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Investing in rural people

Republic of Armenia
Country Strategic Opportunities Programme
2018-2024

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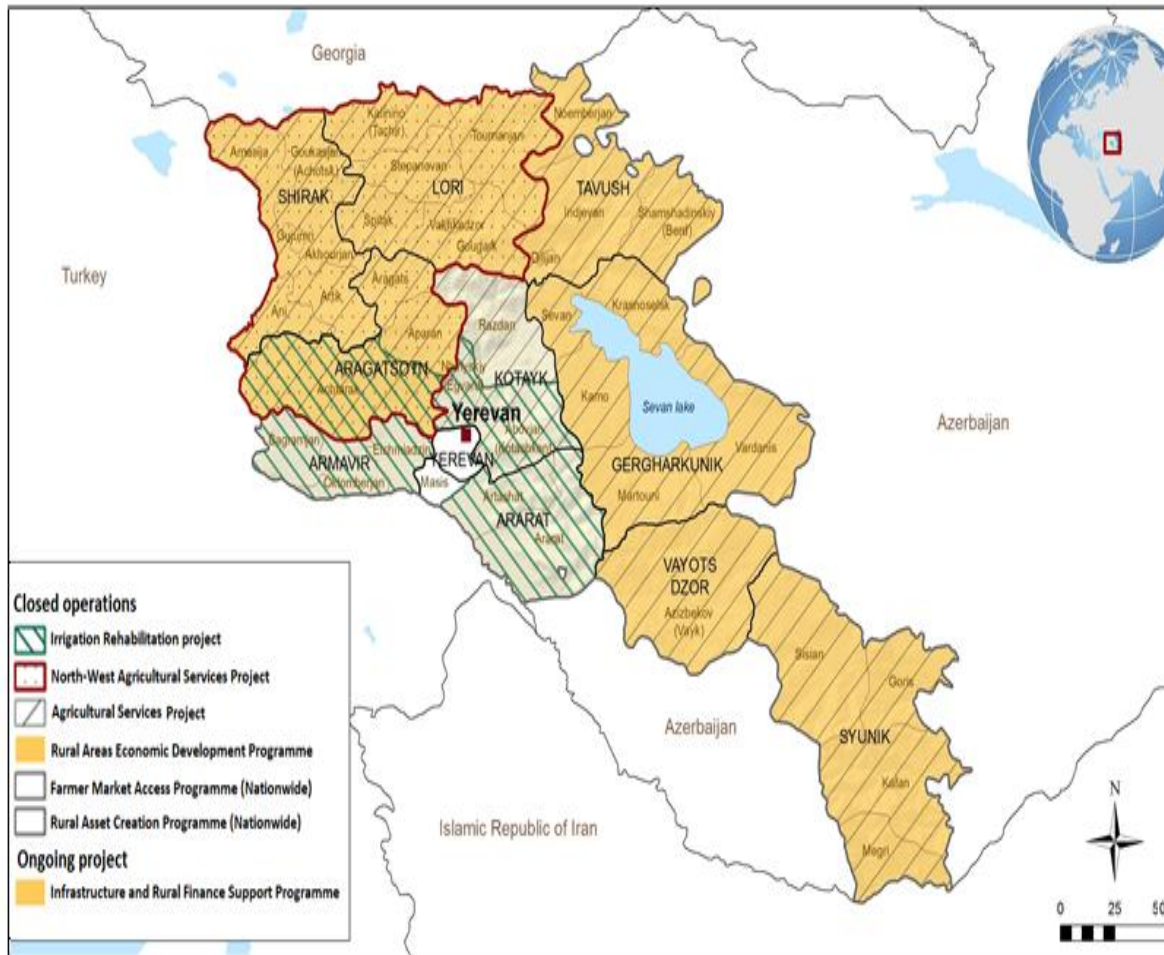
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Abbreviations and acronyms

ACPP	Agribusiness and Climate Resilient Partnership Project
COSOP	country strategic opportunity programme
FAO	Food and Agriculture Organization of the United Nations
FREDA	Fund for Rural and Economic Development in Armenia
GEF	Global Environment Facility
IRFSP	Infrastructure and Rural Finance Support Programme
M&E	monitoring and evaluation
PBAS	performance-based allocation system
PIU	programme implementation unit
RFF	Rural Finance Facility
SDGs	Sustainable Development Goals
SO	strategic objective
SSTC	South-South and Triangular Cooperation
TNC	third national communication (to the UNFCCC)
WB	World Bank
WFP	World Food Programme
WUA	water user association

Map of IFAD-funded operations in the country

Republic of Armenia
 IFAD-funded operations



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 19-02-2018

Executive summary

1. The Republic of Armenia is a lower-middle-income country that became independent in 1991 and is still in the process of transition to a fully democratic market economy. The country experienced rapid economic growth and poverty reduction in the early post-independence period, but was severely impacted by the 2008 global financial crisis, which was followed by a period of slower growth and population decline. Almost one million Armenians (29 per cent of the population) remain poor, a third of these being very poor and extremely poor (below the food poverty line). Almost one third of all poor people live in rural areas. Rural women and youth are overrepresented among the poor.
2. Agriculture contributes around 18 per cent of the Armenia's GDP and employs 35 per cent of the workforce. The sector is predominantly smallholder-based, with 360,000 agricultural holdings with an average of 1.5 hectares.
3. While Armenia does not have an official agricultural sector strategy, the status of the sector is reflected in the Armenia Development Strategy (2014-2025), which emphasizes this sector's importance in terms of food security, employment and exports. The strategy outlines a vision based on: (i) commercialization by employing Intensive Technologies; (ii) a food-secure population; (iii) growing agricultural exports; (iv) improved labour productivity; and (v) agroprocessing and value addition. The current government, which had its programme endorsed in June 2018, is committed to a focus on: (i) promotion of inclusive agribusiness models; (ii) increasing the arable land area under sustainable production and irrigation; (iii) facilitating access to technologies and innovations; and (iv) diversifying market opportunities.
4. The greatest challenge is in transitioning from an agricultural sector that is fragmented and subsistence-based, to one that is profitable, competitive and export-oriented – and at the same time address the social needs of poverty reduction, food and nutrition security, and unemployment.
5. The government's vision for the rural economy is that of a prosperous village-based agricultural sector with individual households engaging in small-scale commercial agriculture in an environment that provides access to all of the necessary inputs, infrastructure, markets and services. This is consistent with Armenia's status as a middle-income country that is well advanced in the transition from a centrally planned to a market economy. In this context, the overarching goal of the COSOP (country strategic opportunity programme) is to support the government's inclusive transformation vision for improved rural livelihoods. This goal will be pursued through two strategic objectives (SOs):
 - Strategic objective 1: Creation of agribusiness partnerships for integration of smallholders into resilient value chains;
 - Strategic objective 2: An enhanced enabling environment for rural commercial development.
6. SO1 addresses the opportunity to develop mutually beneficial partnerships between agribusiness and smallholder farmers, enabling them to be better integrated into agricultural value chains and reducing their vulnerability to economic, market and climate risks.
7. SO2 addresses priority areas in the enabling environment as identified by the Ministry of Agriculture. These are: (i) physical infrastructure; (ii) human capital development; (iii) access to financial services; (iv) legal and institutional reforms; and (v) access to technologies. Within this framework, direct measures to build agribusiness partnerships under SO1 will be complemented by selected measures to enhance the enabling environment, in concert with the Government of Armenia and development partners. IFAD will engage in policy dialogue with the Ministry

and other stakeholders to address those elements of the enabling environment that are seen to be most limiting in relation to rural commercialization.

8. The COSOP will incorporate a combination of current and new activities. Priority will be given to the design and implementation of an investment programme in 2018: the Agribusiness and Climate Resilient Partnership Project (ACPP).
9. IFAD resources over the three financing cycles (those covered by this COSOP) may amount to approximately US\$30 million, together with an eventual possibility of mobilizing approximately US\$1 million in grant resources. Grant resources could be used to support policy dialogue, institutional development, monitoring and evaluation (M&E)/knowledge management and learning, as well as South-South and Triangular Cooperation (SSTC). Cofinancing at the ratio of at least 1 to 2 is expected to increase the total COSOP funding envelope to near US\$60 million. The proposed programmatic approach and the mid-term financing package will be envisaged for the two Eleventh Replenishment of IFAD's Resources (IFAD11) cycles. The first investment within this COSOP (ACPP) will be developed as a single project, using the IFAD10 allocation (US\$9.6 million). The total financing package for ACPP is expected to reach approximately US\$30 million (cofinancing included).

Republic of Armenia

Country strategic opportunities programme

I. Country diagnosis

1. Country context: The Republic of Armenia is a landlocked lower-middle-income country that became independent in 1991 following the collapse of the former Soviet Union. Since independence, the country has successfully overcome the legacy of a centrally planned economy and the breakdown of the Soviet trading networks, achieving remarkable gains in reducing poverty and inequality. Economic growth was rapid from the mid-1990s until 2008, averaging close to 9.5 per cent annually,¹ with the poverty rate decreasing by one third and extreme poverty declining by half.²
2. Poverty: The global financial crisis reversed the course of poverty reduction in the post-independence period, with the poverty rate increasing to 34 per cent from 28 per cent a year earlier.³ After the 2009 recession there was some improvement in the poverty rate, but the slowing of the economy from 2013 to 2016 has meant that poverty has barely improved, with consumption by the poorest 40 per cent having grown very little since 2009.
3. Gender and youth: Armenia's gender inequality index is 0.293, ranking it 61st out of 159 countries. Women still have limited participation in governance and very limited access to and control over resources such as land and finance. In rural communities, 27 per cent of households are female-headed, of which those with children have increased in number and become poorer.⁴ Women account for almost 56 per cent of the agricultural labour force, with 82 per cent engaged in informal agricultural employment (compared to 61 per cent of men).⁵ Youth (aged 16 to 30, according to the government definition) represent a quarter of Armenia's population.
4. Agriculture sector issues: Agriculture contributes around 18 per cent of Armenia's GDP and employs 35 per cent of the workforce. The sector is predominantly smallholder-based, with 360,000 agricultural holdings covering 513,000 hectares, an average of 1.5 hectares per holding (Agricultural Census 2014). Almost all rural households are engaged in some form of farming, mostly on a semi-subsistence basis. Crops account for close to 60 per cent of sector output and animal husbandry 40 per cent.
5. A number of studies⁶ have identified the major issues in the agricultural sector. Many of these are related to the highly fragmented pattern of landholding. Many of these smallholdings have been unable to transition from semi-subsistence to commercial farming. Other constraints that have been highlighted include:
 - (a) Only 32 per cent of all agricultural land and 79 per cent of arable land is utilized, and less than 30 per cent of arable land is irrigated.
 - (b) Approximately 80 per cent of agricultural land is subject to some form of land degradation. Around 20 per cent of arable lands are eroded and 20 per cent of the irrigated areas are affected by salinity. Overgrazing is responsible for the degradation of pastures.

