide with water over 28.5 thousand hectare land); 20 municipalities would enjoy reconstructed institutions of public importance; 7 500 individual loans provided to 470 municipalities and another 70 individual loans in the frame of Armenia Agriculture Reform Support Project.

Eliminating consequences of natural disasters

Throughout 1998-2000, about 66 thousand hectare of agricultural crop and planting stocks annually suffered losses due to various natural disasters, in other words, agriculture incurred losses of 17.0 billion Armenian Drams on annual average basis. Compliant with the decree N210 of RA, dated 27th of March, 1998 on “Providing tax holidays to the farmers and land users suffered losses re various natural disasters in 1997”, about 93.2 thousand hectare of crop field, perennial planting stocks and natural hay land were granted tax holidays. According to the decree of RA N267, dated 31st of March, 2001, on “Canceling debts in line with seed loans granted throughout 1997-1998 to the drought most suffered municipalities” farmers/land users received 1036.2 tons of winter and 1973.9 tons of spring wheat seeds taking into account the consequences of unpredictable drought occurred in 2000. For the purpose to extenuate the losses of crucial drought of 2000 through granted aid - seeds, planting stock, fertilizer and pesticides to 100-120 rural economies - it became possible to present such high indicators as wheat harvest - 410 tons, potato – 380 thousand tons, etc, by November, 2002.

Export promotion, domestic producer's interests protection

Export promotion and domestic producer's interests protection is considered to be one of the policy directions implemented in Agricultural and food sector of Armenia. The Legislation of RA regulating that sector particularly purposed reimbursement of VAT levied on exported food as well as exported food customs exemption. A range of interstate, intergovernmental and inter-departmental agreements and contracts have been signed by the Republic of Armenia supporting export promotion of agricultural goods and processed products. In 1998, an agreement conducted on “CIS countries' agrarian broad market”. Nowadays, 70-75 percent of alcohol drinks and 55-60 percent of canned products is

exported. Year in year out, the export geography and the volume of other product types as: fresh fruit, cheese, beer, mineral water, tobacco, fish, etc, is enhanced.

Since 1998, fresh fruit export volume grew to be more considerable as in comparison with 1998, when exported merely 2316 tons, in 2000 and 2001 it made up 4500 and 3540 tons, correspondingly.

Presently, the rural economies of Armenia are granted tax exemptions, excluded of land tax in order to protect local producer's interests and rise to a higher level of domestic market protection capacity. Corresponding to the law of RA on Value Added Tax, the realization of agricultural goods produced in Armenia, veterinarian medicine, pesticides and fertilizers used in agriculture, crops and perennial planting stocks seeds are levied with VAT zero rate. Farmer's social payments are reduced to 6 percent of cadastre net profit, yet previously it made 12 percent. 55-60 percent of irrigation expenses made by rural economies are reimbursed via subsidies. Irrigation system, scientific and education sectors, production and technical service and supply of goods are developed, as well as boosted consulting and information services.

Generally, the support to domestic producers is efficient and diverse enough. Whilst, in order to perfect this sector's legal environment a range of laws should be elaborated and adopted, especially on "Agricultural Insurance", "Agricultural co-operations", "Seed-breeding", etc, that would enable performing systematic approach towards the sectors being regulated in accordance with the above mentioned laws. In particular, the law on "Agricultural Insurance" would grant an opportunity to decrease the number of loses incurred by drought and other natural disasters through reimbursements.

Agriculture machinery

Machinery service to agricultural production is mainly rendered by 37 regional companies of "AGROSPASARKUM" CJSC and individuals possessing appropriate agricultural machinery. Despite the low level of agricultural machinery capacity, since 1997, through grants and initiated vital steps about 46 combine harvesters and 276 tractors of various capabilities have been imported and given to rural economies for a rent.

As to supporting the realization of agricultural products, processing and export sector, still exists pending issues to be solved, like marketing surveys, organized markets, small and medium enterprises establishment in rural areas, agricultural business acceptable insurance system to be guaranteed from climatic vibrations.

In July 27, 2000, the government of RA adopted a decree on “Measures on increasing export of agricultural products of certain types” for agricultural products’ export promotion which with the later amendments exempted from tax payments transport means with the capacity of 20 tons importing potato, cabbage, fruit and grapes through Armenian and Georgian customs inspectorate for using highways in the territory of Armenia from September 1, 2000 to November 15, 2003.

