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## **OPPORTUNITIES FROM EUROPEAN UNION EXPERIENCE ON RURAL POVERTY REDUCTION STRATEGY IN THE REPUBLIC OF ARMENIA**

This research article has been written under the framework of the European Union's programme Erasmus Mundus. The current situation of the rural population, as well as the level of poverty in both urban and rural areas of Armenia is initially exposed. An analysis of the level of distribution of Armenian profits in comparison with EU countries is carried out. The main EU political directions in the sphere of rural development along with methods promoting the decrease of poverty's level are presented. Conclusively, specific possibilities of the usage of the European experience on Armenia's poverty reduction strategy are revealed.

Armenia was the first former Soviet Union country to dismantle its 600 huge collective farms and distribute agricultural land to individual households. More than 330,000 small-scale farms were created overnight to ensure a minimum, basic food supply and to absorb workers from now-extinct industries. Many new farmers were allocated land in mountain areas where harsh natural conditions severely restrict productivity. And some of them did not have the knowledge and skills they needed to cultivate the land efficiently. Technology and infrastructure such as farm machinery and irrigation inherited from the pre-transition period was useless to small-scale farmers. The technological heritage of the collective farms was not suitable in terms of scale, cost and service requirements, and much of it was obsolete as well. Agriculture in Armenia still suffers from a crucial lack of information, tools and institutions farmers need to operate efficiently in a market-oriented rural economy. Farmers are also adversely affected by a lack of strong and consistent government policy, regulations and coordination.

Armenia is a mountainous country, and most of the agricultural land is uncultivable, consisting of mountain pastures and hay meadows. The country is divided into two extremely unequal parts: the narrow strip of the Ararat Valley, which extends along the Turkish border from northwest to southeast and includes the capital city of Yerevan; and the rest of the country that is mostly mountainous with occasional deep valleys.

**Table 1: Armenia's profile**

	2000	2005	2006	2007
Population, total (millions)	3.08	3.02	3.01	3.00
Surface area (sq. km) (thousands)	29.8	29.8	29.8	29.8
GNI, Atlas method (current US\$) (billions)	2.03	4.52	5.89	7.93
GNI per capita, Atlas method (current US\$)	660	1,500	1,960	2,640
GDP (current US\$) (billions)	1.91	4.90	6.39	9.18
GDP growth (annual %)	5.9	13.9	13.3	13.7
Inflation, GDP deflator (annual %)	-1.4	3.2	4.6	3.9
Agriculture, value added (% of GDP)	26	21	20	18
Industry, value added (% of GDP)	35	43	44	44
Services, etc., value added (% of GDP)	39	37	37	38
Exports of goods and services (% of GDP)	23	27	22	19
Imports of goods and services (% of GDP)	51	40	36	34

Source: World Bank

### Rural poverty in Armenia today

The Ararat Valley has the most fertile soils in Armenia. It includes nearly half the Armenian area under vineyards and orchards and about 10% of all arable land; it produces about 40% of the country's agricultural output. Its climate is hot and arid. As a result of the land distribution policies, 97 % of households in the sample own land and 15 % lease additional land. Only 2 % have no access to land. The average household uses 1.9 hectares, an average reflecting a rather equitable distribution, with a standard deviation of 1.7 hectares. There is no difference in land use between poor households and other households. In Armenia's dry climate, *irrigation* is an important asset in agricultural production. Production value per land unit in the 55 % of households with access to the irrigation network is three times higher than is the case for households without irrigation. These households produce more agricultural output in value terms, but the net household income derived from it is lower due to higher costs connected to livestock production. Poor households (those below the \$4.30 poverty line)

have access to less irrigated land (0.35 hectare on average) than non-poor households (0.44 hectare).

A third component of physical capital is households: stock of *animals*, which constitutes the main asset in livestock production. The typical household in the sample has one cow, one other head of cattle, a few sheep or goats, and some chickens. Poor households have fewer animals; for instance, 0.7 head of cattle compared to 0.9 for non-poor households.

Finally, ownership of machinery is rare. Access to machinery through use without ownership is available to 75 % of households with no significant differences between poor and affluent households. This points to the importance of machinery rental markets for agricultural production. The overall picture is that of rural households with small-scale farms producing both crops and livestock products and with quite equal access to the various types of physical capital.

A household's human capital is comprised of those individual characteristics of its members, both qualitative and quantitative, that help them to generate income. The main characteristics of human capital are age, education, gender, and household size. The average head of household is 54 years of age; the average age of all household members is 35. The average household has a size of 4.6 persons, of which 2.8 are of working age between 16 and 65; half more than of them (53 %) are women. Poor households are significantly larger (5 members on average) and have more dependants. The highest level of education completed in the household is most often secondary ;women having slightly more often general secondary education, men more often vocational one. One other dimension of human capital is the presence of a household member eligible for receiving a pension in the household. Having a pensioner in the household implies access to an important source of income and can be consistently (if not conventionally) viewed as part of a household's human capital. Half the households in this sample included one or more pensioners.

