Agricultural Policies for Economic Growth and Reduction of Poverty and Food Insecurity in the Republic of Armenia

Yerevan, 2013

What's Food Security

According to the Rome Declaration on World Food Security and Plan of Action accepted at the World Food Summit in 1996 ***food security is achieved, if all people at all times, have physical, social and economic access to sufficient, safe and nutritious food which meets their dietary needs and food preferences for an active and healthy life.***

The main objective of carrying out food security analysis: to determine who, what types of households, what groups of population do not receive sufficient amount of food and why not.

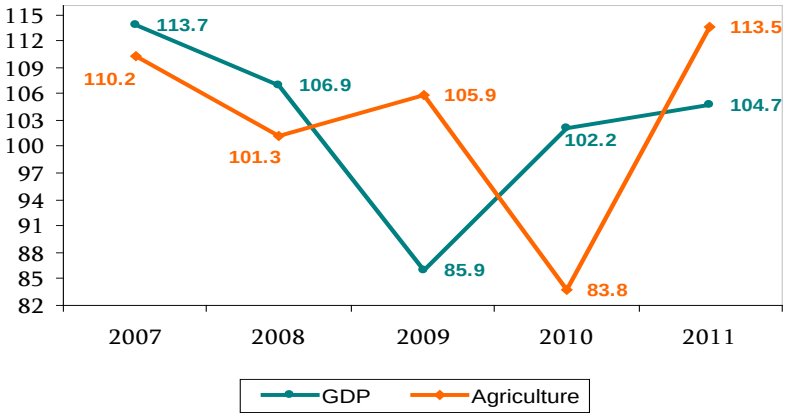
These answers will allow strategy makers to evaluate the food security situation in the Republic, as well as to develop measures targeted at improving the situation (in particular, the latter has been reflected in the ***Sustainable Development Program Paper*** and ***Strategy on Sustainable Development of Agriculture,*** which aim to reduce poverty in the Republic and which implies to improve the food security situation)

Food Security Situation in the Country

AVAILABILITY OF FOOD

	Production	Export	Import	Self-sufficiency ratio, %
Crop production, *1000 tones,* in 2011				
Wheat	224.1	2.7	392.0	36.5
Barley	178.2	0.6	23.5	88.6
Maize	19.1	0.0	53.0	26.5
Potato	557.3	0.9	11.0	98.2
Vegetables	968.0	8.5	25.8	98.2
Fruit (except grapes)	239.4	16.0	42.5	90.0
Vegetable oil	0.7	0.0	24.3	2.8
Sugar	72.2	4.9	97.0	43.9
Grape	229.6	6.4	3.3	101.4
Livestock production, *1000 tones*, in 2011				
Beef	48.2	0.1	13.4	78.4
Pork	9.4	0.1	12.4	43.3
Mutton and goat meat	8.4	0.0	0.0	100.0
Poultry	5.7	0.1	41.1	12.2
Fish	7.1	2.7	3.9	85.5
Milk	601.5	4.3	128.8	82.9
Eggs	34.9	0.0	2.2	94.1

Availability of food ***characterizes the physical availability of food in the country irrespective of whether it was received through production, change in stocks or exportation/importation and humanitarian assistance.***

