I. Project Context

Country Context

Armenia is a small (29,800 km2) landlocked lower-middle income country with a population of about 3.1 million, a large diaspora population of around 7 million, and an average per capita GNI of $3,360 in 2011. Real GDP growth was more than 10% for most of the last decade, strongly fueled by remittances, but there was a substantial contraction in 2009 due to the global economic and financial crisis. Growth has since resumed, although at a slower pace, reaching 4.6% in 2011. Services including construction and tourism (46%), industry including mining and energy (37%) and agriculture (17%) are the largest components of GDP. Inflation has dropped to about 5% at present from a high of 9% in 2010, but was less than 5% throughout most of the last decade.

Major exports include mining products and a limited range of foodstuffs and beverages, but are outweighed by imports of manufactured goods and food, resulting in a substantial trade deficit of around US$2.5 billion annually. Remittances from the Armenian diaspora of more than US$1 billion, foreign direct investment of more than US$600 million, and donor funding help to close the
gap. Armenia joined the WTO in January 2003 and has put in place a favorable trade environment with low tariffs and some improvements in tax and customs administration. It is ranked 39th in the Index of Economic Freedom and 55th in the 2012 Doing Business index, with a major constraint being connection to the electricity grid. The population has remained stable in recent years, with about 65% living in urban areas. In the 1990s, more than 50% were classified as poor. This figure was reduced to 27% in 2008, but increased to around 36% in 2010 due to the economic and financial crises. Similar percentages of poor live in urban and rural areas.

Overall, Armenia has reduced poverty, kept inflation at a manageable level, maintained a stable currency, and privatized most small and medium-sized enterprises during the transition period. Nevertheless, it is particularly vulnerable to external events and the global economic situation due to its geographic isolation, narrow export base, reliance on a single transport corridor through Georgia, substantial linkages with the Russian economy, susceptibility of agriculture to weather conditions, potential for regional instability, and high dependence on remittances. Among the major pillars of the government’s strategy are reducing poverty, ensuring human development, deepening economic growth and improving public administration as indicated in the 2011-2013 Medium-Term Expenditure Framework.

**Sectoral and institutional Context**

Agriculture remains vital to the Armenian economy and in 2011 together with the associated agro-processing accounted for about 17% of GDP, 17% of the export earnings and about 44% of employment. The fast economic growth over the last decade has generated new opportunities for the agriculture sector, which has grown at a robust rate averaging more than 6% annually since 1997 despite the downturn in 2009-10. Exports of agricultural products have doubled since 2005, mostly beverages and to a lesser extent fruit and vegetable products, although there was a significant but proportionally quite small increase in export of live animals in 2011. However, the sector has not been able to fully take advantage of the opportunities, with expanding consumer demand partly met by a substantial increase in imported products, which has outweighed exports and resulted in a steadily increasing gap between imports and exports and a widening of the agro-food deficit. Overall, Armenia is a net importer of agricultural products with agricultural imports of US$700 million in 2011 compared with exports of about US$230 million.

Productivity has grown substantially in the agriculture sector in the last decade. The Crop Production Index more than doubled from 2002 to 2009 although there was a substantial drop in 2010 due to inclement weather conditions. During the same period the Livestock Production Index increased by about 60%. Crop production typically accounts for about two thirds of the Gross Agricultural Output (GAO), while livestock accounts for one-third. However, about 60% of the agricultural land in Armenia is pasture and grassland in the country’s mountainous areas, where livestock production is the most important economic activity. Productivity increases have been supported by increases in availability of inputs, improved availability of finance, some foreign investment, improved market linkages, and an increase in farmers’ knowledge and skills. Nevertheless, yields are a long way from potential, with cereals averaging only 2.5 tons per hectare (t/ha) and cow milk yields around 2,000 liters per head based on official statistics, although these figures are substantial improvements over the 1990s figures of 2 t/ha and 1,400 liters/head, respectively. Uncontrolled exploitation of grazing lands in many upland villages has resulted in clearly visible degradation, especially on nearby pastures, and along with animal health problems, can severely constrain livestock productivity. Livestock productivity could be increased by 40%
with improved animal husbandry, feeding and veterinary care while crop yield increases of 60% are quite feasible in the medium term with better varieties and improved management including soil fertility.

The sector is dominated by smallholders, with some 335,000 households with an average landholding of around 1.4 hectares and a generally diversified production system involving both crops and livestock. Only a relatively small proportion can be considered truly commercial, and many farmers, especially those in more remote areas, are among the most vulnerable with about one-third still living in poverty. However, a shift towards increased commercialization in the sector has been evident in recent years. Some farmers (around 15%) now cultivate leased land, although a third of farmers do not cultivate all their land, mainly due to poor land quality, lack of water or distance from the farm. New agro-processors and small rural businesses are appearing, an increasing number of contractual arrangements between processors and producers are in place, and producer associations and cooperatives are helping to consolidate production and markets. Nevertheless, the links between the food processing industry and agricultural producers remain weak, and many rural enterprises lack technology and know-how that could improve their competitiveness.

Key constraints limiting the sector’s full potential could be overcome by improving market access, supporting the commercialization process, and enhancing employment opportunities in rural areas while protecting the natural environment. Further development of rural enterprises including cooperatives and associations, and strengthening the links between agricultural producers and the food processing industry are critical. This is especially true for those products where Armenia has a comparative advantage such as fodder-based dairy and meat production, fruits and vegetables, and niche products such as honey. Food safety and food quality standards are becoming increasingly relevant to the competitiveness of Armenia’s agro-food industry and, along with inconsistent supply, are major barriers for increasing exports and offsetting imports to meet domestic demand for fresh and processed products.

II. Proposed Development Objectives
The proposed Project Development Objective (PDO) is to (i) improve productivity and sustainability of pasture and livestock systems in targeted communities and (ii) increase the marketed production from selected livestock and high value agri-food value chains.

III. Project Description
Component Name
Component 1: Community/Pasture Livestock Management System
Comments (optional)

Component Name
Component 2: Value Chain Development
Comments (optional)

Component Name
Component 3: Strengthening Public Sector Institutions
Comments (optional)
**Component Name**  
Component 4: Project Coordination and Management  
**Comments (optional)**

### IV. Financing (*in USD Million*)

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### V. Implementation

### VI. Safeguard Policies (including public consultation)

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**Comments (optional)**

### VII. Contact point

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