¹ Asian Development Bank. Armenia: Supporting economic resilience, 2017.

² IMF. Growth Inclusiveness in Armenia, June 2017.

³ National Statistical Service (NSS). Integrated Living Conditions Survey (ILCS), 2004-2016.

⁴ NSS. Household ILCS, 2008 and 2015.

⁵ ARMSTAT, 2015b.

⁶ For example: World Bank, Modernization and Commercialization of Armenian Agriculture: Priorities for Sector Reform and Investment (June 2016).

- (c) Weak farmer cooperation, which does not allow farmers to achieve economies of scale and work together to gain access to inputs and markets.
 - (d) Low productivity, quality and competitiveness, related to the limited use of technologies, lack of knowledge about effective farming and marketing practices, and a low level of investment in production and marketing.
 - (e) Underdeveloped market infrastructure for harvesting, storage, processing and marketing.
 - (f) Very limited commercial linkages between agribusiness and smallholder farmers.
 - (g) Limitations in the policy, legal and regulatory frameworks, including for food safety and quality standards. Armenia ranks 35th out of 62 countries in the World Bank's Enabling the Business of Agriculture index.
6. While the Government of Armenia does not have an official agricultural development strategy, the importance of the sector is reflected in the Armenia Development Strategy (2014-2025), which emphasizes its importance in terms of food security, employment and exports. The strategy outlines a vision for development based on: (i) commercialization by employing Intensive Technologies; (ii) a food-secure population; (iii) growing agricultural exports; (iv) improved labour productivity; and (v) agroprocessing and value addition. The current government is committed to a focus on: (i) promotion of inclusive agribusiness models, (ii) increasing the arable land area, (iii) facilitating access to technologies and innovations; and (iv) diversifying market opportunities.
 7. The Sustainable Agricultural Development Strategy for the period 2010-2020 envisages the consolidation of farms, development of agricultural cooperatives, improvement of credit, risk mitigation, organic agriculture, adaptation to climate change and the development of social infrastructure in rural communities.
 8. Challenges and risks: The greatest challenge facing the agricultural sector is inclusive transformation – how to transition from an agricultural sector that is fragmented and subsistence-based to one that is profitable, competitive and export-oriented, while addressing social needs of poverty reduction, food and nutrition security, and unemployment. Increasing subsistence-oriented production alone will only perpetuate farming as a poverty trap. There must be associated measures to consolidate landholdings, shift to high-value crops, strengthen farmer organizations and build linkages between agribusiness and smallholders. Ensuring that IFAD's target groups participate equitably in this process is the major challenge that the COSOP must address.
 9. Another challenge concerns the utilization of land and water resources in the context of climate change. The need for climate adaptation and mitigation measures is recognized in the intended nationally determined contributions and in Armenian Government Decree No. 1594-N (2011).
 10. Recent project implementation results in Armenia have been strong, and there is a sound working relationship between IFAD and the Government of Armenia. The existing programme implementation unit (PIU) has successfully implemented two IFAD projects and developed strong fiduciary, procurement and monitoring and evaluation (M&E) systems that will be incorporated into new programmes. IFAD programmes have delivered successful results on sustainable natural resource management, including governance of irrigation schemes through water user associations (WUAs).

II. Previous lessons and results

11. Since 1995 IFAD has approved seven loan projects in Armenia totalling US\$260 million (with IFAD financing US\$89 million) and several country grants – including climate financing grants – benefitting 445,200 households. The ongoing programme includes one investment project, totalling US\$30 million (IFAD financing of US\$11 million). IFAD's initial strategic focus was on food security. The most recent COSOP (prepared in 2003) expanded the scope to include market-oriented agricultural production and food security, through participatory irrigation management and rural financial services and the development of extension services and market linkages.
12. The evaluation of the Rural Areas Economic Development Programme conducted by the Independent Office of Evaluation of IFAD in 2012 found that it had a positive impact on the development of rural communities. The Rural Finance Facility (RFF) improved access by rural small and medium entrepreneurs to investment loans and facilitated employment in rural areas. Investment in infrastructure improved rural livelihoods and increased incomes and food security. Nevertheless the evaluation concluded that the project could have had better pro-poor targeting for loans and infrastructure investments. Overall, the Independent Office of Evaluation of IFAD recommended that IFAD should further support the value chain approach and include additional awareness-raising activities.
13. The key lessons to emerge from the IFAD experience are:
 - (a) A fully dedicated and accountable programme implementation team is an important foundation for a successful country programme, provided efforts are taken to avoid parallel systems.
 - (b) Related to this point, there is a need for strong coordination between mutually reinforcing project components, in particular when funding and implementation timelines differ. Projects should plan for synchronized implementation of components for a coordinated approach, and a harmonized targeting strategy.
 - (c) The RFF has established its role as a major support institution in the rural finance sector. Its credibility and outreach have made it attractive, as a complement to IFAD funds, to manage credit lines from the World Bank and other donors. The scope of the RFF's work could be expanded to include equity financing.
 - (d) Feasibility studies to guide investment selection and provide a solid baseline for impact assessment are an effective tool for replication. The feasibility studies were useful in providing information on beneficiaries, and as an efficient tool to guide interventions.
 - (e) Supporting gender-related policies and sensitization among decision makers is key in maximizing achievements in rural investments.
 - (f) The approach of launching a parastatal company (Fruit Armenia) under the Rural Asset Creation Programme is worth replicating, as long as it is managed by the private sector through a well-defined set public-private-producer partnerships.
 - (g) Investments in domestic water supplies have proven cost-effective, providing equitable benefits⁷ for youth, women, and men, and are effective in reaching the poor.

⁷ Farmer Market Access Programme (FMAP) Supervision Mission. *Aide-Memoire*, September 2011.

- (h) IFAD played a key role in the establishment of WUAs in Armenia. The WUA model has subsequently been adopted by other agencies. However, the WUAs need further strengthening.
- (i) Combining IFAD investments with climate and environment financing – as is the case for the ongoing Infrastructure and Rural Finance Support Programme (IRFSP) – is a very good approach for enhancing the resilience of the sector, pilot new technologies and reduce risks.
- (j) The mandate of the Fund for Rural and Economic Development in Armenia (FREDA) to operate in the niche market of “high-potential yet immature agribusinesses” differentiates the fund from other financial products available in Armenia. Creating impacts for smallholders has been difficult. The challenge is how to develop FREDA into an independent equity fund that is able to attract investments and reduce dependence on international assistance.
- (k) Contract farming arrangements introduced by the Rural Areas Economic Development Programme stimulated diversification, investment, and availability of inputs and raw materials. In scaling up this approach, IFAD should consider cofinancing the cost of technical and managerial services for agribusinesses sourcing raw materials from smallholders.

III. Strategic objectives

14. The COSOP provides a medium-term strategic framework for the six-year period from 2018 to 2024. At the request of the Ministry of Agriculture, the COSOP will not only guide IFAD investments in Armenia, but will also provide strategic guidance for other donors and partners involved in the agriculture and rural development sector.
15. The Government of Armenia’s vision for the rural economy, embodied in the Armenia Development Strategy (2014-2025) is that of a prosperous village-based agricultural sector with individual households engaging in small-scale commercial agriculture,⁸ in an environment that provides access to all of the necessary inputs, markets and services. This is consistent with Armenia’s status as a middle-income country that is well advanced in the transition from a centrally planned to a market economy. In this context, the overarching goal of the COSOP over the next six years is to support the government’s inclusive transformation vision for improved rural livelihoods.
16. This goal is directly aligned with the Armenia Development Strategy (2014-2025) and the Sustainable Development Goals (SDGs), particularly SDG1 (no poverty) and SDG2 (zero hunger). It also contributes to many of the other SDGs.⁹ It embodies the Government of Armenia’s determination to provide better livelihood opportunities for rural women and youth, reduce emigration from rural areas, and improve resilience to climate variability and climate change. The goal will be pursued through two strategic objectives (SOs).

SO1: Creation of agribusiness partnerships for integration of smallholders into resilient value chains
17. SO1 addresses the opportunity for developing mutually beneficial partnerships between agribusiness and smallholder farmers that enable the smallholders to be better integrated within agricultural value chains and reduce their vulnerability to economic, market, soil degradation and climate risks. This recognizes the dual

⁸ Agriculture is broadly defined to include crop production, livestock raising, aquaculture, apiculture and related upstream and downstream activities.

⁹ Including SDG5 (gender equality), SDG8 (decent work and economic growth), SDG9 (industry, innovation and infrastructure), SDG10 (reduced inequalities), SDG13 (climate action), SDG15 (life on land) and SDG 17 (partnerships for the goals).

