

Policies to Support Small Farmers' Organizations in Armenia

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Presentation Outline

- Background on Agriculture in Armenia
- Farmers' Organizations and Cooperative Movement in Armenia
- Main policies and programmes to support FOs in Armenia
 - Government policies and programmes
 - Government subsidies
 - Donor programmes
- Impact of these policies on FOs
- Recommendations to further support the development and operation of FOs



Agriculture in Armenia



- One of the main economic sectors in Armenia.
- Biggest employer of the population (44.4%).
- The share of agriculture in the GDP comprised 18.1% in 2010.
- Only 154.6 ths. hectares of agricultural land is actually irrigated.
- About 150,000 ha of arable land across the country is out of use.
- 97% of GAO attributable to rural households.
- About 340,000 rural households.
- Average farm/household size – 1.4 ha, of which 1.1 ha arable
- Agriculture production implemented on over 1.2 mln plots.
- Low level of utilization of pastures and hay lands (45-50%).
- Poor conditions of available farm machinery, high needs of spare parts, 94.4% of tractors are exploited more than 10 years.
- High level of rural poverty – 34.9% in 2009.



Agriculture in Armenia



- Knowledge of farm management systems is fragmentary
- Research in agricultural marketing and policy analysis is very weak
- Shortage of credit and high interest rates limit the ability of farmers to finance recovery through investment in capital stock...
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- From the features of the problems arisen in the Armenian agro-food system it's obvious, that successful development of the Armenian agriculture and related fields are closely linked with the development of farmer organizations and agricultural cooperatives.
- Lot of common problems and limitations. Farmers can't deal with these problems alone. No other sustainable support alternatives. Self-help. Benefits of Cooperation.



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FO and Cooperative Movement

Starting from 1993, with the so called principle of voluntary and autonomous organizations, several local and regional unions, associations and other organizations were registered which could only partially solve their common problems and later in reality became impractical.

- **Phase 1: 1993-1999 (mostly Government driven)**

1994 – “Armenian Farmer” Association

1995 – Armenian Agricultural Union

1996 – “Agrarian Union”

1998 – 300 Water User Associations (later consolidated)

1998 – Credit Clubs

Due to many limitations like farmer mentality; knowledge and understanding of Coop principles; known as quasi ministry structures; absence of grass-root (member farmer) involvement and governance; most of these organizations performed poorly or didn't operate at all and eventually liquidated.



FO and Cooperative Movement

- **Phase 2: 2000 – 2010 (mostly Donor driven)**

2000 – Association of Potato Producers

2002 – Water User Associations

2001 – Agricultural association consumer cooperatives

2001 - 2005 – 50 Credit Clubs

2001 – Milk Marketing Consumer Cooperatives

2001 – Federation of Agricultural Associations

Partially successful performance due to donor assistance, financial and technical support by international organizations. However due to speed of establishment (always in the scope of some projects), still poor understanding of coop principles of farmers, lack of participation by farmers, lack of involvement in decision making, confusing coops with soviet “kolkhoz” system, most of these cooperatives became not functional after the end of donor funding or end of the project.



Current Situation – Existing Laws

- If we consider Farmer Organizations as non -governmental, independent, voluntary and membership based organizations, in Armenia they are mainly regulated by 2 laws: 5 articles in the **Civil Code of Armenia** and the **“Law on Consumer Cooperatives”** accepted in 1993.
- **Law on Water User Associations and Unions (2002)** – regulate another type of FOs: membership based (landowners only), voluntary, member controlled and member-used, non-governmental and non-commercial organizations. Highly subsidized by the Government for the irrigation water. Among farmers perceived as quasi-state organizations, they don't feel as owners of that organizations and in reality don't actively participate. A Lot of arguments between farmers and WUAs on irrigation service quality, access to water, fee collection, etc. (currently 44 WUA present).

