

## The Republic of Armenia

The Center for Global Development prepared this summary based solely on the publicly available proposal submitted by the Republic of Armenia to the Millennium Challenge Corporation.

### Overview

The government of the Republic of Armenia seeks \$175 million in financial assistance from the MCA. Specifically, the financial package would be used to expand land irrigation networks and to rehabilitate Armenia's rural road infrastructure. The fund would support a four-year program of strategic investments intended to increase agricultural production in poor rural areas. By 2009, the government would reduce rural poverty by five percent.

### Context

Through rigorous stabilization and reform initiatives, Armenia managed to reduce inflation, stabilize the local currency (the dram), and privatize most small- and medium-sized enterprises. The liberalization efforts transformed the old Soviet state into a market economy and paid high dividends for the country. Armenia joined the WTO in January 2003. Moreover, the flow of international aid and foreign direct investment sustain Armenia through a severe trade imbalance.

However, Armenia still faces serious economic challenges. In spite of these recent developments, 50 percent of Armenians live in poverty. The ongoing conflict with Azerbaijan over Nagorno-Karabakh has displaced 50,000 people internally. Armenia is also host to 236,000 refugees from Azerbaijan.

### Elements of the Proposal

A deficient irrigation system and the lack of functional road infrastructure are the main impediments to agricultural productivity, and by extension, to national economic growth.

Even though agriculture represents 30 percent of the GDP and employs 45 percent of the population, Armenia is a net food importer. The country adopted small-scale agriculture at the end of the Soviet era. The small farms are primarily located in impoverished rural areas. According to Armenia's recent poverty data, gains from recent economic growth has not been equally distributed among the population or different regions of the country. The gains have benefited the people in the capital city of Yerevan and those in other cities. For the rural population, the poverty level has mostly remained the same.

According to the compact proposal, irrigated areas account for less than 10 percent of total arable land while close to 85 percent of total crop production is done with irrigation. An evaluation of the irrigation network shows that only 60 percent of those farms were

efficiently irrigated. This is due to the high cost of water, high water losses (40-50 percent in tertiary canals) and high electricity costs.

### 1. Irrigation

The investment project aims to expand irrigated land area and increase the efficiency of the network. In its early stage, this strategic program would expand irrigated areas by about 10,000 hectares, convert selected irrigation areas from pump to gravity irrigation to reduce water and energy costs, reduce water losses and strengthen water user associations' management and administrative capacity. This project would reach 110,000 small-farm households (40% of all rural households) and help increase productivity. The irrigation portion of the project would cost \$118 million.

### 2. Rural Road Infrastructure

The poor conditions of 1,105 kilometers of roads make it all but impossible for farmers in rural areas to access the market. This bad infrastructure prevents 390,000 people from benefiting from their labor. The lack of good roads also stifles the emergence of a processing industry, thwarting the growth of the agricultural sector. Regions with the worst roads have higher poverty incidences, and there is a strong correlation between a community poverty level and its distance to a big city. The government estimates the cost of road rehabilitation at \$57 million.

### **Proposed Outcomes**

According to the compact proposal, by 2009, the government of Armenia expects to reactivate irrigated farming in 30,000 hectares (or 22 percent of irrigated land) and boost irrigation reliability for another 30,000 hectares. This project would also reduce water losses by 50 percent in tertiary systems (19 percent of irrigated land), saving 60 million Kilowatts per year in irrigation energy consumption (22 percent). The investment in rural road infrastructure would increase marketable agricultural surplus by 10 percent in four years. The government forecasts a 5 percent decrease in rural poverty at the completion of the project.

### **Consultative Process**

The consultative process covered the entire country. According to the compact proposal, more than 230 proposals were gathered from central and regional entities, local communities, scientific organizations, NGOs, the private sector and individuals.