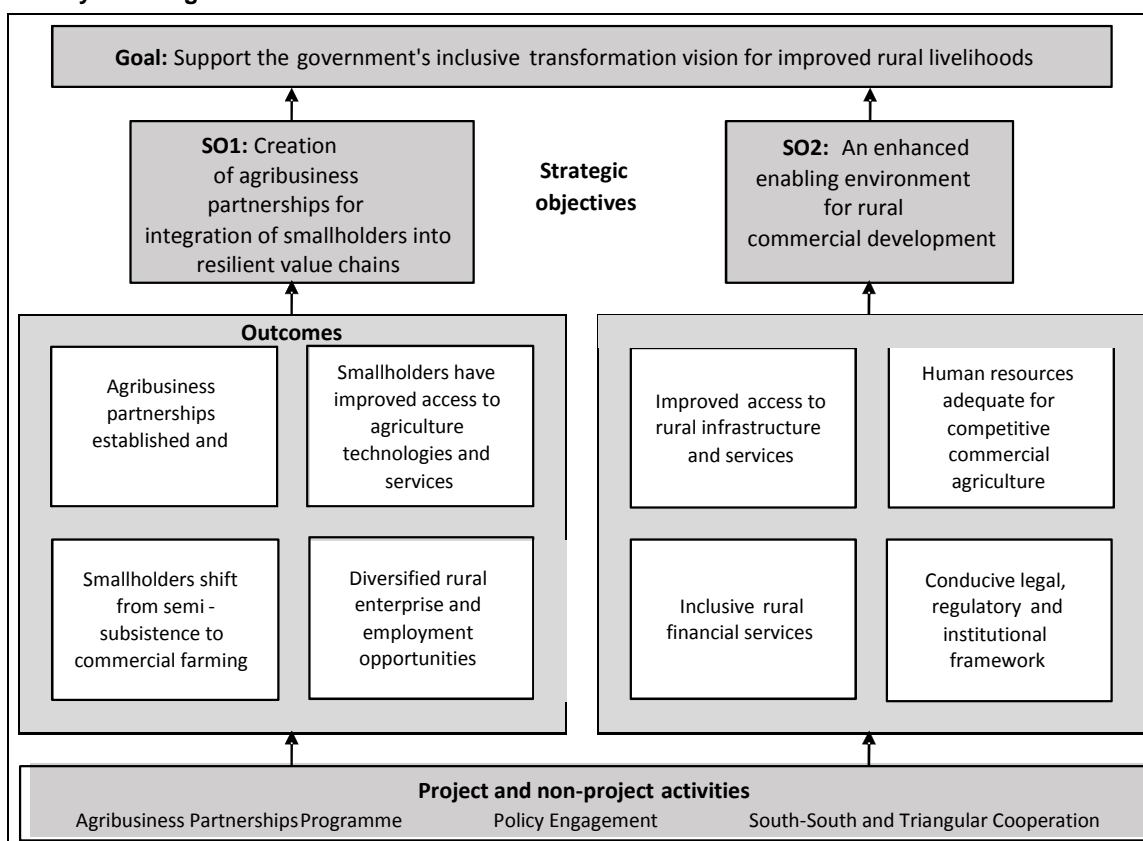
nature of the rural economy, with modern, export-oriented agribusinesses alongside large numbers of traditional semi-subsistence farming households, with weak linkages between the two subsectors. IFAD has a strong comparative advantage in catalysing such partnerships in middle-income and transitional countries.

18. The first step in the creation of agribusiness partnerships is the development of business partnership plans, whereby agribusiness engage with significant numbers of smallholder farmers under contract farming or outgrower arrangements involving the supply, collection, processing and marketing of outputs, and investments in natural resource management and climate resilience (with climate change posing risks to agricultural productivity). Measures to support partnership involve a range of financial instruments and technical and managerial support under the umbrella of public-private-producer partnerships arrangements.

SO2: An enhanced enabling environment for rural commercial development

19. Profitable and sustainable agribusiness partnerships also depend in part on having a conducive enabling environment for rural commercial development, with elements such as policy, legal and regulatory frameworks, and also rural finance services, marketing services, inputs, human capacity and infrastructure.
20. SO1 and SO2 are expected to contribute to the following outcomes (see figure 1, Theory of change, and the results framework in appendix I):

Figure 1
Theory of change



21. As shown in figure 1, the creation of agribusiness partnerships will facilitate smallholders' access to agricultural technologies and services and enable them to shift from semi-subsistence to commercial farming involving diversified rural enterprise and employment opportunities. This will be undertaken in parallel with measures to enhance the enabling environment for rural commercial development.

22. The COSOP will incorporate a combination of current and new project and non-project activities. Priority will be given to the design and implementation of an investment project in 2018 – Agribusiness and Climate Resilient Partnership Project (ACPP). The policy dimension of the COSOP will support the efforts of the Government of Armenia and other partners in analysis to help improve the policy, institutional and regulatory frameworks in the agricultural sector. Potential areas of policy engagement may include (while not being limited to): (i) food and nutrition security; (ii) sustainable intensification of farming systems; (iii) resilience; (iv) economic opportunities for youth; (v) inclusive mechanisms for engaging vulnerable households; (vi) support measures like subsidies and extension services; and (vii) promoting investment and market opportunities. Work on policy engagement will be in collaboration with other partners, through the established Alliance Platform.¹⁰

IV. Sustainable results

A. Targeting and gender

23. Geographic targeting: IFAD-supported investments will be national in scope, with priority areas identified together with the Government of Armenia during programme design, taking into consideration: (i) government priorities and complementarities with other interventions; (ii) poverty and food insecurity; (iii) geographic vulnerability; (iv) climate and environmental risks; (v) opportunities for productive inclusion; (vi) the capacity of rural economic organizations; and (vii) local-level risks. The strategy will ensure that efforts are clustered and concentrated.
24. The target group will comprise semi-subsistence rural households that are interested in expanding, diversifying and commercializing their farming operations. Within this group, special measures will be undertaken to ensure the inclusion of poor, food-insecure and vulnerable rural women and men (in particular female-headed households), farmer organizations, youth and rural entrepreneurs. Rural women and communities living in conflict-prone border areas will constitute specific target groups, given their limited access to assets and services. Rural youth will be another distinct segment of the target group.
25. The gender strategy and action plan employed by the IRFSP will be scaled up to improve production, and develop market linkages and policy initiatives to expand access to and control by women and poorer households over capital, land, knowledge and support services. A key instrument will be quotas for women and youth for accessing services and participating in decision-making bodies.

B. Scaling up

26. Scaling up will be a key principle of engagement, as stipulated in the IFAD Strategic Framework 2016-2025. This will be pursued through a programmatic approach to investment and through building on the successes of prior and ongoing interventions, which have been refined through constant learning. In line with the focus on gender of the United Nations Development Assistance Framework and the SDGs, the strategy will ensure the scaling up of interventions such as adoption of the gender action plan developed by the IRFSP, and enhance IFAD's engagement in gender policy support.
27. The RFF has demonstrated scalability potential, with the Government of Armenia providing additional resources to finance six new financial products through the RFF's partner financial institutions. These are designed to support investments in horticulture, modern orchards, greenhouses. etc. Scaling up of the RFF in managing the government's funds will enhance its capacity for attracting additional donor financing.

¹⁰ A platform made up of different organizations that work on policy issues and engage in policy dialogue.

28. IFAD support for water and irrigation development has leveraged additional investments and provided incentives for the return of youth to invest in their lands. There is still huge unmet demand for irrigation development, and potential to scale up the irrigation scheme models that were successfully developed under the IRFSP. These investments need to be coupled with a very robust targeting strategy.
29. Overall, and with a view to preparing the COSOP to serve as a government strategy for development of the smallholder agriculture and rural development sectors, the COSOP is in itself a strategic document for “scaling up”, as the government will use it to guide the sector. The Government of Armenia is committed to engaging in scaling up of agribusiness partnerships.

C. Policy engagement

30. Policy engagement and dialogue will remain a priority for the Government of Armenia and its partners in improving the policy and regulatory framework in the agriculture sector. IFAD will actively contribute to different dimensions of the government-led dialogue (policy formulation and implementation; institutional strengthening; analysis; and technical assistance).
31. IFAD will pursue the COSOP’s strategic objectives through project-based support as a vehicle for deploying proven rural solutions at scale while testing new approaches, enabling better targeting and implementing new policies, and to demonstrate the positive role of smallholders in the agribusiness sector. IFAD and other development partners will contribute to evidence-based policy engagement.
32. Areas for pro-poor policy engagement and non-lending support will thus focus on issues of relevance for the IRFSP and future operations. They may include dairy, small livestock and horticulture subsector development and sustainable rangeland management. To enhance the effectiveness of the portfolio, three interrelated methods of policy engagement will include: (i) the country programme management team contributing knowledge to sector working groups under the existing Agricultural Cooperation Framework; (ii) project staff communicating approaches for potential scaling up; and (iii) enhancing the capacity of rural people and their organizations to participate in national policy processes, through existing platforms like the Alliance Platform.
33. Programme coordinators and IFAD staff will participate in relevant committees and forums to ensure coordination and promote collaboration, contributing lessons and evidence that can inform policy dialogue. Much of this engagement will take place through programme steering committees and within the policy dialogue framework established by the government. Areas where IFAD may be able to contribute to policy development include: (i) food and nutrition security; (ii) sustainability and climate resilience; (iii) risk management; (iv) economic opportunities for youth; (v) targeting of vulnerable households; (vi) subsidies and support services; and (vii) agricultural statistics for policy guidance.

D. Natural resources and climate change

34. According to the third national communication (TNC)¹¹ and the national strategy and action plan (2015), around 80 per cent of agricultural land is affected by some form of land degradation, including salinity, exacerbated by climate change. The TNC indicates that yields for key crops and pastures could decline by 2040 to 2050, due to higher temperatures and lower precipitation. Rising water demand (20 per cent) and falling supply (30 per cent – 40 per cent) will cause a reduction in the water available for irrigation. Extreme weather events have the potential to cause US\$15 million to US\$20 million annually in damages. Proposed adaptation measures include: (i) research on adaptation technologies; (ii) improving access to

¹¹ Third national communication of the Armenian Government to the United Nations Framework Convention on Climate Change (2015).

rural finance; (iii) crop insurance; and (iv) capacity-building on innovative technologies and policies for climate change adaptation. Climate change adaptation is integrated into the COSOP (see appendix IV).