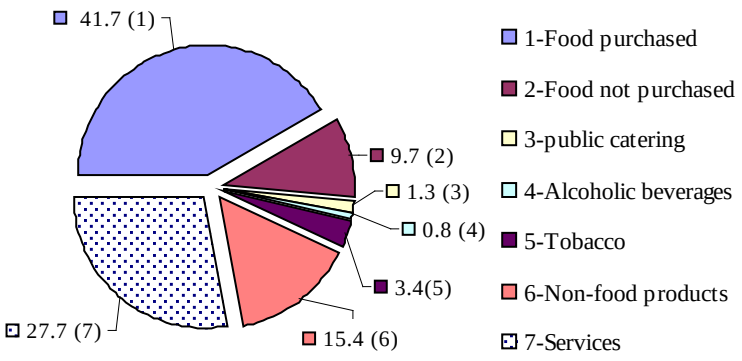


ACCESSIBILTY TO FOOD

	Total in RA 2011	*of which*	
		urban	rural
Poverty level, %	**35.0**	35.2	34.5
Extreme poverty level, %	**3.7**	4.6	2.2
Average per capita nominal monetary income, US $	**91.8**	103.2	70.7
Average monthly per capita consumer expenditure, US $	**87.5**	94.1	75.3
Average monthly per capita consumer expenditure of households with three and more children, US $	**55.2**	x	x
Average monthly per capita consumer expenditure of households with many members (6 and more), US $	**65.7**	x	x
Gini coefficient income inequality	**0,371**	x	x
consumption inequality	**0,267**	x	x
Consumer price index	**107.7**	x	x
Food price index	**112.3**	x	x

Accessibility to food characterizes the correlation between food security and poverty, and, particularly, the availability of sufficient quantity of resources at the households and for their members, correspondence of the structure of consumed food products with the requirements of adequate nutrition and etc

Structure of nominal consumer expenditures in 2011, monthly average, %

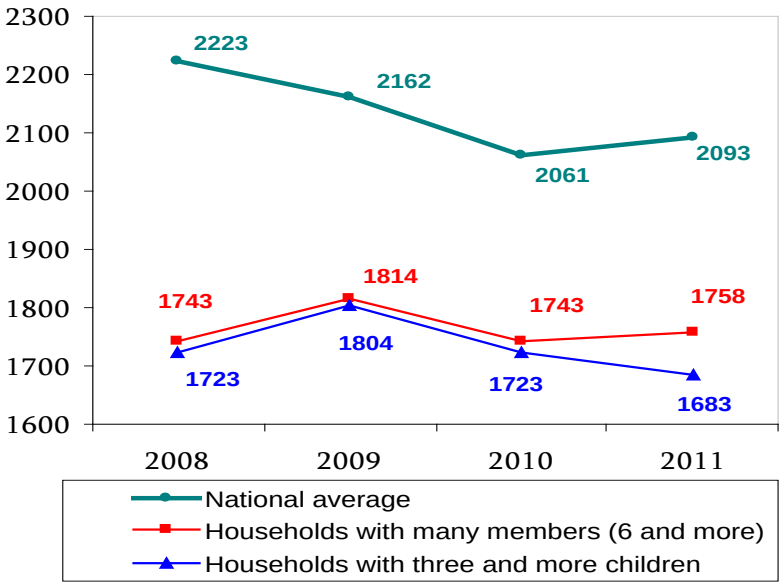


UTILIZATION OF FOOD

	2011
Daily consumed dietary energy per capita , *average kilocalories*	2093
Daily consumed dietary energy per capita of households with three and more children, *kilocalories*	1683
Daily consumed dietary energy per capita of households with many members (6 and more), *kilocalories*	1758
MULNUTRITION	
Population suffered from malnutrition, %	20
Breastfed children under age 6 months, %	89
Stunted children under 5 year, %	19
Wasted children under 5 year, %	4
Underweighted children under age 5 year, %	5

Utilization (consumption) of food
characterizes ability of the human body to ingest and assimilate the food he/she consumes

Consumed food dietary energy per capita,
daily average kilocalories



Before financial crisis:

- Stable growth during 2001 to mid-2008;
- High remittances,
- High foreign investment,
- Poverty level in 2008 – 27.6%

After financial crisis assessments for 2009:

- The economy growth rate decreased by 14.4%;
- Remittances fell by 35%,
- Exports fell by 35%,
- Poverty level increased by 6.5 percentage points,
- Commodity prices collapsed.