Sources of financial capital include household savings, borrowing, and receiving remittances from family members working outside the home village (within or outside of Armenia). Only 10% of households had any cash savings, while borrowing is reported by the majority of households.

**Table 2: Main poverty indicators of Armenia**

Indicators	1999	2004	2005	2006
Poverty line	56.1	34.6	29.8	26.6
Poverty line (in AMD)	17663	19373	20289	21555
Extreme Poverty	21,0	6.4	4.6	4.1
Urban areas				
Poverty line	62.1	36.4	30.7	28.2
Extreme Poverty	26.2	7.5	5.3	5.0
Rural areas				
Poverty line	48.2	31.7	28.3	23.4
Extreme Poverty	14.1	4.4	3.2	2.4

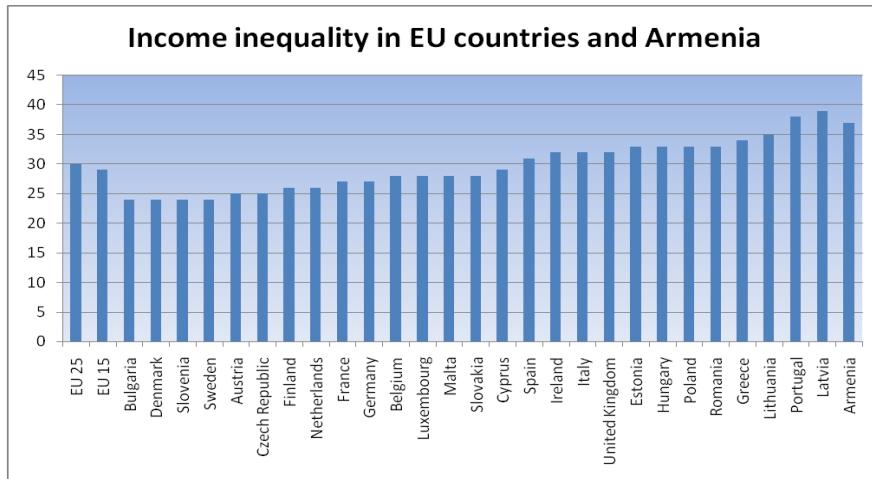
Source: National Statistical Service and World Bank.

Poverty incidence is assessed as the percentage of population whose monthly per capita expenditures does not exceed the poverty line.

The main economic activity in this rural household survey is food production by farming the own plot, most often in the areas of both crops and livestock. Over four-fifths of the available labor force in the average rural household is engaged in farming, and this activity is reported by nearly all households. The second most frequent activity (for 43 % of households) is non-agricultural self-employment, but the amount of labor allocated to this is quite low. Off-farm wage employment is nearly as frequent: in 36 % of households, one or several household members are employed off-farm. However, on average more than twice as much labor is allocated to off-farm wage employment compared to self-employment. Most frequently (12 %), wage employment is in the social sector.

Having reviewed households, capitals and diversified activities, we now turn to the levels of well-being that these livelihood components allow households to achieve. The level and distribution of several indicators/measures for well-being were observed in the sample, including incomes, expenditures, consumption, satisfaction of basic needs (nutrition and shelter), and households capacity for wealth accumulation.

Also one of the social condition indices of society is Jinni coefficient - the macro economical index, which defines money incomes' differentiation of population in the form of extent of actual of incomes departure from their absolutely equal assessment between citizens of the country. In Armenia given coefficient is near 0.37. A comparable analysis between Armenia and European Union countries is presented in graph 1.



Source: National Statistical Service and Euro stat

### Graph 1. Income inequality in EU countries and Armenia

As it can be seen from the above graph, Armenia is on the third place after Latvia and Portugal on the level of income unequal assessment and 7% behind the average EU level.

### EU's policies on rural development

#### *Partnership and shared responsibility*

After some experiments in the first half of the 1980s, European Union rural development policy has been implemented systematically, since 1988, in the framework of multi-annual programs. These are prepared and implemented in close partnership between regional, national and European levels. Both the EU and Member States provide part of the funding for the different support measures. This “co-financing” is the basis of shared responsibilities. Programs can be established at the national or the regional level. It is up to each Member State to decide which approach is more appropriate in its specific situation. During the preparation and implementation of the program, it is essential, according to EU experience, that everybody who has a stake in the program is involved through adequate consultation procedures, including local authorities, farmers and other rural people or their representatives. The contribution of European policy in this context is not only in terms of financial resources, but also in terms of governance. Thus, we try to promote the interaction of public partners together with non governmental organizations and civil society. EU encourages the adoption of best practice in systems of finance and management.

