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*20.06.2017*

УДК 332.02

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## **THE PECULIARITIES OF THE AGRICULTURAL SECTOR'S DEVELOPMENT IN ARMENIA**

In the article the main problems of the agricultural sectors' development in the RA are studied. The priority directions of the RA's state policy in the sphere of the agriculture's regulation and rural areas' development are characterized. The role of the agriculture in the RA's economic development is presented. As well the present conditions of the

RA's foreign trade of the agricultural productions are analyzed.

**Keywords:** agriculture, economic development, foreign trade, agriculture's regulation, agricultural sectors', Armenia.

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## ОСОБЛИВОСТІ РОЗВИТКУ СІЛЬСЬКОГО ГОСПОДАРСТВА У ВІРМЕНІЇ

В статті досліджені основні проблеми розвитку сільськогосподарського сектору, що існує в Республіці Вірменія. Охарактеризовані провідні напрямки державної політики в області регулювання сільського господарства та розвитку сільських районів. Висвітлена роль сільського господарства для економічного розвитку Вірменії. Проаналізовано сучасний стан зовнішньої торгівлі сільськогосподарською продукцією Республікою Вірменія.

**Ключові слова:** сільське господарство, економічний розвиток, зовнішня торгівля, сільські райони, аграрний сектор, Вірменія

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## ОСОБЕННОСТИ РАЗВИТИЯ СЕЛЬСКОГО ХОЗЯЙСТВА В АРМЕНИИ

В статье изучены основные проблемы развития сельскохозяйственного сектора в Республике Армения. Охарактеризованы основные направления государственной политики в области регулирования сельского хозяйства и развития сельских районов. Представлена роль сельского хозяйства в экономическом развитии Армении. Также проанализировано современное состояние внешней торговли сельскохозяйственной продукцией РА.

**Ключевые слова:** сельское хозяйство, экономическое развитие, внешняя торговля, сельские районы, аграрный сектор. Армения.

**Introduction.** Since the 1990's agriculture plays an important role in the RA's economy. For any country sustainable development of agriculture sector has strategic role in the provision of food security for its

population and serves as a source for expansion of exports in food and beverage products where Armenia has some comparative advantages. According to the “RA’s Sustainable Agricultural Development Strategy 2010-2020” the development of rural areas is a national priority. There are programs implementation of which will bring poverty reduction in rural areas, such as: Infrastructure development in rural areas, Development of rural production and markets, Provision of vocational and business training for existing businesses, Land consolidation and farm efficiency, including creation of agricultural cooperatives, Introduction of agricultural insurance [3].

In 1999 the government of the RA established Regional Agricultural Support Centers (Regional ASC) in all 10 marzes of Armenia. Regional ASCs provide consultancy, information and marketing support to individual farmers, agricultural producers and cooperatives, as well as practical support in organizing efficient production with the use of innovative technologies. These Centers are technically supported and coordinated by the Agriculture Support Republican Center which was established in 2002 by a RA government decision. The Agribusiness Teaching Center (ATC) plays a special role in preparing specialists who would meet today’s market economy challenges. The ATC was established in 2000 through the collaborative effort by the Armenian State Agrarian University, Texas A&M University and the U.S. Department of Agriculture. In 2005, the International Center for Agribusiness Research and Education (ICARE) was founded to manage the activities of the ATC. The other three components of ICARE are: Career Placement and Counseling Center involved in finding jobs for ATC and ASAU graduates; Teaching and Learning Excellence Center involved in reform of higher agricultural education; and Agribusiness Research and Outreach Center involved in research on different agribusiness topics and presenting their results at national and international meetings [9].

At the present development phase of the Armenian agrarian science, a key objective is to define the priority directions of the agrarian science and research taking into accounts the peculiarities of the Armenian agriculture, the existing resources, the research potential, nationwide goals of socio-economic development as well as the world experience of the agrarian science and its development trends. In Armenia, agricultural education is particularly weak and inefficient, it has no link to research and

science and it does not meet requirements of industry. Moreover, in agricultural sector the situation is the worst. Considering these and many other needs, the Ministry of Agriculture implements its own programs and seeks international assistance to address different issues. Donor organizations mainly supported rural credit markets development, establishment of institutions to support agriculture and government-funded activities. Among the main sponsors of these types of activities are the World Bank group, International Fund for Agricultural Development (IFAD), Food and Agriculture Organization (FAO), United States Agency for International Development (USAID) and EU Delegation to Armenia.

**Main Part.** Historically, Armenia's economy has been based on agricultural production, especially in fresh and processed vegetables and fruits. In Soviet times, the Country managed to internally satisfy milk and meat demand both for primary use and processing. Armenia was also well known for its leather and shoes production, the raw material of which was mainly supplied locally. Land reform was initiated in 1991, and by mid-1994 most of the agricultural land had been privatized. As a result, around 340,000 private farms were created, but with a lack of suitable machinery and equipment, water for irrigation and knowledge of good farming practices. On average, a private farm has 1.4 hectares of farmland, including 1.06 hectares of arable land [2]. Moreover almost 97% of agricultural output is produced by these farms [5]. The above mentioned land reform brought a lot of problems since the farming and marketing systems were structured to the standards of large agricultural enterprises. Like in many other countries in the region, there was a transfer of a substantial percentage of the non-agricultural labor force to agricultural activities, following the collapse of collective and state farming, land privatization, and formation of the small rural farms.