THE SERIOUS CHALLENGES FOR LIVESTOCK SECTOR

- Sharp reduction of areas under fodder crops,
- Reduction in animal number, products and raw materials of animal origin,
- Problems in animal health sector,
- Reduction in productivity,
- Problems in pedigree sector /comprehensive implementation of pedigree-breeding measures/

COMPONENTS OF LIVESTOCK DEVELOPMENT PROGRAM

- assistance to efficient combination and rational distribution of livestock branches;
- implementation of complex actions targeted at pedigree development;
- improved veterinary system and enhanced effectiveness of veterinary actions;
- development of feed sector;
- support to the development of livestock commercial organizations;
- ensuring the preservation of genetic diversity of farm animal breeds

THE MAIN PRIORITIES OF LIVESTOCK DEVELOPMENT PROGRAM

- Improvement of local varieties of animals, introduction of efficient live-stock production sector
- Development of sheep-breeding sector
- Full usage of locally produced fodder
- Development of companies which are directed at export
- Improvement of pedigree activities and increase in efficiency of animal health control system
- Implementation of state support programmes targeted at the right beneficiaries

CURRENT SITUATION

- State delivery of heifers based on leasing /Ararat, Armavir Marzes/

- Main mandatory conditions for receiving animals:

✓ Experience in live-stock production,
✓ Facilities to deal with live-stock production,
✓ Availability of required feeds (fodders).

- Filling of special forms by beneficiaries and submission to the Ministry of Agriculture

- Decision by an MoA Commission on beneficiaries depending on the above-mentioned conditions

CURRENT SITUATION

- Opening of 1,600 thousand AMD loan for the beneficiaries against 1 heifer, which is registered as a loan with 5 years payment period.

- Delivery of 3-6 months pregnant heifers to the farmers (the average purchasing price for 1 liter milk is 143 AMD).

- The following payment schedule is accepted:

  1st year -10%;
  2nd year – 20%;
  3rd year – 30%;
  4th year – 40%.

EXISTING PROBLEMS

- Lack of regulations on selection of beneficiaries and distribution of heifers
- In reality the number of applicants exceeds the imported animal number
- Special conditions for the beneficiaries do not take into account welfare of farmers, which does not have an essential and direct affect on the reduction of poverty, which also leads to the unfair distribution of income
- Beneficiaries lack of information on the programme from official sources

EXISTING PROBLEMS

- Poor rural population cannot satisfy the above-mentioned requirements
- Live-stock production in mountainous areas ids the main source of income for farmers
- Non-transparency in the decisions of Commission on selection of beneficiaries

RECOMMENDATIONS

- Development of sound regulations for the selection of beneficiaries and distribution of heifers
- Ensuring delivery of heifers to the population living in mountainous areas
- Implementation of Programmes for poor rural population, especially for the most vulnerable groups

RECOMMENDATIONS

- Awareness raising campaign for the rural population and potential beneficiaries. This will also allow to escape the violations
- Provision of decision (denial) for the selection of beneficiaries to the farmers
- Additional assistance to the poor farmers /to ensure fodder delivery/

RECOMMENDATIONS

- Ensure application of new technologies and extension service
- Improvement of food market
- Development of legislation on cooperatives
- Review of taxation level for the consumer cooperatives
- Improvement of contractual basis
- Improvement of crediting system for farmers

Improvement of financial support programs for the agricultural sector in Armenia

Karine Eroyants: research associate

Yerevan, 2013

Current situation of agrisector

- ✓ After land privatization policy households in rural areas got small farmlands and were able to engage in farming activity.
- ✓ Agriculture is the main income source for rural households.