EU disseminates information about successful development initiatives and promotes the exchange of experience as well as cooperation projects between regions and countries.

### *Strategic approach*

Partnerships and shared responsibility are one of the core principles of EU's rural development policy. Another principle is that rural development programs should be "strategy led". This means they should be built on long term development strategies reflecting real needs and based on clearly defined objectives with corresponding monitoring and evaluation systems. In the EU, rural development policy is programmed for a period of 7 years. The amount of money available for support during this period is limited and determined in advance. Our experience shows that it is important to foresee sufficient time for analysis and evaluation. Ex-ante and ex-post evaluation are a legal requirement for all EU expenditure. In the case of rural development, EU have in addition, after three years, a mid-term evaluation which allows a first in-depth stocktaking of developments and serves as a basis for review of the program strategy.

Principle of our rural development policy is its complementarities with other policies. At the conception, programming, implementation and evaluation stages, care is taken to ensure that EU level policies which are closely related in rural areas such as environmental, regional, employment and rural development policies complement each other as far as possible. At the same time, each Member State should seek to ensure that rural development policy is complemented by other national policies such as education, health or social security. A particular case of complementarities is, of course, the balance between rural development policy and the classical agricultural market and income support policy. Rural development policy plays an essential role in helping agriculture and rural areas to the new situations generated by successive reforms.

This is about the main principles of EU rural development policy. Now, how does all this work in practice? EU prepared the fourth generation of rural development programs for the period 2007-2013. EU Member States adopted on the basis of a proposal from the European Commission and after consultation of the European Parliament and other EU institutions, a legal framework for the new period. It defines what the core objectives are, which support measures are available to reach these objectives and how the process of program preparation, implementation, monitoring and evaluation shall be organized.

### *Objective 1: Improving competitiveness*

Under this objective, EU finds mainly measures to promote structural change, modernization and innovation, and to facilitate restructuring following the CAP(Common Agricultural Policy) reform and the enlargement of the EU. They concern both human and physical capital in agriculture and forestry. Support for vocational training, for the use of management and advisory services, for early retirement and for the setting up of young farmers can be found here as well as investment aids for the improvement of production, processing and marketing structures and for agricultural infrastructures. Increasing competitiveness also means taking advantage of the opportunities offered through diversification. In this context, there is a focus on quality and value added production for which markets exist or are emerging, as well as on cleaner and more environmentally friendly production techniques.

### *Objective 2: Improvement of the environment*

The main measures under this objective, aim to the protection of natural resources, to the preservation of traditional rural landscapes and to the enhancement of biodiversity. Adequate land management, which takes account of the specific environmental conditions in a given area or region, is the key in this context. In order to prevent the abandonment of agricultural land use under difficult conditions, specific payment are foreseen to compensate handicaps in mountain and other less favored areas where particular environmental restrictions are imposed on farming and forestry. In the framework of specific agro-environmental measures, farmers and foresters can receive payments for the provision of environmental services that go beyond their legal obligations and generate extra costs or income losses for them. Altogether, support measures under the environment objective should contribute to sustainable rural development by encouraging farmers and foresters as the main land occupiers in rural areas to keep up land management so as to preserve the natural space and landscapes.

### *Objective 3: Quality of life and diversification*

The third objective is the improvement of quality of life and the diversification of economic activities in rural areas. Under this objective have been grouped support measures which should help to maintain and, where needed, to develop and improve the social and economic fabric in rural areas. Investment in the broader rural economy and rural communities would, in many cases, appear to be vital to enhance the quality of life in rural areas, via improved access to basic services and infrastructures and a better living environment through village renewal. Making rural areas more attractive also requires promoting sustainable growth and generating new employment possibilities.

Off-farm diversification includes support for the development of rural tourism as well as for the creation and development of micro-enterprises with a view to promoting entrepreneurship and strengthening the economic fabric. EU experience in Europe clearly shows that agriculture generally develops and prospers when the overall economic environment in the rural areas does well. We would be ill-advised to overlook these interdependencies. The core objectives have to be addressed as thematic priorities in each rural development program. To use a picture, the three core objectives represent the main axes around which Member States or regions build their rural development programs. And the pre-defined support measures represent the building blocks among which they can choose for their program construction.