E. Nutrition-sensitive agriculture and rural development

35. Armenia is a country exposed to multiple risks, with 28 per cent¹² of households being at risk of becoming food-insecure if affected by shocks, in particular climatic shocks. Nine per cent of children aged under five are stunted (caused by chronic malnutrition) and almost 13.6 per cent are overweight.
36. In partnership with the World Food Programme (WFP), the Government of Armenia contributes to the food security and education of children through a nationally-owned school feeding programme that uses locally produced food (as a nutrition-sensitive social safety net) and investments to address food insecurity and malnutrition, while supporting local economic development. This approach is further supported by the Food and Agriculture Organization of the United Nations (FAO), under a broader objective of strengthening the capacity to develop policy frameworks, investment plans and programmes for food security and nutrition.
37. IFAD will support nutrition-sensitive practices to improve the nutritional status of rural households, in particular those that are female-headed. This will be achieved by scaling up the Global Environment Facility (GEF)-funded pilot initiative in supporting the development of home gardens using plastic tunnels – which has proven effective in improving family nutrition as well as diversifying incomes. There is also potential to support the national school feeding programme with WFP and FAO, by partnering with catering businesses to source food from smallholder farmers. These initiatives will contribute to the COSOP goal in full alignment with SDG2.

V. Successful delivery

A. Financing framework

38. The COSOP covers the period from 2018 to 2024, and therefore will provide the necessary strategic framework underpinning rural investments related to three lending cycles: IFAD10, IFAD11 and IFAD12. The lending and non-lending activities and deliverables of this COSOP will be achieved through a joint effort involving the IFAD country programme management team, government agencies and in-country partners and donors.
39. Based on current performance-based allocation system (PBAS) scores, IFAD core resources over the three financing cycles are likely to amount to approximately US\$30 million. It is expected that grant resources will be mobilized and used to capitalize on non-lending activities to support policy dialogue, institutional support, outcome-oriented M&E system knowledge and learning, and South-South and Triangular Cooperation (SSTC). IFAD will play a role as catalyst and knowledge broker of the SSTC between Armenia and other countries.
40. In line with previous IFAD interventions in Armenia, IFAD and the Government of Armenia will mobilize additional cofinancing at the ratio of at least 1:2, and reach a total COSOP investment estimated at US\$60 million, to be raised from development partners and the private sector, in addition to the Government of Armenia and IFAD core resources.
41. The COSOP pipeline will consist of the ACPP project (see appendix VI) financed from the IFAD10 allocation and with cofinancing to be mobilized. Starting with the IFAD11 cycle, operations will use the programmatic approach in two phases and will be designed with built-in flexibility, allowing the programme to focus on

¹² WFP News, March 2016.

establishing the necessary institutional, knowledge and technical foundations for scaling up within the Government of Armenia's national agricultural development programme. The two cycles covered by this COSOP (IFAD11 and IFAD12) will therefore constitute a framework through which additional funds would be channelled.

Table 1
PBAS calculation for COSOP¹³

<i>Indicators</i>		<i>Scores</i>
Strengthening the capacity of the rural poor and their organizations		
A (i)	Policy and legal framework for rural organizations	5.00
A (ii)	Dialogue between government and rural organizations	4.25
Improving equitable access to productive natural resources and technology		
B (i)	Access to land	5.00
B (ii)	Access to water for agriculture	4.75
B (iii)	Access to agricultural research and extension services	4.33
Increasing access to financial services and markets		
C (i)	Enabling conditions for rural financial services development	5.00
C (ii)	Investment climate for rural businesses	5.33
C (iii)	Access to agricultural input and produce markets	4.67
Gender issues		
D (i)	Access to education in rural areas	5.50
D (ii)	Representation of women	4.33
Public resource management and accountability		
E (i)	Allocation and management of public resources for rural development	4.50
E (ii)	Accountability, transparency and corruption in rural areas	3.50
Sum of combined scores		56.16
Average of combined scores		4.68
GNI per capita (2016)		3 760
Rural population (2016)		1 095 110
IRAI rating (2016)		-
Rural sector performance (2015)		4.68
Project at risk		3
Country performance rating		4.21
IFAD10 allocation (US\$ million)		9 690 554

Table 2
Relationship between performance indicators and country score

<i>Financing scenario</i>	<i>PAR rating (+/- 1)</i>	<i>Rural sector performance score (+/- 0.3)</i>	<i>Percentage change in PBAS country score from base scenario</i>
Hypothetical low case	1	4.4	(32)
Base case	2	4.7	-
Hypothetical high case	3	5.0	38

B. Monitoring and evaluation

42. M&E of the COSOP will be embedded within national systems. IFAD and the Government of Armenia will jointly monitor implementation of the COSOP through annual COSOP reviews, which will assess how lending and non-lending activities are contributing to each SO. IFAD and the government will conduct a mid-term review of the COSOP in 2021, and a completion review at the end of the second cycle in 2024. The mid-term review will assess the relevance, effectiveness and

¹³ Refer to Annex 2, page 7, table 1 of the <https://webapps.ifad.org/members/eb/122/docs/EB-2017-122-R-2-Add-1.pdf>.

efficiency of the country programme, learn lessons and make mid-course adjustments.

43. The COSOP results framework includes measurable milestone indicators closely aligned with the achievement of the IRFSP and future investments will be aligned accordingly. All reported data will be disaggregated by gender, age and type of activities supported.
44. To strengthen project and sector M&E, IFAD will: (i) support the M&E capacity-building of projects/programmes; (ii) contribute to enhancing agriculture sector planning and M&E through capacity-building initiatives with government and other development partners; (iii) collaborate with relevant institutions to carry out thematic studies and qualitative research to better understand project effectiveness and impact; (iv) closely monitor and support non-lending activities, in particular policy dialogue, knowledge management and regional grants; and (v) where required, contribute to developing an agricultural sector M&E system.

C. Knowledge management

45. Knowledge management has played an important role in planning, supervision, M&E systems, facilitating information, replication and scaling up. The IRFSP knowledge management system is well embedded within the M&E processes, and knowledge management activities are planned as part of implementation arrangements for the IRFSP components. Future IFAD investments will continue to document lessons learned, conduct thematic studies, etc., in order to support the scaling up of successful interventions and inform decision-making.

D. Partnerships

46. The COSOP provides an opportunity for IFAD to expand and deepen in-country partnerships, with special emphasis on intensifying engagement with the private sector. It will also strengthen the partnership with the Ministry of Agriculture by positioning it as the lead implementing agency for the country programme, and will build on the initiatives of other United Nation agencies (particularly the Rome-based agencies) and other partners in agricultural and rural development (see key file 4). There are also good opportunities for mobilization of climate financing (GEF and others).

E. Innovations

47. The introduction of agribusiness partnerships for integration of smallholders within value chains, accompanied by selected initiatives to enhance the enabling environment for rural commercial development, represents a new approach to rural transformation in Armenia. It will capitalize on innovations and scaling up initiatives piloted through IFAD grants, including the current GEF grant. These include: (i) mainstreaming gender and targeting within livelihood grant packages and combining them with financial services to ensure inclusion of vulnerable rural communities; (ii) nutrition-sensitive investments linked to the national school feeding programme, to be carried out in collaboration with WFP and FAO; (iii) SSTC to transfer appropriate technologies to Armenia; and (iv) using climate and environment financing to restore landscapes, which will increase the value of agricultural land.

F. South-South and Triangular Cooperation

48. The IFAD Strategic Framework 2016-2025 notes that "IFAD plans to strengthen its comparative advantage and expand its work in (the area of SSTC), in terms of both knowledge-based cooperation and investment promotion". This involves providing opportunities for smallholder agricultural business development and innovative activities that foster rural transformation for improved livelihoods.

49. The Government of Armenia recognizes the potential of SSTC and has established several partnerships to foster cooperation in pursuit of the SDGs, particularly SDG17 (partnerships for the goals). These partnerships include:
- Natural resource management and climate resilience: The United Nations Development Programme in Armenia hosted a delegation from Moldova to share experiences in forest-related projects and the overall forestry sector. The Sustainable Agriculture Development Programme in Central Asia and the Caucasus is a good regional forum.
 - Business development: Through the FREDa initiative, Armenian small and medium-sized enterprises have participated in several trade fairs in Austria and Germany, and have developed successful trade relations.
 - Innovation: Through GEF financing, Armenia will benefit from technical assistance and training from a Belgian company to recycle coffee waste to produce mushrooms. This will be scaled up to support rural women as part of the income-generation packages.
 - Sharing of knowledge: FREDa has also shared its knowledge and experience in several international forums on the opportunities and challenges of equity financing.
50. Through future investments, IFAD will develop a programmatic approach to SSTC, and will mobilize grant financing to facilitate learning and scaling up. Potential entry points include: (i) cooperation with countries that have advanced private extension services and government support measures; (ii) knowledge transfer on livestock value chain development, through linkages to IFAD projects in Kyrgyzstan and elsewhere; and (iii) sharing experiences of agribusiness partnership initiatives supported by IFAD in the Asia-Pacific region.
51. Areas for potential knowledge transfer from Armenia to other countries may include: (i) robust rural financial services provision; (ii) planning and execution of rural water infrastructure; and (iii) vineyard management and competitiveness of the wine sector, similar to the exchanges that IFAD-supported between China and Argentina.