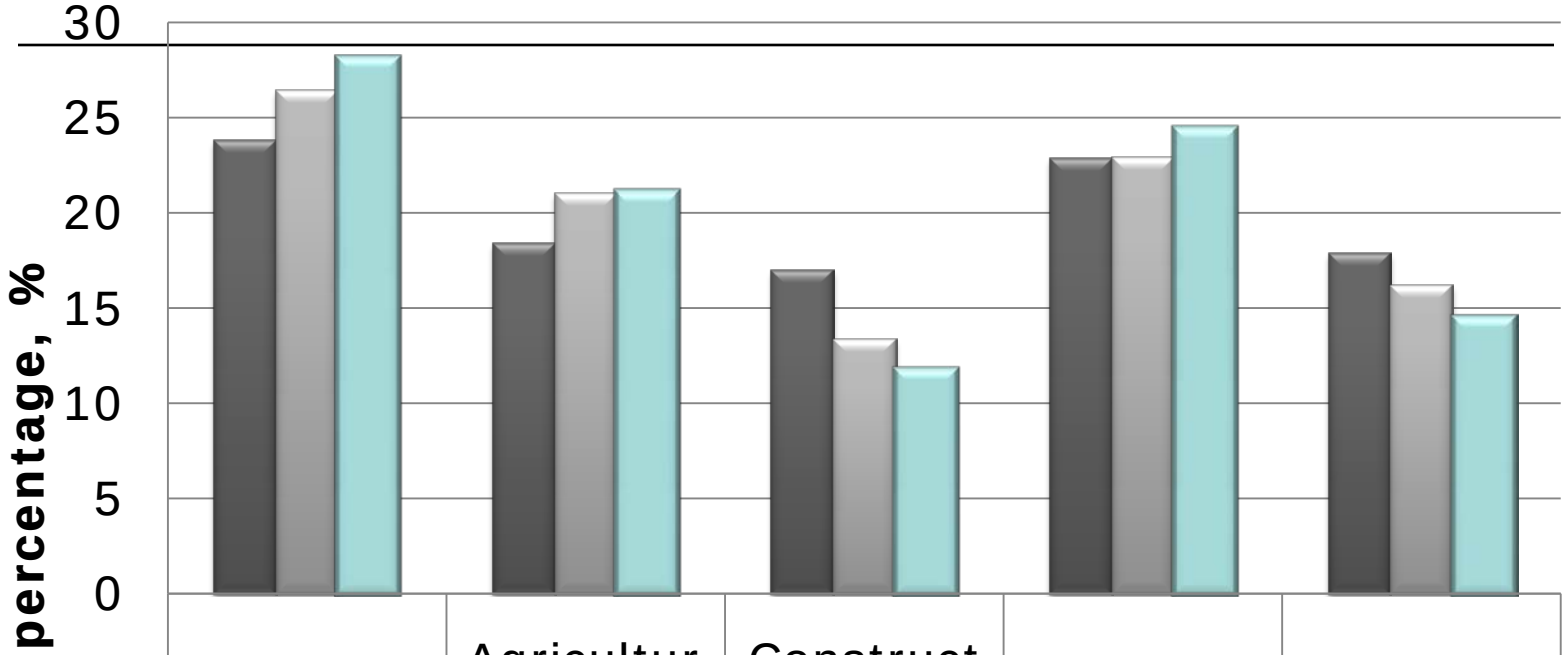
But...

- ✓ ... there are limited capacity of physical, human, financial, and social capital
- ✓ .... fewer agricultural assets unable farmers to save and to have access to financial sector

Reasons for State support policies, 1

- Dependence on climatic and seasonal conditions
- Large volume of imports in the sector
- Large number of small and medium farms, discriminated with few number of large scale producers who have considerable weight in the sector
- High fixed costs of machinery and means of production
- Business and management skills among the farmers are low