It’s worth mentioning the successful transactions conducted in agricultural and food sector. Particularly, in 1999, “Andre group” Swiss company provided with tomato processing equipments four Armenian fruit and vegetable processing companies (Ararat, Artashat, Armavir tinned food factories and Armavir wine factory) that enabled solving potato and fruit both purchasing and processing issues, on the one hand, and finished goods realization, on the other. Consequently, through 1999-2001, about 35 thousand tons of vegetables and 14 thousand tons of fruit was obtained and processed on annual average and within the 1st and 2nd quarter of the current year – 51.2 thousand tons of vegetable and about 4 thousand tons of fruit. Merely during the current year potato purchasing contracts were concluded with 1750 farmers. Surveys conducted based on the indicated companies’ demand identify the tinned food factories’ keen readiness to purchase the whole amount of tomato supplied by farmers.

Hereby presented the sector enterprises that are newly equipped and reconstructed; expanded the capacity and applied modern technologies on account of various loan programs financing as well as large-scale investments.

- “Ararat tinned food” Ltd and “Artashat tinned food” OJSC are equipped with tomato processing second aspect machines;
- Fruit juice Yugoslavian production line has been utilized in “YEVROTERM” CJSC with the capacity of 3 tons in an hour;
- Yerevan beer factory was provided with natural juice production Tetrapack line with 5 tons of fruit processing capacity;
- “Sava” Ltd tinned food factory was opened in Abovyan city;
- “Tamara PROD” Ltd realizes fruit and vegetable freezing in Ashtarak tinned food factory;
- A range of other companies, i.e. “Great Valley”, “Vedi Alco”, “Arvinco”, “Jermuk Group”, Yerevan “Zovk”, Abovyan and Yerevan beer factories, “Ashtarak kat” “Geghard”, “Atenk”, etc. were also re-equipment.

- Reopened Yerevan confectionery, Echmiadzin and Gugark tinned food factories, Baghramyan, Arevshat and Meghri wine factories, etc.
- Opened “Masis Tobacco” joint company that concluded purchasing contracts with over 2000 farmers within this year.
- A number of new productions established in Armenia, i.e. liqueur, schnapps, whiskey, wheat spirit, citrus juice, sunflower oil.

One of the successful transactions is the establishment of milk production and processing associations in the Republic’s regions, in the framework of US State Department of Agricultural Marketing Assistance Project in Armenia.

Since 1998, a vast number of companies specialized in food processing industry were awarded to product and service quality certificates by the government of RA for the vast success gained in this very sector.

The sector specialized institutions and NGO’s activity has a special role in terms of agricultural development. National Union of Farmers (NUF) non-governmental organization was established in 1998. The Union created 26 subsidiaries in all the regions of the Republic. With the Union assistance bee keepers, plant protectors, purchasers’ associations were established on the basis of modern technologies aimed at agricultural products efficient development and market formation in the regions. Rabbit breeders, importers and exporters as well as seed breeders’ associations are still in the process of formation. Due to NUF subsidiaries’ productive activity it became possible to create new working places recently – 15 000 to 20 000 – yielding profit to thousands of families. As a result of measures taken by the Union the number of cattle soundly increased and average milk yield of a cow makes 3000-3500 kg annually. There is a huge demand of cheese, dairy and meat products, canned and smoked fish. A number of Union members are specialized in dry fruit production. As a consequence of the competition run among this sub-sector companies the product quality increased to a certain extent and entirely meet to international standards. Also expanded the production amount, enlarged product types and as a result decreased prime cost that, in turn, creates favorable conditions for population purchasing power. The Union carried out serious steps on production marketing, therefore established commercial firms broad network providing public food and health centers with certain products.

Due to huge investments and diverse measures taken by the World Bank and other loan programs a propos grape processing companies, recently observed a considerable increase

in winemaking export volumes. In current year “Pernod Ricard” company concluded grapes purchasing contracts with approximately 300 farmers with 80 long-term contracts for 3 years. Winemaking enhancement process not only prevented vineyards mass destruction but also supported in establishment of new ones.

Actual amounts of agricultural main products gross harvest – 1000 tons

	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Wheat	325.7	301.1	224.8	367.3	416
Potato	440	414.1	290.3	363.8	374
Vegetable	395.2	449	375.7	456	466
Water Melon	60.6	88.5	52.8	54.8	90
Tobacco	0.2	1.9	4.6	2.5	2.5
Fruit	126.7	88.1	128.5	101.9	83
Grape	106.0	114.8	115.8	116.5	104

Actual data of agricultural cattle quantity

	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002¹</i>
Cattle	469.1	478.7	497.3	514.2	520
<i>Including</i> Cows	256.2	262.1	265	270.1	272.6
Pigs	86.2	70.6	68.9	97.9	101.5
Dairy cattle	546.6	548.6	540	592.1	608
Poultry	3190.2	3500	3850	4350	4970

¹ Preliminary