### **The main programming steps**

Directly after the adoption of the legal framework for rural development support, the European Commission proposed a number of common strategic guidelines for the period from 2007 to 2013. These guidelines define specific all Member States and regions should respect in their programs. For example, in the case of the competitiveness objective, particular attention should be paid to the transfer of "Know-How" to and the formation of human capital in rural areas through training and the diffusion of information. Regarding the environment objective, particular attention should be paid to the preservation of biodiversity and, in this context, to the maintenance of agricultural and forestry systems with high nature value, to the protection of water and to climate change mitigation. Finally, concerning the objective of economic diversification and improved quality of life in rural areas, a particular accent should be put on the creation of new employment opportunities.

EU believes that it is important to have a broad and transparent policy debate on these guidelines and to reach a common agreement, early in the programming, on what the priorities are for the next period and on where we want to focus the EU funds.

Although the strategic guidelines have not yet been formally adopted, the discussions so far indicate that there is a broad consensus around the suggestions made by the European Commission.

### **Which EU measures can be adopted for Armenia**

The poverty gap in Armenia is deep and the fiscal cost of substantially reducing even the extreme poverty is too high (about 5% of GDP) to be feasible. Hence,

while social assistance remains an important tool for extreme poverty alleviation, in order to reduce poverty, Armenia has to focus on generating more job opportunities and creating an environment conducive to private sector development, which would then provide more opportunities for the Armenians to gainfully participate in the labor market. In order to achieve this, significant improvement in the business environment is needed including more competition, less regulation, better entry and exit mechanisms, and a more transparent playing field and set of rules. For a poor country in resources such as Armenia, investment in human capital is one of the crucial preconditions for achieving and sustaining economic growth and development. While some savings can be attained through efficiency gains from schools rationalization to adjust for a decreased number of students, Armenia needs to increase public spending on education to ensure its quality. It also has to make efforts to achieve again a full coverage by basic compulsory education. To that end a more active role and better cooperation of school authorities and local communities is required to ensure that each eligible child is enrolled and regularly attends basic education. If material assistance is required, a family could be addressed to a social services center that administers a poverty family benefit. This benefit could be awarded on a "conditional basis" that is as long as a child regularly attends school. For secondary and higher education, the system of grants and stipends could be also improved.

Armenia needs to increase public spending on health, while continuing to reform its health sector and in particular streamlining its management and financing. In the short to medium term, the meager public funds should be focused on preventive (immunization, health education, screening, and so on) and primary health programs and services and should target more effectively the poor. In the area of pensions it is crucial that they continue to be paid on time. Their real value should be maintained and increased gradually as per available resources. The proxy-means tested poverty family benefit improved significantly targeting of the cash social assistance. The program should be maintained. It is important that the benefit is delivered on time and that the total allocation of resources is kept at about 1.4% of GDP. The Government should continue to improve targeting formula, as well as the benefit administration procedures. To that end, a more pro-active approach in reaching out to clients should be introduced into the practice of the territorial centers for social services that are administering the benefit. In particular, more attention should be paid in assessing families with children below five, multi member families and families with unemployed and non-active members. Finally, in order to allow for regular poverty monitoring, Armenia needs a regular integrated household survey. So far, the survey has been conducted sporadically', depending on available (external) resources.

Ideally, the Survey should be conducted quarterly, it should be an integrated household survey and its sample should be based on the new Census results.

## **Conclusion**

For many countries of the World-Europe, in particularly, European Union is a firm grasp of solving either problem. That's why, Armenia, as a member of European Consul and a potential member of EU, in solving national problems could rely on European Experience. Of course, this experience must be localized to the country in which it will be adopted, considering local peculiarity. Besides, regional policy on overcoming poverty must develop in the direction of looking at each region separately as an autonomous entity, and trying to detect and further its own potentialities (agro tourism, aquaculture, home production or transformation of agricultural products, handicrafts etc.), instead of just specifying the national sectoral policies for the region. As Armenia has all conditions for developing agro tourism and ecotourism the Government of Republic of Armenia by implementing this project will partly solve the rural population employment problems and as a result reduce rural poverty.

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# **ВОЗМОЖНОСТИ ПРИМИНЕНИЯ ЕВРОПЕЙСКОГО ОПЫТА НА СТРАТЕГИИ СОКРАЩЕНИИ СЕЛЬСКОЙ БЕДНОСТИ В РЕСПУБЛИКЕ АРМЕНИЯ**

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В статье представлено нынешнее состояние сельского населения Республики Армения, раскрыты проблемы с которыми связывается оно, а также показан уровень бедности как в городской так и сельской местности. Приведен сравнительный анализ по уровню распределения доходов Армении со странами Европейского союза. Представлены основные направления политики ЕС в сфере сельского развития, вместе с методами их решения - способствуя при этом снижению бедности. В заключительной части статьи выявлены возможности применения европейского опыта при решении столь важной проблемы Республики Армения, как бедность.

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