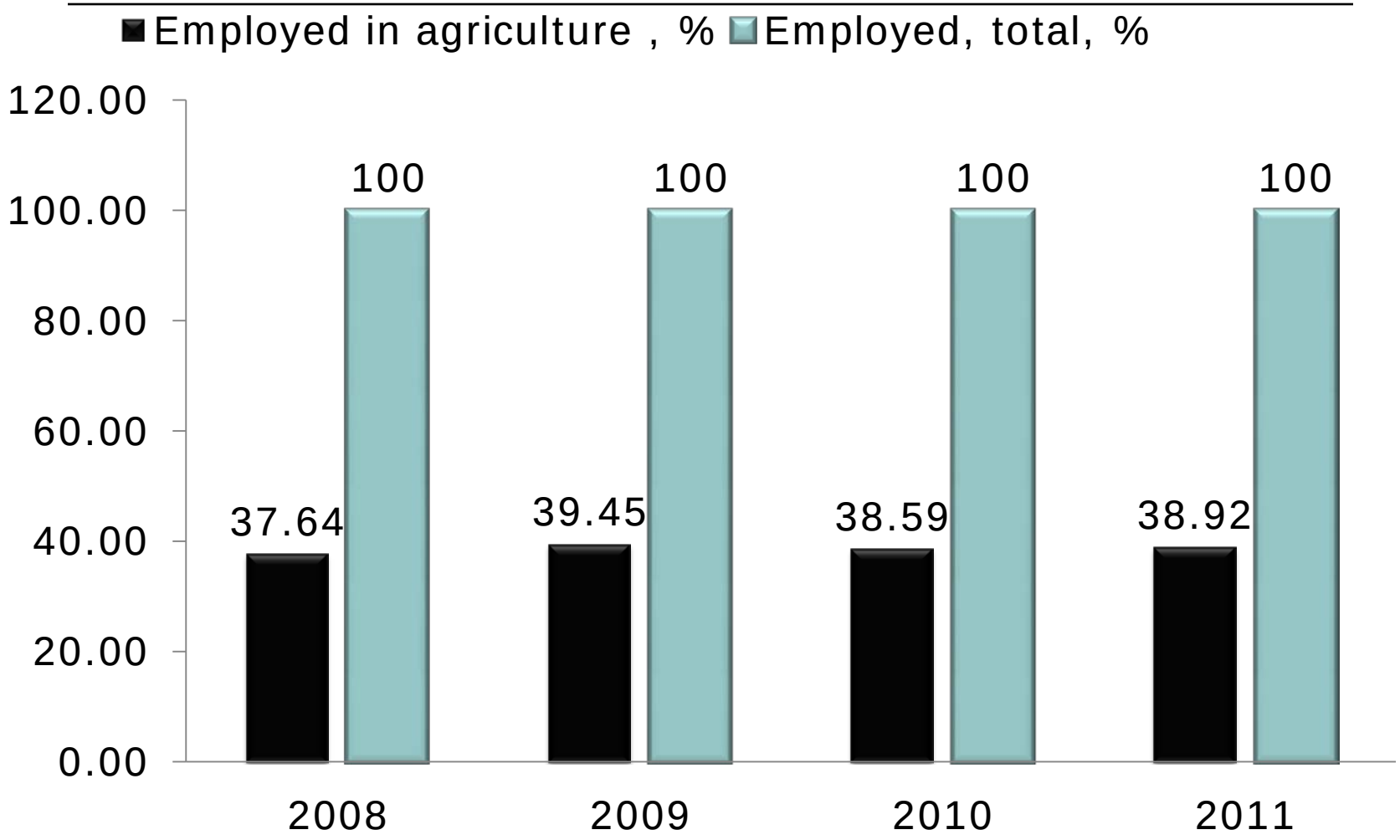
GDP production structure, as percent share



	Industrial Output	Agriculture Output	Construction	Services	Other
2010	23.83	18.4	17.02	22.87	17.89
2011	26.45	21.05	13.37	22.92	16.21
2012	28.14	21.11	11.8	24.43	14.53