Appendix I: COSOP results management framework

Goal: Support the Government's inclusive transformation vision for improved rural livelihoods				
Country Strategy Alignment	Key Results			Indicative Activities
	Strategic Objectives	Outcome Indicators	Milestone Indicators	
<p>Sustainable Development Goals (SDGs): SDG1 (to end poverty) and SDG2 (food and nutrition security and sustainable agriculture). It and also contributes to many of the other SDGs.</p> <p>Armenia Development Strategy (2014-2025): The strategy sets out national development objectives for 2014-2025. It is the country's main socioeconomic development strategy and the basis for medium-term, sectoral and other program documents. Priorities include:</p> <ul style="list-style-type: none"> - Priority 1. Growth of employment - Priority 2. Development of human capital - Priority 3. Improvement of social protection system - Priority 4. Institutional modernisation of the public administration and governance. <p>Armenia-United Nations Development Assistance Framework (UNDAF: 2016-2020): Strategic programme framework that is guiding the cooperation between the GOA and UN from 2016 until 2020. Priority areas relevant to the agriculture sector include:</p> <ul style="list-style-type: none"> - Pillar I. Equitable, Sustainable 	SO1: Agribusiness partnerships for integration of smallholders in resilient value chains	- Agribusiness partnerships established and operating	- No of supported rural enterprises reporting an increase in productivity, sales and profit: SDG target 8.2, 8.3 & 10.2	<p>Lending/Investment activities:</p> <p>Agribusiness and Climate Resilient Partnership Programme (ACPP) under IFAD 10.:</p> <p>Total financing: USD 30 million from:</p> <ul style="list-style-type: none"> • IFAD under 2016-2018 PBAS cycle (USD 10 million) • Co-financing to be mobilised (USD 20 million) <p><u>Additional financing (new programme under two IFAD cycles):</u></p> <ul style="list-style-type: none"> • IFAD 11 and IFAD12 PBAS cycle (USD 20 million) • Co-financing to be mobilised (USD 20 million) <p>Non-lending/non-project activities</p> <p>Under the coordination of GOA and IFAD, collaborate in SSTC programs: Potentially USD 1 million allocated under</p>
		- Smallholders have improved access to climate resilient agricultural technologies and services	- No of rural producers/HH accessing improved production inputs and/or climate resilient technological packages or practices: SDG target 1.4, 2.3, 2.4, 6.4, 13.1 & 15.3	
		- Smallholders shift from semi-subsistence to commercial farming	- No of rural producer organisations engaged in partnerships or contracts with private entities: SDG target 8.2, 8.3 & 10.2	
		- Diversified rural enterprise and employment opportunities	- Percent of production (by value) of smallholder farming HHs sold: SDG target 8.2, 8.3 & 10.2	
	SO2: Enabling environment for rural commercial development	- Improved access to climate resilient rural infrastructure and services	- No of HHs benefiting from climate adaptive irrigation schemes, market, processing or storage facilities constructed or rehabilitated SDG target 2.3, 6.4 and 13.1	
		- Human resources adequate for competitive commercial agriculture	- No of HHs reporting improved access to markets, processing and storage facilities: SDG target 2.3 & 10.2	
		- Inclusive rural financial	- Number of persons trained in income-generating activities or business management: SDG target 8.2 & 8.3	
		- No of persons/HH in rural areas reporting using	- No of rural enterprises accessing business development services: SDG target 8.2 & 8.3	

Goal: Support the Government's inclusive transformation vision for improved rural livelihoods				
Economic Development and Poverty Reduction - Pillar IV. Environmental Sustainability and Resilience-Building Contribute to global efforts to reduce rural poverty		services	rural financial services (savings, credit, insurance, remittances, etc.): SDG target 1.4, 2.3 & 8.3 - No of financial service providers delivering outreach strategies, and financial services to rural areas: SDG target 1.4, 2.3 & 8.3	IFAD 10 &11 Resources will be mobilised by IFAD and partners to support the policy engagement agenda
		- Conducive legal, regulatory and institutional framework	- Number of policy-relevant knowledge products completed (existing/new laws, regulations, policies or strategies proposed for approval, ratification or amendment to policy makers) - Functioning and sustainable multi-stakeholder rural development/agriculture sector platforms supported - Armenia's ranking in the World Bank's Enabling the Business of Agriculture (EBA) index improves ¹⁴ : SDG target 13.2	
	Partnership strengthening	- Joint SSTC initiatives with partnership countries	- At least two SSTC initiatives launched	

¹⁴ EBA index examines and monitors policies and regulations that impact how markets function in the agriculture and agribusiness sectors. The ultimate aim is to promote efficient regulatory processes that support thriving agribusinesses.

Appendix II: Agreement at completion point of last country programme evaluation

Not applicable

Appendix III: COSOP preparation process including preparatory studies, stakeholder consultation and events

The COSOP process was initiated upon receipt of a letter dated 3rd November 2017 from the Head of Staff of the Government of the Republic of Armenia to the Director of IFAD's NEN Division as follows:

Ms. Khalida BOUZAR
Director
Near East, North Africa and Europe Division
International Fund for International Development

SUBJECT: Agriculture Development Strategy and New Project Initiative

Excellency,

The Government of the Republic of Armenia presents its compliments to the International Fund for Agricultural Development and expresses appreciation for ongoing support to reforms in agricultural sector in Armenia. The recent project on upgrade of irrigation infrastructure and water supply, as well as improvement of access to finance, benefits large number of farmers and contributes to sustainable agriculture development and poverty alleviation in rural areas. Meanwhile, the Government is interested to continue our cooperation and extend this partnership to systemic and policy related issues.

Global market dynamics demands more attention to link local competitive advantages with target export markets. The role of government in this respect is to focus on sustainability, food security and competitiveness of the sector, but also consider strengthening positions at traditional markets and exploring new export destinations. In this context, the Government is interested to review its agricultural development strategy, evaluate global and regional developments, implement capacity assessment and elaborate comprehensive sector development strategy through the IFAD COSOP process.

Even though, Armenia has reached a level of debt to GOP ratio restricting our borrowing capacity, highly appreciating the continuous cooperation with IFAD, the Government confirms its interest to access the loan allocation under IFAD 10, and kindly requests IFAD to undertake a COSOP design mission, to be followed by a joint project design mission during 2018. The new project would be designed in compliance with the COSOP and its implementation would start only during 2019.

Please, accept the assurances of my highest consideration.

Sincerely yours,
Vahe STEPHANYAN

The COSOP team included:

Rami Salman: Country Programme Manager
Abdelkarim Sma: NEN Regional Economist
Lauren Phillips: PTA Senior Technical Specialist
Eric Rwabidadi: NEN Programme Officer
David Young: Consultant/Mission Leader
Stefania Gnoato: Consultant/Programme Analyst
Pedro Regato Pajares: Consultant/Environment and Climate Change Specialist

Preliminary desk studies were undertaken during December 2017 and January 2018. The COSOP Mission visited Armenia from 29th January to 9th February 2018. The Mission's work programme was as follows:

Date	Activities
Sunday 28 Jan	Mission departed Rome
Monday 29 Jan	Mission arrived in Yerevan
Tuesday 30 Jan	Meeting at RAEDP PIU Kick-off meeting chaired by Minister of Agriculture
Wednesday 31 Jan	Meeting with Deputy Minister of Agriculture Meeting with Armenian Harvest Promotion Centre Meeting with International Centre for Agribusiness Research and Education
Thursday 1 Feb	Meeting with Green Lane (NGO)
Friday 2 Feb	Analysis and report preparation COSOP team meeting
Saturday 3 Feb	Analysis and report preparation
Sunday 4 Feb	COSOP team meeting
Monday 5 Feb	Meeting with FAO Meeting with WFP Meeting with UNDP
Tuesday 6 Feb	Analysis and report preparation
Wednesday 7 Feb	Preparation of presentation for consultation/wrap-up meeting
Thursday 8 Feb	Consultation/wrap-up meeting Chaired by Minister of Agriculture – see presentation attached
Friday 9 Feb	Mission departed Yerevan

Presentation to Wrap-up Meeting on 8th February 2018



Republic of Armenia
Country Strategic Opportunities Programme



IFAD IN ARMENIA

Since 1995, IFAD has financed 7 projects in Armenia for a total value of USD 259.7 million, of which USD 89.5 million financed directly by IFAD. One project is ongoing, the Infrastructure and Rural Finance Support Programme (IRFSP).

IFAD projects in Armenia effectively contributed to agricultural and rural development, with innovative financing instruments, and investments in good-quality irrigation schemes, drainage and drinking water infrastructures.

Key Statistics	
No. of Projects	7 (1 ongoing)
Total cost:	USD 259.7 m
IFAD loan:	USD 89.5 m
Directly benefiting:	445 200 households

IFAD IN ARMENIA – RECENT FIGURES

Community Water Supply (CWS): 16,197 HH across 29 communities are benefitting directly from completed investments.

Small and Medium Scale Irrigation Distribution (SMSID): 3,255 households across 9 communities have already benefitted from constructed investments in irrigation in Syunik, Vayots dzor and Lori (including both farmland and backyard development).

Construction of four relatively large irrigation schemes will start directly after the winter season; When the 4 schemes are constructed, a total of 3,909 hectares will be under irrigation and a total of 8,283 households will benefit.

IFAD IN ARMENIA – RECENT FIGURES


Rural Finance Facility RFF

- The current size of the RFF is around USD 20.5 million
- RFF has disbursed 511 individual and 491 tranche loans totaling to 6.3 million USD from RFF revolving fund.
- The loans disbursed target cattle breeding, crop production, processing, winemaking, fish farming, horticulture and poultry farming.
- RFF also implemented the State Support Program for Partially Subsidized Leasing Rate of Agricultural Machinery in the Republic of Armenia. To this end, 68 loans of about USD 1,735,495 were disbursed under the program.

IFAD IN ARMENIA – RECENT FIGURES


Fund for Rural Economic Development in Armenia (FREDA)

- To date, FREDA's investment portfolio stands at AMD 2,373 million, including AMD 1107 million in equity, AMD 312.8 million in subordinated debt, AMD 653.6 million in quasi-equity, and AMD 302.8 million in accounts receivables.
- FREDA is supporting immature businesses towards attracting their first external financing. This is potentially critical to the growth of the agricultural (and clean-energy business linked towards the agri-business) sector
- A sustainability strategy for FREDA has been finalised to ensure that it maintains its role as an innovative instrument to support the niche-market of "high potential, yet immature agri-businesses" SMEs




KEY LESSONS LEARNED

- A fully-dedicated and accountable in-country Programme Implementation team has increasingly proven its capability and efficiency in implementing demand-driven projects. Its solid procurement and financial management capabilities have been strong assets in ensuring programme delivery.
- RFI has established its role as a major support institution in the rural finance sector. Its credibility and outreach has made it attractive to, in addition to IFAD funds, to manage credit lines of World Bank and other donors.
- Investments in water infrastructure have proven cost effective and provided equitable benefits for the youth, women, and men and are effective in reaching the poor. Village water systems cater for domestic needs, livestock watering and backyard gardens.



KEY LESSONS LEARNED

- The sector's productivity and competitiveness is very much impacted by climate variability, climate change and the degradation of natural resources. Combining IFAD investments with climate and environment financing is a very good approach to enhance the resilience of the sector, pilot new technologies, and reduce risks.
- Supporting gender-related policies and sensitization among decision-makers is key in maximizing achievements in rural investments.
- The recent inclusion of a targeting strategy for IRFSP, including geo-referencing of project beneficiaries, will ensure that the IFAD target groups are benefiting, and women and youth are equally targeted.