So since the land privatization Armenian agriculture faced scale effect problem in agriculture. That's why according to the RA's Sustainable Agricultural Development Strategy 2010-2020 land consolidation and farm efficiency, including creation of agricultural cooperatives in one of the priorities of agriculture development [7]. Agricultural cooperatives can have huge role in the RA's agricultural development. Despite the fact that cooperative development is a government priority, no law on rural cooperation exists to regulate the formation and functioning of farmer cooperatives. So the obstacles hindering the further development of

cooperatives in Armenia include the lack of comprehensive legislation for cooperatives. The existing legal framework in Armenia is poorly designed [11]. Till the 2015 there was not agricultural cooperative law in Armenia and farmer organizations are mainly regulated under and the “Law on Consumer Cooperatives” adopted in 1993 and requiring operation as a “non-commercial” enterprises with a minimum membership size of 30 persons (Article 2) [4]. Law of The Republic of Armenia About Agricultural Cooperatives was accepted by National Assembly of the Republic of Armenia on December 21, 2015.

Dependency on weather conditions, the absence of insurance and the low profitability of agricultural production increases the chances of failure and makes agricultural loans very risky, thus keeping interest rates high. Because of the high risk only a few banks and universal credit organizations provide loans for agriculture related activities. Agricultural loan interest rates in Armenia range between 8-22% and agricultural loan maturity can be up to 84 months, usually collateral is required.

Table 1

The role of the agricultural sector in the RA’s economy  
( Source. WB World Development Indicators, 2017 March)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Share of agriculture, as a share of GDP (%)	20.9	20.5	20.3	18.4	18.9	19.2	22.8	20.1	20.7	20.4	19.3
Employment in agriculture (as a share of total employment, %)	46.2	46.2	36.5	44.2	39.5	38.6	36.9	37.3	36.3	35.9	35.3
Food export (as a share of total RA’s export, %)*	13.7	11.7	8.0	18.6	19.9	16.7	19.2	25.9	30.1	31.8	31.2
Food import (as a share of total RA’s import, %)	18.5	15.9	18.1	18.7	19.3	18.0	19.8	19.0	20.3	19.5	19.9

\* Food comprises the commodities in SITC sections 0 (food and live animals), 1 (beverages and tobacco), and 4 (animal and vegetable oils and fats) and SITC division 22 (oil seeds, oil nuts, and oil kernels).

In order to promote agriculture development since 2011, soft loans are provided to farmers at an annual interest rate of 14%, and 4-6% of which is subsidized by the RA government (Since 2015 February taking

into account the importance of the program RA government stated 6% subsidy to all loans provided to farmers). The maximum size of these loans is 3 million AMD with 1-24 months maturity [1]. The value of subsidized interest rates for agricultural loans was 578 million AMD in 2012, and increased to 1 milliard 163 million AMD in 2015. Later in order to keep sustainable development of the agricultural sector in country in 2017 the RA government launched a new agricultural leasing program by which agricultural equipment will be leased by 9% annual interest rate with 3-10 years maturity while the 7% of which will be subsidized by the RA's government [10].

Since the 1990's share of agriculture in GDP significantly decreased (for example share of agriculture in GDP was about 42 percent in 1995) and starting from 2005 it is amounted about 20% of GDP (Table 1). Besides this during 2005 to 2015 employment in agriculture deceased about 10%. The main reason of this trend is the RA's economic recovery and structural changes in economy in favor of services sector. In 2015 share of agriculture was 19.3% of GDP, while the share of agriculture and food processing was about 25% of GDP.

Table 2

Total land area and agricultural lands by type in the RA, 1000 ha  
(Source. National Statistical Service of RA // [www.armstat.am](http://www.armstat.am))

	2011	2012	2013	2014	2015
Total land area	2 974.3	2 974.3	2 974.3	2 974.3	2 974.3
Agricultural land	2 077.0	2 052.4	2 051.0	2 049.4	2 045.7
Arable land	449.2	448.4	448.2	447.5	446.7
Pastures	1 067.2	1 056.3	1 055.3	1 054.2	1 051.3
Other agricultural land	560.6	547.7	547.5	547.7	547.7

From Table 2 it's clear that all agricultural land area pastures is almost 2.4 times more than arable land. Taking into account this we can state that in the RA there are more favorable conditions for developing animal husbandry sector. Meanwhile the real situation is rather deferent. Analyzing the data from Table 3 we observe that in the RA the plant growing is more developed agricultural sector. This is mainly due to the fact that the animal husbandry needs more capital investments than plant growing.