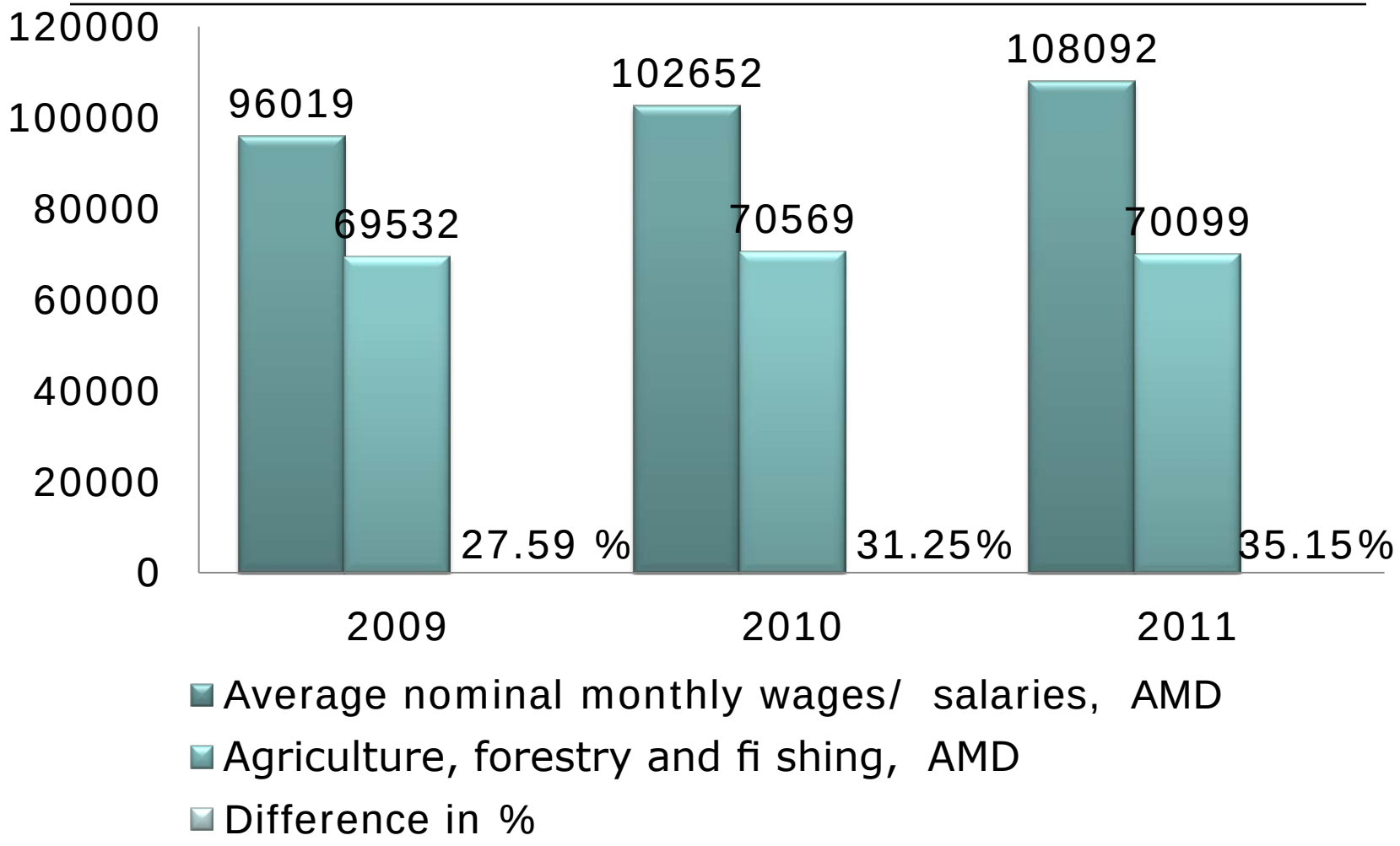
Source: www.cba.am, www.armstat.am

EMPLOYED POPULATION BY AGRICULTURAL ACTIVITIES, percent share, % 2008 -2011



Source: www.armstat.am

AVERAGE MONTHLY NOMINAL WAGES BY TYPES OF ECONOMIC ACTIVITY, AMD, 2009-2011



Source: www.armstat.am

Reasons for State support policies, 2

- Second large share of agri sector in GDP, on average, 22.71% through 2000-2012
- About 40% of total employment involved in agriculture, 2008-2011
- Monthly nominal wages in agricultural sector is lower than average by 31 %, 2009- 2011

State support policies

Targeted financial programs through agro credits and loans are designed to:

- support developing of agricultural sector in Armenia
- strengthen the capacities of farming and processing entities in preferable production directions
- establish new entities in the regions of the Republic of Armenia.