COUNTRY STRATEGIC OPPORTUNITIES PROGRAMME (COSOP)

- Results-Based Country Strategic Opportunities Programmes (RB-COSOPs) provide an indicative business strategy for the delivery of investments over a particular period of time (6 years) to support the achievement of concrete development results.**
- The current COSOP will provide a medium-term Strategic Framework for the period 2018 – 2024

As per the request of the Ministry of Agriculture, the COSOP will not only guide IFAD investments in Armenia, but provide Strategic Guidance for donors and partners involved in the agriculture and rural development sector.

COSOP GOAL

The overarching goal of the COSOP over the next six years is **to support the government's inclusive and sustainable rural transformation agenda for improved rural livelihoods.**

This goal directly aligned with the Armenia Development Strategy (2014-2025) and the SDGs, particularly SDG1 (to end poverty) and SDG2 (food and nutrition security and sustainable agriculture)	It embodies GOA's determination to provide better livelihood opportunities for rural women and youth, reduce emigration from rural areas and improve resilience to climate variability and climate change.	It recognises the opportunity for more inclusive rural economic development by forging linkages between commercial agribusiness and smallholder farming households in order to stimulate the development of small-scale rural enterprises.
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COSOP STRATEGIC OBJECTIVES

STRATEGIC OBJECTIVE 1 (SO1)
Agribusiness partnerships for integration of smallholders in resilient value chains

Developing mutually beneficial partnerships between agribusiness and smallholders which enable them to be better integrated in agricultural value chains and reducing their vulnerability to social, economic and climate risks.	Development of business partnership plans whereby agribusiness engage with significant numbers of smallholder farmers under contract farming or outgrower arrangements involving the supply of inputs and services, arrangements for collection, processing and marketing	Financial instruments (grants, loans, guarantees etc.) as well technical and managerial support under the umbrella of a Public-private-producer partnership agreement and a whole value chain approach.
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COSOP STRATEGIC OBJECTIVES

STRATEGIC OBJECTIVE 2 (SO2)
Enabling environment for rural commercial development

Infrastructure – irrigation headworks, telecommunications and electricity supply in rural areas, transport infrastructure, and systems to ensure that these are maintained or improved in line with demand.	Markets and marketing systems – quality assurance and product trading systems, product certification services, market infrastructure (roads, transport, storage and processing facilities), market information, product grading systems.	Rural financial services – accessible banking, credit and insurance products, facilities for leasing, warehouse recycling, commodity price hedging.
Human capital – technical, managerial and vocational skills able to access and utilise advanced agricultural and agro-industrial technologies.	Input supplies – ready access to input supplies such as labour, water, seeds, fertilisers and pesticides, together with the information needed to use them effectively and safely.	Policy framework – a clear policy and strategic framework for agricultural and related sectors.

EXPECTED OUTCOMES/RESULTS

SO1 and SO2 are expected to contribute to the following key outcomes

SO1: Agribusiness Partnerships <ul style="list-style-type: none"> Agribusiness partnerships established and operating Smallholders have improved access to agriculture technologies and production services Smallholders shift from semi-subsistence to commercial farming Diversified rural enterprise and employment opportunities 	SO2: Enabling Environment <ul style="list-style-type: none"> Improved access to rural infrastructure and services Human resources adequate for a competitive commercial agricultural sector Inclusive rural financial services Conducive legal, regulatory and institutional framework
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PROGRAMME CONCEPT

Agribusiness Partnership Programme (APP)

Programme Goal
 Support the government's inclusive transformation vision for improved rural livelihoods.

Programme Objectives

Assist farming households to engage in partnerships with agribusiness enterprises in order to transition from semi-subsistence to commercial farming.	Enhance selected elements of the enabling environment that constrain commercialisation of smallholder farming households, and rural economic development generally.
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PROGRAMME CONCEPT

COMPONENT 1: AGRIBUSINESS PARTNERSHIPS

- Competitive scheme to support agribusinesses to build alliances with smallholder farmers and other value chain actors
- Combination of financial and other support: technical, managerial, marketing etc.
- Partnerships to assist smallholders to improve their productivity and connection to markets
- Farmer organisations/groups are a key part of the partnership structures

- Can be commodity-specific or general
- Primary partner can be any legal entity
- Cost-sharing arrangement to be defined in partnership agreements

PROGRAMME CONCEPT

COMPONENT 2: ENABLING ENVIRONMENT

- To address one or more of the five "umbrella issues" identified by MOA: infrastructure, human capital, access to finance, legal and institutional reforms and access to technologies.
- Flexible funding mechanisms addressing priority issues
- May include infrastructure investment, subject to financing arrangements

Examples

- ☐ Training programmes (farmers, SMEs, professionals)
- ☐ Export market development
- ☐ Product grading and packaging standards
- ☐ Organic certification
- ☐ Farmer organisations
- ☐ Institutional capacity building etc.

COSOP – POLICY DIMENSION

The COSOP and project pipeline will support the efforts of the Government and Partners in the analysis/promotion of policies that help improve policy, institutional and regulatory framework in the agriculture sector.

PARTNERSHIPS

- Expand in-country partnerships and repositioning the programme towards more engagement with the private sector
- Positioning the Ministry of Agriculture as a lead implementing agency
- Building on initiatives of UN Agencies and other partners in agricultural sector development
- Engaging with partners (FAO, UNDP...) for mobilization of climate financing to ensure enhanced resilience of the sector
- Mobilizing further investment to deliver on the COSOP Strategic Objectives (EU, Bi-lateral and Multi-lateral donors...)

FINANCING

- Promoting a Programmatic Approach as opposed to a project-based approach
- Investing IFAD core resources over 3 financing cycles (around USD 34 million)
- Mobilizing additional financial resources at the ratio of 1:3
- Engagement with partners for mobilising climate financing
- Capitalizing on non-lending activities to support Policy Dialogue, Institutional Support, Knowledge and Learning, SSTC...

TIMEFRAME

Draft COSOP and Programme Concept Note	➔	4 March 2018
Sharing with Government and partners for comments	➔	5 -15 March 2018
Finalisation and submission to IFAD Management	➔	30 March 2018
IFAD Programme Design mission	➔	May – June 2018
Presentation of APP to IFAD Executive Board for approval	➔	December 2018

Thank you!

Appendix IV: Natural resources management and climate change adaptation: Background, national policies and IFAD intervention strategies

1. Armenia, with vulnerable natural and agro-ecosystems in a predominantly mountainous landform with arid climate conditions, and a history of droughts and uneven distribution of water resources, is among the most sensitive countries in the Europe and Central Asian Region to global environmental changes. According to the TNC (2015)¹⁵ and the NSAP¹⁶ (2015), around 80% of land plots in Armenia are characterised by various levels of land degradation: 20% of arable lands are eroded mainly due to maladaptive farming techniques; approximately 20% of irrigated areas are affected by moderate to severe soil salinity, due to poor maintenance and operation of the irrigation system and inadequate irrigation practices; almost half of all agricultural land is currently under various stages of compaction due to improper use of agricultural machinery and poor irrigation methods; overgrazing is responsible for a serious degradation and significant reduction of the area of natural pastures.
2. The key documents setting out the Government policies for agriculture, rural and agro-industry development include: (i) Armenia Development Strategy, 2014-2025; (ii) Sustainable Development Programme, 2009-2021 (the Second Poverty Reduction Strategy); (iii) Strategy for Sustainable Rural and Agricultural Development, 2010-2020; (iv) Cattle Breeding Programme, 2007-2015; (v) Food Security Concept, 2011 and Food Safety Strategy, 2010-2015; (vi) Land Consolidation Concept, 2011 and other directly and indirectly relevant country strategies.
3. The Strategy for Sustainable Rural and Agricultural Development specifies the key directions for agrarian policy. It envisages the consolidation of farms and development of agrarian cooperatives, the improvement of credit, risk mitigation, the development of organic agriculture, the reduction of agriculture vulnerability to climate change, and the development of social infrastructure in rural communities. Certified organic production is prioritised as a small niche with high potential for growth.
4. The Poverty Reduction Strategy Paper (PRSP) adopted in 2003 recognised the link between poverty and environmental degradation with a negative feedback between both factors, the adverse impact of poverty on environmental issues and sustainable growth, and the need to reverse environmental degradation. The PRSP highlighted the need to reverse environmental degradation to achieve poverty reduction and sustainable growth objectives, through: (i) sustainable forest management; (ii) prevention of land degradation and the anthropogenic factors leading to desertification; (iii) sustainable management and efficient use of water resources; and (iv) management of waste and industrial pollution. Despite progress on enlargement and improvement of environmental legislation and the sustainable tendency of Sevan Lake level rising, the environmental issues mentioned in the PRSP remain and should be kept within the list of priority issues in the Sustainable Development Program for 2009-2021 (the Second PRSP).
5. Results from the TNC (2015) and the 2017 World Bank funded analysis of climate change vulnerability and adaptation options for agriculture systems in Armenia¹⁷,

¹⁵ Third National Communication to the UNFCCC of the Armenian Government (2015).

¹⁶ The National Strategy and Action Program to Combat Desertification in the Republic of Armenia" (2015).

¹⁷ Ahouissoussi, Nicolas, James E. Neumann, Jitendra P. Srivastava, Brent Boehlert and Steven Sharrow (2014). Reducing Vulnerability of Armenia's Agricultural Systems to Climate Change. World Bank Studies. Washington, DC: World Bank. doi: 10.1596/978-1-4648-0147-1.

indicate that yields for key crops and pastures are expected to reduce in the period 2040-50, mainly in the lowland and intermediate agriculture regions, due to the direct effect of the predicted higher temperatures and lower precipitation. The net effect of the predicted rising water demands (20%) and falling supply (30-40%) by the 2040s is a significant reduction in water available for irrigation. Irrigation water shortages by the 2040s are forecasted under all climate scenarios in the Upper Araks basin, which accounts for a large portion of the economic production of the Armenian agriculture sector. Severe climatic phenomena (drought, hot dry winds, hail, spring frosts) are already exacerbated by climate change with increasing frequency and duration resulting in 10-30% decline in natural soil moisture, increase in secondary soil salinisation, intensification of water and wind erosion and activation of landslide processes. Extreme events in recent years, such as hail, spring frosts, and mudflows, have cost USD 15 to 20 million annually in agricultural damages.