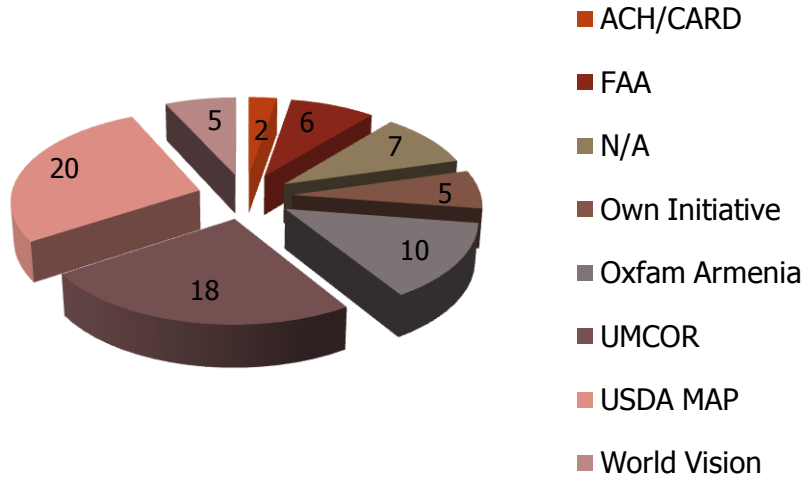


Current Situation – Existing Laws

- **The Law on Agricultural Credit Clubs (2002)** - This law regulates the status of agricultural credit clubs and the legal relations connected to their activities, determines club formation, membership, governing principles, obligatory requirements and conditions on involving resources and providing credit, insurance and other services to club members, as well as regulating, controlling and reporting procedures.
- The Club is a non-profit, non-commercial organization that provides members with services of mutual financial assistance that are not subject of entrepreneurial activity and are implemented on behalf of all members and through their subsidiary risks. The Club can be established according to the legal status of non-commercial cooperative or union of legal entities.
- After 2005 half of the 50 credit clubs were liquidated, the other half is in the liquidating process.

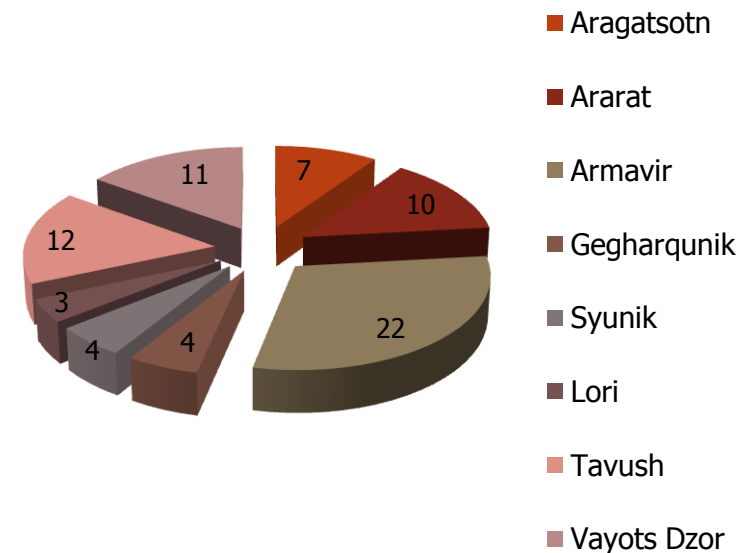
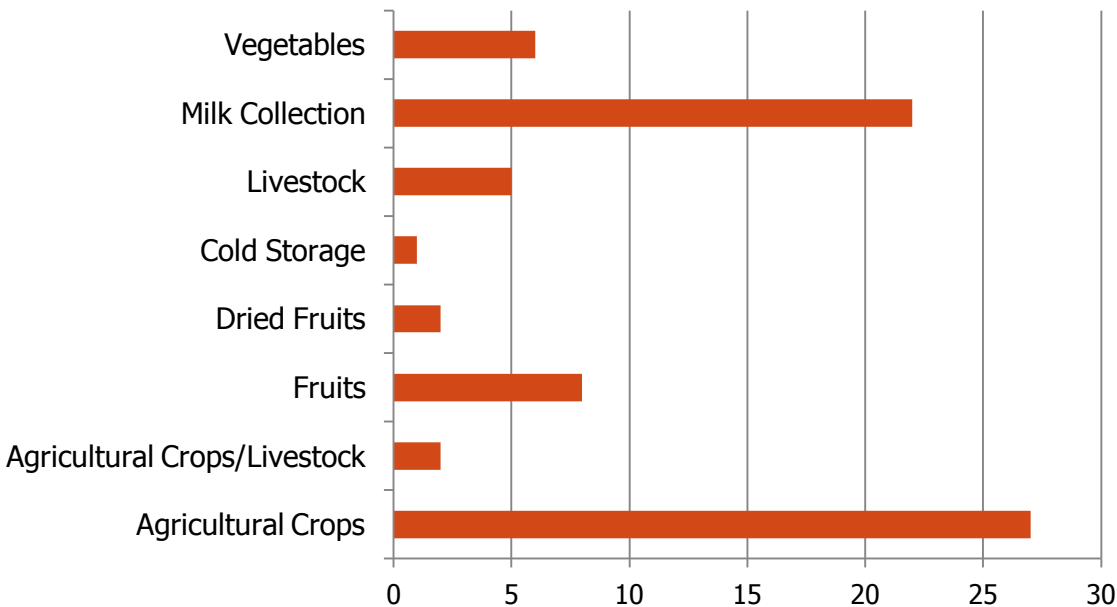


Current Situation – Consumer Coops



In 1999 there were 297 consumer cooperatives. As of September 2011 only 239 were re-registered of which 118 had mentioned about their agricultural activities. Actual number of operating consumer cooperatives (50% or less).