Table 3

Gross agricultural output by farms, billion AMD  
(Source. National Statistical Service of RA // www.armstat.am)

	2011	2012	2013	2014	2015
Agriculture	795.0	841.5	919.1	993.5	1 001.2
Plant growing	465.1	516.0	572.8	605.7	605.8
Animal husbandry	329.9	325.5	346.3	387.8	395.4

In 2015 gross agricultural output of plant growing in the RA almost 50% more than animal husbandry. Analyzing the structure of the farms we can state that almost 97% of gross agricultural output comes to household plots and only 3% to commercial firms. Unlike the household plots in case of commercial firms we have different situation in gross agriculture output structure of plant growing and animal husbandry. Here in 2015 almost 92% of gross agriculture output comes to animal husbandry and only 8% to plant growing. So it's clear that during time in case of increasing commercial firms in agriculture sector the share of animal husbandry in gross agricultural output will increase.

Agriculture plays an important role in the trade balance of the RA. Armenia is a net importer and in 2015 total import was 2.2 times higher than total export. In case of agricultural products in 2015 trade balance negative as well but here import was 1.6 times higher than export [6]. In 2015 almost 31.2% of export comes to agricultural products and 19.9% of import comes to agricultural products.

Main industry that generates the highest revenues among agricultural production and processing is the manufacture of beverages. Sales of brandy, vodka and wine are contributing greatly to Armenia's trade balance and agriculture and food industry of GDP. Moreover, beverages industry is not limited to strong alcoholic beverages. Armenia has a long history of beer and non-alcoholic beverages production. Although export volumes of agriculture and food products are increasing, Armenia is still highly dependent on agriculture and food imports (Table 4).

In 2015 the decrease of the RA's agricultural export and import volumes are mainly the result of the sanctions against Russian economy. As a result of that sanctions Russian ruble was significantly devaluated which in turn negatively impacted alcoholic and non-alcoholic beverages export

from the RA to Russia. Due to fluctuations of local currency as a result of devaluation of Russian rubble, many Armenian exporters, especially alcoholic and non-alcoholic beverages producers traditionally depending on Russian market, had carried serious losses and difficulties.

Table 4

The RA's agricultural products foreign trade, thousand USD  
(Source. National Statistical Service of RA // [www.armstat.am](http://www.armstat.am))

	2012	2013	2014	2015
Agriculture Export, Total	322.1	414.6	426.2	409.4
Animals and products of animal origin	33.1	54.4	50.4	46.4
Products of vegetable origin	34.2	50.1	37.7	37.8
Fats and oils	0	0	0	0
Products of prepare food	254.8	310.1	338.1	325.2
Agriculture import, Total	810.6	845.7	810.3	658
Animals and products of animal origin	136.3	144.7	146.5	106.1
Products of vegetable origin	259	244.8	239.3	192.4
Fats and oils	59.6	60.5	54.7	44.7
Products of prepare food	355.7	395.7	369.8	314.8

Moreover due to market interdependence and further market liberalization, inadequate reaction on global dynamics can be fatal for growth and development in the RA's agricultural sector. For example since 2015 Russia began substituting imported products in response to the imposition of food embargoes by the USA and the EU. According to the policy adopted by Russian government toward promoting development of



agrarian sector, along with import substitution strategy announced and promoted by the president of the Russia [8]. It can pose long-term threat, since large share of Armenian agriculture and food production exports goes to Russia.

**Conclusion.** Armenian agriculture does not fully utilize its potential and currently has low levels of its productivity and competitiveness. Agriculture and rural development are the priorities for the RA and will continue to be in the mid-term perspectives. Rural development is one of the identified priorities for the RA, and given the importance and contribution of the agriculture and rural areas in the national population share, GDP and employment it is likely to stay as a priority. Besides these agriculture is the key link of the food industry value chain, which as we saw has good export potential. Next development of agriculture is very important for increase of productivity and creation of non agricultural jobs in rural areas, which in turn will bring to balanced regional development.

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20.06.2017

УДК 330.322

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## **КОНЦЕПТУАЛЬНІ ОСНОВИ ФОРМУВАННЯ ТА РОЗВИТКУ ІНВЕСТИЦІЙНОГО ПОТЕНЦІАЛУ ПІДПРИЄМСТВА**

В статті досліджено економічну сутність інвестиційного потенціалу підприємства. Охарактеризовано принципи, яких доцільно дотримуватись при формуванні інвестиційного потенціалу. Розглянуто варіанти та особливості формування інвестиційного потенціалу із врахуванням впливу зовнішніх і внутрішніх факторів. З'ясовано, що інвестиційний потенціал є вирішальним у забезпеченні загального економічного розвитку підприємства та відіграє важливу роль у розвитку його потенційних можливостей щодо здійснення інвестиційної діяльності. Визначено сутність розвитку інвестиційного потенціалу підприємства. Виявлено, що успішний розвиток інвестиційного потенціалу підприємства залежить від багатьох критеріїв, а саме від: інвестиційної поведінки, інвестиційної активності, інноваційної активності та економічного зростання.