6. Small farmers, and especially poor women farmers, are disproportionately bearing the consequences of climate change impacts due to poor or no infrastructure and assets, low or no access to credit, and unavailability of crop insurance. The 2017 FAO gender assessment mentioned significant constraints that limit women's adaptive capacity, which require major efforts on: (i) the use of innovative communication methods and channels to ensure women's access to capacity development and extension opportunities, and prevent constraints that can limit attendance and make women feel uncomfortable; (ii) increase the capacity of government staff on gender sensitisation and mainstreaming, including gender training for staff from agriculture technical transfer centres; (iii) ensure the inclusion of gender-related issues in the capacity development and extension programmes. Moreover, financing mechanisms and technology developments must be flexible enough to reflect women's priorities and needs, with active participation of women in the development of technology and funding criteria and allocation of resources for suitable climate change adaptation initiatives, particularly at local levels.
7. Consultation with farmers World Bank ([WB], 2017) show that they have already suffered from climate becoming less stable with drought, hail, and heat waves that wilted crops becoming more frequent (some farmers reported innovative attempts to reduce climate risk). The WB study indicated that the country ranks low in the adaptive capacity in the agriculture sector: (i) agriculture extension service not oriented towards ameliorating climate risks; (ii) agriculture research not focusing on climate change and not effectively coordinated with the extension service; (iii) crop insurance not affordable or available; (iv) inadequate or non-existent ability to collect, generate and provide meteorological data to farmers; (v) a large portion of subsistence and semi-subsistence farmers frequently exposed to marketing problems; and (vi) important financial and credit constraints. Adaptation priorities still need to be incorporated into policy and funding allocation highlighting the link between income growth, sustainable natural resources management and climate change adaptation and mitigation.
8. The INDC of Armenia (2015) is based on the principle of "green economy" and compatible with the national social and economic development goals. INDC considers the ecosystem-based approach as pivotal for Armenia's adaptation strategy and actions, laying the ground for inter-sectoral cooperation, and ensuring harmonisation with the environmental policy of the country and synergy with international conventions and treaties. Water resource management and agriculture are among the prioritised vulnerable sectors for developing adaptation activities, that should ensure an open and transparent system for technology innovation, development and transfer, such as through the cooperation and experience exchange with "Climate Technology Centre and Network" (CTCN) and through the establishment of a similar mechanism in the country (ArmCTCN). INDC includes capacity development objectives to strengthen the operations of the

Intergovernmental Council on Climate Change, and establish a consistent process for professional training and education on climate issues, as well as enhance cooperation at the international and regional levels. In terms of finance, INDC proposes the creation of a targeted financial mechanism for climate adaptation and mitigation consisting of two components: (i) internal (domestic) climate revolving civil fund, to be replenished by allocations from environmental fees, ecosystem service fees, including "carbon taxing"; (ii) external (international) financial mechanisms with resource provision following the principle of additionality, such as the Green Climate Fund, the Adaptation Fund, the Global Environmental Facility, bilateral and multilateral funds, and other sources.

9. The TNC (2015) and the recent WB study (2017) propose a number of adaptation measures to reduce climate change impacts on the agriculture sector, including: (i) the reduction of agriculture dependence on climate conditions, by enhancing irrigation capacity and efficiency through risk-preventive infrastructure rehabilitation and supporting investment in climate-resilient agronomic systems and technologies (e.g. conservation agriculture, efficient irrigation technologies, switch to climate-adapted and water-efficient crops and crop varieties, optimise timing of operations, switch from field crops to agroforestry and mixed farming systems, integrated pest management); (ii) the improvement of pasture land productivity and sustainable use of pasture-based livestock production; (iii) research and knowledge dissemination for the selection and cultivation of drought-resistant varieties adapted to local conditions, including the maintenance and dissemination of traditional crop varieties; (iv) capacity improvement of extension and research agencies and services to provide knowledge on innovative technologies and information; (v) the development of institutional and professional capacity building for the application of climate change models, the provision of adequate weather and climate services to farmers, and policy development; (vi) investigating viable options for crop insurance, particularly for drought, such as the piloting of a privately-run weather index-based insurance programme; (vii) improving farmers' access to finance to acquire climate-resilient technologies; and (viii) improving access to markets through a better marketability of produce and livestock.
10. IFAD has approved seven loan projects in Armenia and several country grants, including grant financing for climate change adaptation and land restoration. Investments in irrigation under completed IFAD Programmes gave a positive contribution to increasing agricultural productivity¹⁸ mainly in terms of utilisation of agricultural land, higher yields and to some extent shifts from low value field crops to high value crops. IFAD played a key role in the establishment and the development of the appropriate legal framework for WUAs in Armenia. WUA establishment and capacity building has been up-scaled under successive projects in the irrigation sector financed by the World Bank. The ongoing IFAD/GEF project will build capacity and provide technical and financial support to the project stakeholders for the implementation of sustainable land management measures in the rehabilitation of tertiary irrigation and the expansion of agro-forestry systems that enhance ecosystem services in the target marzes, responding to the priorities identified by the Armenian government to combat desertification and land degradation affecting agricultural development.
11. Within this framework, the COSOP incorporates the following priorities on environment and climate change:
 - Improved access to agriculture technologies and services should ensure that farmers receive training, technical support and guidance to make investments in climate-resilient technologies. Capacity development should address the gender specificities of climate change adaptation through training activities for poor women. Commercial farming should be conditioned to the sustainable use

¹⁸ RAEDP Project Performance Assessment the Independent Office of Evaluation of IFAD June 2012.

and adaptive management of natural resources to reverse current degradation trends – soil and water salinization and pollution, soil erosion, water depletion and degradation of natural ecosystems - and mitigate climate risks.

- Improved access to rural infrastructure should ensure the TNC objective to create climate risk-preventing infrastructure: (i) rehabilitate irrigation infrastructure based on projected water availability to improve the irrigation efficiency. Gender disaggregated consultation will inform about women's constraints and needs in terms of irrigation water to be incorporated into water infrastructure and governance; (ii) build post-harvest and marketing infrastructure to reduce perishability of produce and diversify production.
 - Human resources for competitive commercial agriculture requires significant capacity development efforts targeting smallholder farmers, extension and research agencies and services, hydromet staff, and policy makers. According to the benefit-cost analysis (WB study, 2017) expanding and tailoring the hydro-meteorological network to agricultural needs would very likely yield benefits substantially greater than costs. The COSOP will address constraints that limit women's access to extension services, and enhancing the capacity of government staff on gender sensitisation and mainstreaming, including gender training for staff from agriculture technical transfer centres.
 - Inclusive rural finance services should help banks and financial institutions to tailor their loan products - well-targeted, low-interest, long-term bank loans for agricultural development – to improve farmers' access to finance to acquire climate-resilient technologies. Financing mechanisms must be flexible enough to reflect women's priorities and needs, with active participation of women in the development of funding criteria and allocation of resources for climate adaptation initiatives, particularly at local levels.
 - Conducive legal, regulatory and institutional framework should support the production of policy-relevant knowledge products for mainstreaming climate change adaptation into the Armenian agriculture and water sectors.
 - Joint SSTC initiatives with partnership countries should build on the Central Asia and the Caucasus Regional Programme, partly funded by IFAD grants, which has helped to significantly improve knowledge on sustainable natural resources management, climate-resilient agronomic technologies, and the management of genetic resources of climate-adapted plant varieties and animal breeds, through regional networking and cooperation involving experimental research, training and dissemination, as well as the establishment of a Regional Forum (CACAARI).
12. A detailed analysis of the steps needed to comply with the above recommendations is included in the complete Social, Environmental and Climate Assessment Procedures (SECAP) report included in a separate document. The SECAP assessment recognises that the IFAD country program under the COSOP would require supplemental sources and external financing to address environmental and climate change adaptation priorities (e.g. GEF, GCF). This responds to the INDC and the Armenian Development Strategy objective to activate international cooperation with the newly formed global financial assistance mechanisms formed under the UN convention on climate change (Green Climate Fund, REDD+, Adaptation Fund) for re-cultivation of degraded lands.
13. The SECAP assessment also recommends that the IFAD country programme ensures that indicators for environment and climate adaptation are fully integrated into the M&E systems of all projects. A list of possible indicators and feedback mechanisms is included in the SECAP report.

Appendix V: Country at a glance

World View		1990	2000	2010	2016
Population, total	millions	3.54	3.07	2.88	2.92
Population growth	annual %	0.0	-0.6	-0.4	0.3
Surface area	km ² 000	29.7	29.7	29.7	29.7
Population density	people/km ²	124.3	107.8	101.1	102.7
Poverty headcount ratio at national poverty	% of population		48.3	35.8	29.8
Poverty headcount ratio at \$1.90 a day (2011)	% of population		19.3	2.5	1.9
GNI, Atlas method	current US\$ billions	1.06	2.03	9.99	11.03
GNI per capita, Atlas method	current US\$	310	660	3470	3770
GNI, PPP	current international \$ billions	8.24	7.31	19.83	26.43
GNI per capita, PPP	current international \$	2,330	2,380	6,890	9,040
People					
Income share held by lowest 20%	%		7.7	8.9	8.2
Life expectancy at birth, total	years	68	71	73	74
Fertility rate, total	births per woman	2.5	1.6	1.7	1.6
Births attended by skilled health staff	% of total	100	97	100	100
Mortality rate, under-5	per 1,000 live births	50	30	18	13
Prevalence of underweight, weight for age	% of children under 5		2.6	5.3	
Immunization, measles	% of children ages 12-23 months	93	92	97	97
Primary completion rate, total	% of relevant age group		94	100	99
School enrollment, primary	% gross	102.5	98.5	102.4	98.5
School enrollment, secondary	% gross	91	91	97	89
School enrollment, primary and secondary	Gender Parity Index		1	1	1
Prevalence of HIV, total	% of population ages 15-49	0.1	0.1	0.2	0.2
Environment					
Forest area	km ² 000	3.4	3.3	3.3	3.3
Terrestrial and marine protected areas	% of total territorial area	7.9	18.6		24.8
Annual freshwater withdrawals, total	% of internal resources		25.3	42.9	42.9
Improved water source	% of populatoin with access	91	93	98	100
Improved sanitation facilities	% of populatoin with access	90	89	90	90
Urban population growth	annual %	-0.4	-1.1	-0.7	0.1
Energy use	kg of oil equivalent per capita	2,179	656	863	1,018
CO2 emissions	metric tons per capita	1.69	1.13	1.47	1.9
Electric power consumption	kWh per capita	2,723	1,298	1,726	1,966
Economy					
GDP	current US\$ billions	2.26	1.91	9.26	10.57
GDP	annual %	-11.7	5.9	2.2	0.2
Inflation, GDP deflator	annual %	79.4	-1.4	7.8	0.5
Agriculture, value added	% of GDP	17	26	19	18
Industry, value added	% of GDP	52	39	37	27
Services, etc., value added	% of GDP	31	35	44	55
Exports of goods and services	% of GDP	35	23	21	33
Imports of goods and services	% of GDP	46	51	45	43
Gross capital formation	% of GDP	47	19	33	18
Revenue, excluding grants	% of GDP			22.6	23.1
Net lending (+) / net borrowing (-)	% of GDP			-5	-4.7