• 73 agricultural consumer cooperatives observed



Cooperative Development

- **Phase 3: 2010-2020** (Strategy driven - PPP)

Adoption of the “**2010-2020 Sustainable Strategy Program for Agricultural and Rural Development**” by the Government of Armenia and the Ministry of Agriculture which is aimed at the restoration of the financial crisis circumstances and through formulation of anti-crisis mechanisms contribute to the modernization of the agri-food system and raise its competitiveness.

- Nearly for the first time Ministry of Agriculture seriously highlighted the importance of **farmer organizations and cooperatives** in several components of the Strategy Program



Government Policies and Programs

- The second sub goal of the SP4ARD-2010-2020 notes that program should develop agricultural and intersectoral cooperation for further deepening the agrarian reforms.

Highlighted directions to promote different forms of agricultural cooperation:

- 1) improvement of legislation and creation of favourable conditions for the agricultural cooperatives,
- 2) create mechanisms of state support to agricultural cooperatives,
- 3) fixing the cooperative development idea in the context of rural farm consolidation policy,
- 4) support to milk collection units and consumer cooperatives,
- 5) support cooperatives in the whole food supply chain,
- 6) establish logistics and consolidation centers within the agricultural cooperatives,
- 7) support ag cooperatives to adopt food safety standards,
- 8) establish mechanisms for agricultural cooperatives to increase the access to rural credit, to have interest rate subsidies, collateral guarantees, etc.



Government Policies and Programs

- First 4 actions of the SP4ARD-2010-2020 Action Plan are related to development of agricultural cooperative forms and mechanisms as well as establishment of favourable conditions for coop functioning, improvement of legislation and development of missing legal acts needed for realization of the goals of the Program (expected annual funding 400mln AMD).
- Some improvement of legislation is going on: minor amendments envisaged in the Law on Consumer Cooperatives, Law on Value Added Tax.
- Concept Paper on Farm Consolidation approved.



Government Policies and Programs

- In the action plan of Farm Consolidation Concept Paper resources are allocated to implement land consolidation pilots through cooperatives. “Agricultural Cooperative Support Center” Foundation will be established to implement specific activities to promote land consolidation through cooperatives.
- Concept paper for Developing Agricultural Extension and Information System of RA in 2011-2015.
- Actions towards gradual modernization and improvement of farm machinery and equipments – Cooperatives have priority and 50% discount.
- Other actions of SP also contain Cooperative & FO components.



Priorities for 2012

- Amendments in the RA Food Safety Legislation and Approval of Appropriate Concept Papers based on EU requirements.
- **Establishment of agricultural cooperatives in rural communities.**
- Improvement of agricultural machinery supply mechanisms to communities.
- Subsidies – for nitrogen fertilizer, diesel and wheat seed.



Government Programs



- **CARMAC** – Community Agricultural Resource Management and Competitiveness Project

Total financing of the Project is \$21.33 million, of which the Government of Armenia finances \$5.33 million, and the WB lends \$16 million. The Project has been launched in July 2011 to improve productivity and sustainability of pasture-based livestock farms in 55 mountainous communities by increasing milk production, improving pasture management, and enhancing farm sales of livestock products.



- **A) Development of Pasture/Livestock management plans.** A comprehensive and participatory assessment of all pasture and fodder production areas would be done on a village basis, including soil tests, plant assessments, productivity and quality of production. This would include productivity estimates for grassland and fodder production areas to be put in the context of the feed/fodder demand in the villages.



CARMAC

- **B) Community Fund for implementation of Pasture/Livestock development plans.** The support by the project is stipulated by the needs of the given community and efficiency of the proposed plans. (100,000-300,000 US\$/village).

A tentative list of eligible investment activities – e.g. infrastructure to access/use remote pastures (e.g. spot road improvement, stock watering points, milk cooling devices, etc.); agricultural machinery to produce/harvest fodder (grass cutters, hay making machines, silage choppers, etc.); rehabilitation measures for degraded areas (fencing, supplementary seeding, etc.); support for fodder production (leguminous plant seeds, corn seeds, etc.); improvement of breed (artificial insemination); training, technical services, as well as support investment in organization of pasture management mechanism at the village level.

