

## THE MAIN DIRECTIONS OF INCREASING THE COMPETITIVENESS OF THE AGRICULTURAL SECTOR IN ARMENIA

One of the main issues the current state of agricultural sector development faces is increasing the competitiveness of agricultural products both in the domestic and overseas markets. The review of the best practice worldwide indicates that the development of other sectors of economy and widespread adoption of new technology in the agriculture, as a rule, entails reduction in the number of entities engaged in agriculture, increase in the land size used and labor productivity.

The results of the analysis of national food balance data indicate rather low degree of self-sufficiency in several agricultural products of the first necessity (see Table 1). These trends state the importance of import substitution by increasing the competitiveness of the locally produced goods and the value of the products (adding more value).

**Table 1**

**The average degree of self-sufficiency in agricultural products of the first necessity in 2003-2011**

Agricultural products of the first necessity	Average degree of self-sufficiency
wheat	38.91 %
crops	57.1
oil	5.1 %
potatoes	99.9 %
vegetables	100.8 %
fruit and berries	93.3 %
milk and dairy	98.1 %
beef	77.4 %
sheep and goat meat	104.1 %
pork	52.5 %
poultry meat	21.15 %
egg	101.8 %

Source: National Statistical Service of RA (2012). *Statistical Yearbook of Armenia 2003-2012*

The main directions of increasing the competitiveness of the agricultural sector in Armenia are:

- better practices of running the business and/or management practices, the farm size optimization;
- labor productivity increase, widespread adoption of new technology;
- improved risk-management practices;
- improved state support to the agriculture sector of the economy;
- improved legislation;
- sophisticated distribution channels.

Joining cooperatives voluntarily and better practices of running the business and/or management practices by farmers are very crucial, since cooperatives combine both individual and collective interests.

Development of related and supporting industries and required infrastructure will improve the land use practices to fight the shortcomings the sector faces along with the strong network of cooperatives in place.

In the countries like Armenia where land is a scarce, the agricultural land composes 0.65 hectare per capita from which arable land is only 0.14. But owing to various factors, currently only about 33% of the

arable land or 150 thousand hectares are not used as agricultural land<sup>1</sup>, therefore it is of strategic importance to implement targeted programs and measures to increase the efficiency of land use practices.

Taking into consideration these conditions it is impossible to ensure high returns on investments. The review of best practices worldwide indicates that the large-scale production is more advantageous compared with that of small-scale one, and a tendency of increasing the production of agricultural products in developed countries is observed.

In the United States the average farmland size is 200 hectares. In order to be competitive the farmland size needs to be 600 hectares, in case of large-scale production to ensure economies of scale the estimated size is 1,500 hectares<sup>2</sup>. The average farmland size varies in case of various countries (see Table 2).

**Table 2**

**Average and estimated farmland size to be competitive and ensure economies of scale**

Economy	average farmland size	competitive average farmland size	farmland size to ensure economies of scale
United States	200 hectares	600 hectares	1500 hectares
United Kingdom	55 hectares	80 hectares	200 hectares
France	25 hectares	50 hectares	100 hectares
Denmark	25 hectares	50 hectares	100 hectares
Sweden	25 hectares	50 hectares	100 hectares

Source: Durst, Ron. 2009. Federal Farm Policies and Farm Households. U.S. Department of Agriculture. Economic Research Service. Economic Information Bulletin No. 54. May.

In 2011 about 70% of the gross agricultural output was produced by 69,000 large farms (or 36% from the total number of farms). The estimated output of 26,000 thousand farms (1.4% of total number) was more than 1 million US dollars (or 42% of agricultural output). The share of small farms was estimated at 1.5% using 14% of the land, while the number of small farms comprised 50%.<sup>3</sup>

The advantages of cooperation are not only the shared funds to be allocated on purchase of equipment and be used by the members of cooperatives; purchasing supplies and/or services; shared costs on marketing activities to have an access to new markets or increase the share in established ones, but also the specialization: the members will utilize modern technology in compliance with the requirements of cooperatives.

Currently, the small farms owing to the lack of funding can't afford purchasing their own equipment. As a result, the labor productivity is rather low, use of equipment and machinery is limited, and the bulky part of agricultural work is done manually. Armenian farmers mainly use tractors and agricultural tools that require review of adopted practices in compliance with the land condition and size of the farm. Currently, about 95% of the machinery and equipment used in the agriculture is obsolete (useful economic life of the equipment and/or machinery expired), and the productivity is rather low resulting in high operational costs. Therefore, agricultural equipment leasing practices could be considered a remedy to this issue.