Food Security policies, 2012

	Action	Goal/Objective	Outcome	Implementers	Time frame
1.	Management of agricultural resources and competitiveness (credit program)	Efficient use of labor force and raw materials resources in rural areas; higher incomes of rural population; poverty reduction; and establishment and extension of new technology and innovations	Higher living standards of rural population; enlarged farms; and higher level of utilization of community resource potential.	RA Ministry of Agriculture; RA Marz Administrations (Marzpetarans)	2012-2014
2	Implementation of program of subsidizing the interest rate on agricultural	Preconditions created for the regional development of agriculture in the country by increasing productivity and competitiveness in the area	Presence of substantiated agricultural subsidizing mechanisms.	RA Ministry of Agriculture; RA Ministry of Finance and Economy	2012-2014

State support policies

Under government decree of April 1, 2011, soft loans are extended to Armenian farmers at an annual rate of 14%, of them 4-6% is subsidized by the government.

Loans are extended in drams; average loan size is 625,000 AMD and maximum size is up to 3 mln. AMD ($1=418.09drams), with maturity 1-24 months.

www.minagro.am, www.arka.am

Subsidy structure in RA, 2011

	2011	2012
Total Subsidies	19751.2 mln. drams	18421.5 mln.drams
Subsidies for Agro credits	200 mln.drams	588 mln.drams as of 30.09.2012
Percent share of subsidy for credits with respect to total subsidies	1.01%	3.19 %

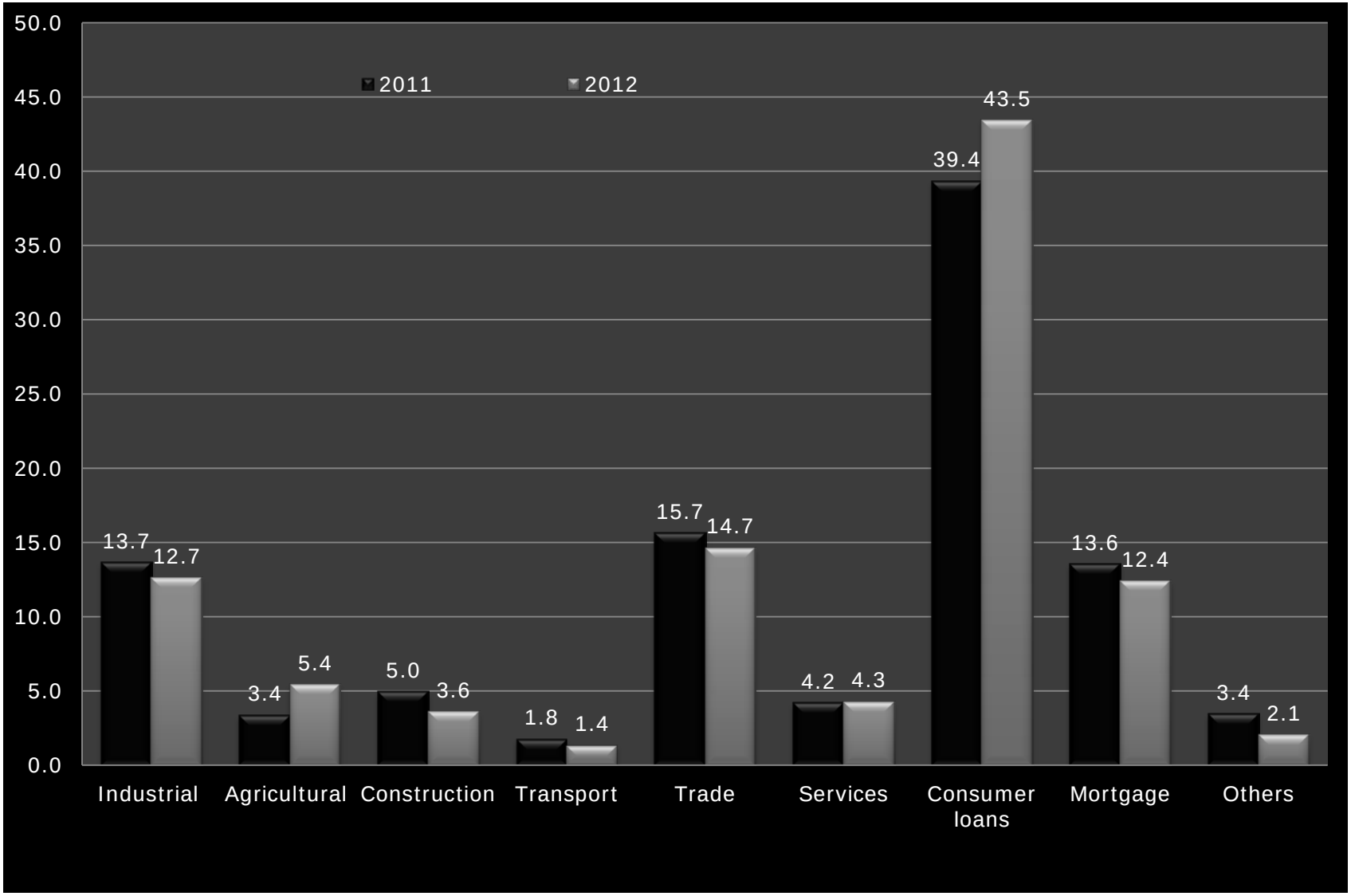
Source: www.cba.am, www.armstat.am
http://www.minfin.am/up/budget/LAW..BUDGET2012.pdf