- **Implementation** - In order to ensure the effective implementation of component an all-inclusive **Pasture User Association (PUA)** were created at the community level in accordance with the relevant legislation. Currently 33 PUA Consumer Cooperatives have been established.



Donor Programs



- 1999-2003 Community Association Program (CAP) – 7 coops, 2003-2006 Farmer Organization Support Program (FOSPA) 6 coops, 2009-2011 Sustaining Cooperative Enterprises for Agricultural Development (SCEAD) 14 coops.



- The cooperatives received loans to buy bulk agricultural inputs, enabling the farmers to reduce their costs and increase their incomes. Coops also received managerial and agricultural training as well as marketing assistance...



OXFAM GB Armenia

- In 2011 within the framework of the “Small Farmers’ Livelihoods” project 10 ***agricultural cooperatives*** were set up and 3 cold storage - collection centers have been established in target communities, which are managed by the newly established agricultural cooperatives.



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USDA FAS

Caucasus Agricultural Development Initiative

- **Farm Credit Armenia** – the only cooperative financial institution in Armenia based on cooperative principles.
- FCA was founded on February 21, 2007 by 57 farmers and the Trust Foundation of U.S. Farm Credit System. Later registered by the Central Bank of Armenia on September 18, 2007 as a Universal Credit Organization Commercial Cooperative.



- Now FCA has more than 1250 member farmers.



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USDA MAP Cooperative Development Program



- USDA MAP contributed to the development of the dairy marketing channels in Armenia by establishing milk marketing cooperatives and milk collection centers in many villages across the country (2000 - 2005).
- These cooperatives (about 25) are not-for-profit organizations with the objective of marketing the milk produced by their members.

World Vision Armenia



- WV has started to work with cooperatives in the framework of Area Development Programs when emphasis was put on economic development sector. With the support of WV there were 10 consumer cooperatives (ag.) formed in Gegharqunik and Aragatsotn marzes aimed at initiating income generating activities in the target communities for economic development.



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Federation of Agricultural Association Union of Legal Entities (FAA ULE)



- FAA-ULE was established on December 29, 2001 by the initiative of eight local Farmers Organizations (FOs) in Armenia. At present, FAA has 21 member associations, representing about 1.115 farmers from 6 regions of Armenia.



- In the scope of various donor programs FAA is strengthening the capacities of its member FOs, providing training, developing their marketing skills, market intermediation, lobbying capacity, etc.



Impact on Cooperatives

insights for Phase 2

- Documented evidence (Urutyán 2009, Hovhannisyan et al. 2004, Grigoryan et al. 2007, Hakobyan 2006) of the important role of milk marketing cooperatives in the dairy value chain. Volumes of collected milk through coops and payments made to farmers through coops were steadily growing (observations in 2001-2008).
- Some studies showed that coop members on average received 9.66 AMD more per liter of milk from their coops than non-members from dairy processors. Members received other support measures from coops.
- Credit clubs had 878 members benefiting around 3,500 families. Loan portfolio was 1.5 million USD and clubs' share made about \$510,000.
- Coop members received thousands of multi-dimensional trainings, extension support, individual consulting, capacity building on various issues, marketing support, lobbying support, received loans, linked with markets, were able to export, received agricultural equipments, machinery, inputs, etc...



Impact on Cooperatives

insights for Phase 2

- Though there was a significant intermediation from various donors through wide range of coop development programs the cooperatives are still considered as weak organizations and far from being an important part of the agri-food value chains.
- The hindering reasons for development are various and can be classified into legal, economic, informational and also socio-cultural dimensions.
- Till now no Law on Agricultural Cooperatives, no clear status of cooperatives. Very weak economic participation of farmers, strong dependence from donors. Lack of knowledge of coop principles, confusion with kolkhoz system, no business plan and strategy...



Recommendations

- **Improvement of Coop Legislation**

One general law on coop based on widely accepted ICA coop principles (specific coop types can be featured in the law). Coops are widely known as business organizations, however in Armenia they are non-for profit organizations. This hinders them getting loans from bank, make leverage, etc.

Make coop registration and membership revision easier. Waive registration payments. Mandatory statutory capital collected from members. Make tax-free mandatory reserve funds based on annual profit. Special profit tax provision.



Recommendations

- **Application of Economic Incentive Mechanisms.** Coops should be considered as business partners not entities in need of financial support. In many countries coops participate in public tenders implement social programs and get paid for their services. Provision of investor-member.
- **Awareness raising campaign on Cooperative Values and Principles.** Nationwide publicity about the International Year of Cooperatives (2012), celebration of the International Day of Cooperatives... appropriate campaign, publicity and events will increase public's confidence towards cooperatives, its values and principles.





Thanks for your kind attention!

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