The access to the long-term loans especially to leasing is limited. The farmers are required to ensure a down-payment of 30% of the amount of the equipment; meanwhile the machinery is imported, thus additionally increasing the price of machinery. Therefore, it is proposed to make the down-payment 10% of the amount of the equipment and/or machinery. Farmers face high interest rates as well, and the transfer of the property rights from the lessor to lessee only happens at the end of lease period. The lessor forces the lessee to make insurance payments for the machinery and/or equipment, thus putting addition pressure on the farmers. Therefore, co-sharing of insurance payments between lessor and lessee is proposed.

<sup>1</sup> Source: Government decree N 1476-N, 04.11.2010, RA, p. 11.

<sup>2</sup> Source: Durst, Ron. 2009. Federal Farm Policies and Farm Households. U.S. Department of Agriculture. Economic Research Service. Economic Information Bulletin No. 54. May.

<sup>3</sup> Source: Farms, Land in Farms, and Livestock Operations 2012 Summary (February 2013), USDA, National Agricultural Statistics Service, pp. 6-19.

Profits reported by those engaged in the agricultural sector are, in general, lower than the level of profitability reported by other sectors of the economy. The factors that affect the level of profitability in the agricultural sector of the economy are associated with the following risks: weather, bank loans or credits, investments, innovation, prices, insurance, and etc.

In order to mitigate the risks in the agricultural sector of the economy the Government of Armenia needs to start playing more active role in regulating this sector, by allocating more funds, providing tax incentives and etc. However, the most viable tool to increase the competitiveness of the sector is to provide access to the loans to empower the capacity of rural communities, especially in those ones close to the border and in the highland area to improve the wellbeing of the rural residents.

The Government of Armenia initiated a pilot project of subsidizing bank loans in 2008 implemented in 15 rural and one urban communities of Chambarak region of Gegharkunik Marz and in 44 rural communities of Ararat and Yerevan regions of Shirak Marz. This project was funded and implemented by the Rural Finance Facility.<sup>1</sup>

Although the Government of Armenia has made significant efforts to develop and renovate and/or rehabilitate the irrigation system, there are key challenges ahead that need to be addressed, since out of 232.9 thousand hectares of irrigated land only 156 thousand hectares were irrigated in 2012.<sup>2</sup>

Several state agencies and non-profit organizations provide technical assistance (consulting services and access to information) to various beneficiaries. Access to market information (both local and overseas), recent regulatory and legislative changes, technological progress assist the entrepreneurs in reporting operational efficiency.

Within the framework of Agricultural Reform Support Project funded by the World Bank and started in September, 1997 regional Agriculture Support Regional Centers (ARSC) have been established. In all marzes of Armenia<sup>3</sup> ARSCs provide technical assistance to the farmers, provide access to various databases, conduct trainings and etc.

Various legislative reforms have been undertaken to regulate the agricultural sector of the economy as well.

Although Armenia has reported a progress in developing the agricultural sector of the economy new targeted initiatives (reforms, programs and measures) are required to regulate the activities of other related industries (financial markets); ensure efficient functioning of land and agricultural products markets; foster cooperation and forming of agricultural cooperatives, and etc.

Ալիսա Մելքումյան

## ՀՀ ագրարային ոլորտում տնտեսավարողների մրցունակության բարձրացման ուղիները

### Ամփոփագիր

Ագրարային ոլորտի զարգացման ներկա փուլում տնտեսական կառավարման կարևորագույն խնդիրներից մեկը ներքին և արտաքին շուկաներում արտադրանքի մրցունակության բարձրացումն է:

ՀՀ ագրարային ոլորտում տնտեսավարողների մրցունակության բարձրացման հիմնական ուղղություններն են՝ տնտեսավարման ձևերի կատարելագործումը, գյուղացիական տնտեսությունների չափերի օպտիմալացումը, աշխատանքի արտադրողականության բարձրացումը, մեքենայացման մակարդակի բարձրացումը, ռիսկերի կառավարման կատարելագործումը, ոլորտին պետական աջակցության վիճակի բարելավումը, իրավական դաշտի կատարելագործումը, իրացման համակարգի զարգացումը և այլն:

<sup>1</sup> Source: Government decree N 706-N, 12.06.2008, RA, pp. 8-9.

<sup>2</sup> Source: Government decree N 1476-N, 04.11.2010, RA, p. 14.

<sup>3</sup> Source: [www.minagro.am](http://www.minagro.am)

## Пути повышения конкурентоспособности аграрного сектора экономики РА

### Аннотация

В современном этапе развития аграрного сектора экономики одной из основных проблем экономики управления является повышение конкурентоспособности продукции на внутреннем и внешнем рынках.

В аграрном секторе РА основными направлениями повышения конкурентоспособности являются: улучшение экономических форм, оптимизацию размеров хозяйств, повышение производительности труда, совершенствование управления рисками, улучшение условий государственной поддержки, совершенствование правового поля, развитие системы распределения.