Types of loans

Type	Annual Interest rate, %	Minimum Size in AMD	Maturity/ months	Collateral
Consumer	22 - 24	10,000	1 - 60	Required
Agricultural	**8 - 22**	**45,000**	**1 - 84**	**Required**
Subsidized	**14, Subsidized 4-6**	**Up to 3 mln. (average 625.000)**	**1-24**	**Required**
Business	12 - 24	40,000	1 - 120	Required
Mortgage	8 - 14	Up to 70% of property	120 - 180	Required

www.cba.am, www.banker.am

Commercial banks' AMD loans to residents by fields



Source: www.armstat.am

Limitations, restrictions, and risks

Policy is designed to help rural poor to recover from the poverty, but actually it harms them more

- only a few banks are active in a particular region to lend from and farmers don't have wider choice....
- farmers are forced to take loans in foreign currencies, otherwise they will be denied and so they are taking risks that they do not understand
- as farmers income depends on harvest and faces seasonality they can not repay interests and loans on time, paying daily penalty fee for delaying

Limitations, restrictions, and risks

- Often they apply for another loan from the other bank to make repayments in first bank, providing additional collateral

- Farmers face difficulty to understand terms and conditions of contract agreement, specifically are not aware about the effective annual interest rate before signing the contract, as it is written just “rate” (lack of transparency by banks and lack of financial literacy in rural areas)

Limitations, restrictions, and risks

- In case of subsidized loans it is not clear from the contract the terms or conditions on how subsidized portion of should be repaid back by a bank to a borrower

- So, farmers thinks how to repay loans rather than how to develop small farm activity...

RECOMMENDATIONS , 1

1. In the frame of Food Security policy and poverty reduction objectives create a state body/institution, which will be responsible for defining vulnerable groups with their main problems and shortcomings in urban and rural areas of the country, and then for targeting social and state support programs and policies.

RECOMMENDATIONS, 2

2. With a support and further monitoring by CB RA improve contract agreement, simplify and provide all the necessary information (nominal and actual interest rates as in consumers' loan contracts, loan size and durations, penalty fees in case of delaying and fines and/or rescheduling in case of early repayments)

3. Eliminate discrimination against local currency

RECOMMENDATIONS, 3

4. Extend subsidized loans program with an average size of a loan 2-3 mln. AMD and maturity period up to 5 years. Allow flexible interest and loan repayment schedule according with harvest seasons

5. In the frame of Food Security extension programs organize regular trainings on financial literacy in regions of Armenia

RECOMMENDATIONS, 4

6. Promote financial cooperative model where beneficiaries are controllers and owners at the same time (Farm Credit Armenia UCO CC)

Thank you for your attention!