States and markets		1990	2000	2010	2016
Time required to start a business	days		18	14	5
Domestic credit provided by financial sector	% of GDP	62.3	11.5	27.8	54.2
Tax revenue	% of GDP			17.1	20.9
Military expenditure	% of GDP	2.1	3.6	4.3	4.1
Mobile cellular subscriptions	per 100 people	0	0.6	130.4	114.8
Individuals using the Internet	% of population	0	1.3	25	62
High-technology exports	% of manufactured exports		5	2	6
Statistical Capacity score	Overall average			92	92
Global links					
Merchandise trade	% of GDP		62	52	48
Net barter terms of trade index	index (2000 = 100)		100	130	123
External debt stocks, total	current US\$ millions	0	1010	6305	9953
Total debt service	% of exports	1.2	9.1	29.7	34.1
Net migration	thousands	-496	-161	-31	
Personal remittances, received	current US\$ millions		182	1669	1382
Foreign direct investment, net inflows	BoP, current US\$ millions	2	104	529	338
Net official development assistance received	current US\$ millions	2.7	215.9	342.6	347.6

Source: World Development Indicators

Appendix VI: Concept Note

Concept Note on: Armenia: Agribusiness and Climate Resilient Partnerships Project (ACPP)

A. Strategic context and rationale for IFAD involvement, commitment and partnership

1. The persistently high levels of rural poverty in Armenia are attributable to some critical issues in the agricultural sector. Agriculture contributes around 18% of Armenia's GDP and employs 35% of the workforce. The sector is predominantly smallholder-based with 360,000 agricultural holdings covering 513,000 hectares, an average of 1.5 hectares per holding (Agricultural Census 2014). Almost all rural households are engaged in some form of farming (crops, livestock, aquaculture) mostly on a semi-subsistence basis.
2. Other constraints that have been highlighted include: (i) a large amount of agricultural land is idle and many former state-managed irrigation schemes have fallen into disrepair; (ii) widespread degradation of land and water resources; (iii) weak farmer cooperation; (iv) limited use of advanced agricultural technologies; (v) the small domestic market and difficult access to export markets; (vi) under-developed rural infrastructure; (vii) limited commercial linkages between agribusiness and smallholder farmers; and (viii) limitations in the policy, legal and regulatory framework for commercial agriculture.
3. The IFAD country programme has been operational since 1995. IFAD has approved seven loan projects totalling USD 260 million (IFAD financing USD 89 million) and several country grants – including climate financing grants - benefitting 445,200 households. The ongoing programme includes one investment project, totalling USD 30 million (IFAD financing of USD 11 million).
4. In November 2017 the Government of Armenia requested IFAD support in formulating an agricultural development strategy and launching a new investment project initiative. A COSOP mission was undertaken in January-February 2018 (the previous COSOP was approved in 2003) which involved ministerial-level dialogue on GOA's inclusive rural transformation agenda.
5. The country strategy which emerged from this dialogue aims to support the Government's inclusive transformation vision for improved rural livelihoods through the pursuit of two strategic objectives (SOs):
 - SO1: Creation of agribusiness partnerships for integration of smallholders in resilient value chains
 - SO2: Enhanced enabling environment for rural commercial development

B. Possible geographic area of intervention and target groups

6. ACPP will be a national programme that potentially enables eligible and qualified agribusinesses and smallholder farmers to develop mutually beneficial partnerships in commodities or value chains. However, during programme design, consideration would be given to defining eligibility and assessment criteria that prioritise geographic areas of high poverty concentration or value chains that are considered pro-poor and/or climate sensitive. Criteria for geographic targeting may include: (i) Government priorities and complementarities with other interventions; (ii) poverty and food insecurity; (iii) geographic vulnerability; (iv) climate and environmental risks; (v) opportunities for productive inclusion; (vi) capacity of rural economic organisations; and (viii) local-level risks.

C. Justification and rationale

7. The proposed project recognises the opportunity for more inclusive rural economic development. It will address the opportunity for developing mutually beneficial alliances between agribusiness and smallholders which enable them to be better integrated in value chains and reducing their vulnerability to economic, market and climate risks.
8. Profitable and sustainable agribusiness partnerships also depend in part on having a conducive enabling environment for rural commercial development, some elements of which would benefit from additional investment and support. The MOA has indicated that the five priority areas are: (i) physical infrastructure; (ii) human capital development; (iii) access to financial services; (iv) legal and institutional reforms; and (v) access to technologies. Within this framework direct measures to build agribusiness partnerships will be complemented by selected measures to enhance the enabling environment in concert with GOA and other development partners.

D. Key project objectives

9. The goal of ACPP is the same as the goal of the COSOP: to support the Government's inclusive transformation vision for improved rural livelihoods. There are two objectives:
 - Objective 1: Assist farmers to engage in partnerships with agribusiness enterprises to transition from semi-subsistence to commercial farming – aligned with SO1 of the COSOP
 - Objective 2: Enhance selected elements of the enabling environment that constrain commercialisation of smallholder farming households, and rural economic development – aligned with SO2.

E. Ownership, harmonisation and alignment

10. The programme concept arises directly from GOA's request for IFAD support in the formulation of an overall sectoral development framework. This is intended to not only prioritise IFAD investments in Armenia, but provide strategic guidance for all donors and partners involved in the agriculture and rural development sectors.

F. Components and activities

Component 1: Agribusiness Partnerships

11. Component 1 will comprise a mechanism for catalysing the formation of mutually beneficial partnerships between agribusiness enterprises and smallholders represented in the target groups (see section B).
12. The first step in the creation of such partnerships will be the development of business partnership plans whereby agribusiness engage with significant numbers of smallholder farmers under contract farming or outgrower arrangements. Measures to support partnership will involve a range of financial, technical and managerial support under the umbrella of a 4P. Export-oriented partnerships have considerable potential for job-creation and for diversification of products and markets. The following are the key elements:
 - Partnerships involve a package including provision of finance in concert with business development services, technical and marketing support etc.
 - Various financing instruments may be deployed via RFF, GOA's interest subsidy schemes and matching grants, supplemental seed capital etc.
 - Export market development, product grading and packaging standards, organic certification, innovative financing instruments, farmer organisations, institutional capacity building etc.

- To be eligible for support, partnerships must engage smallholders and assist them to improve their productivity and connection to markets.
- Preference will be given to partnerships that engage women and youth, promote climate resilience.
- Farmer organisations will be a key part of the partnership structures.
- The programme may be commodity specific or include any agricultural (broadly defined) sector or activity as long as it engages smallholders.
- The primary partner must be a legal entity. Partnerships may also include agricultural input suppliers, traders, agents, financial institutions, service providers, government agencies, NGOs, CSOs, transporters, processors, exporters and end-users.
- Cost sharing arrangements will be defined in partnership agreements with the Project financing.
- It would be possible to have different windows for large, medium and small (SME) partnerships with different eligibility and assessment criteria.
- Potential lead partners will be required to apply for Project support on a competitive basis. Infrastructure investments may also be considered for support,
- A two-stage application process is preferred: expression of interest (EOI) and proposals.
- The partnership facility will employ a progress-based payment system

Component 2: Enabling Environment

13. Component 2 will comprise a flexible funding mechanism for addressing priority issues identified by stakeholders. It will focus on one or more of the five "umbrella issues" identified by MOA: infrastructure, human capital, access to finance, legal and institutional reforms and access to technologies. Examples of activities that could be under Component 2 are: off-farm and on-farm irrigation investment, sustainable land management, training programmes (farmers, SMEs, professionals).

Component 3: Programme Management

14. Programme Management and governance will mirror those employed by the Rural Areas Economic Development Programme Project Implementation Unit (RAEDP PIU), which has a strong track record in implementing the current and previous IFAD projects. The PIU has long experience with IFAD procedures and would be extended to support ACPP implementation.

G. Preliminary Environmental and Social category

15. The Social, Environmental and Climate Assessment Procedures (SECAP) review undertaken as part of the COSOP process suggests that the Programme would be Category B. This is based on eligibility and assessment criteria for the agribusiness partnerships to identify activities with potentially negative social and environmental consequences so that these can be excluded or modified accordingly.

H. Preliminary Climate Risk classification

16. The COSOP SECAP review identifies significant vulnerabilities to climate variability and change related to the projected increases in temperatures and extreme climate events such as droughts and heavy rainfall events. However, the programme will incorporate incentives to adopt climate resilient adaptive measures to deal with these risks. The preliminary climate risk assessment is therefore assessed as moderate.

I. Costs and financing

17. ACPP will be the first project within the proposed COSOP cycle. All of the 2016-2018 PBAS allocation will be allocated to ACPP. Under these arrangements, IFAD lending for ACPP is expected to reach around USD 9.4 million (under ordinary terms).
18. IFAD also proposes to mobilise additional resources of at least three times the IFAD contribution taking total funding to about USD 30 million. This would include contributions from the Government and beneficiaries, as well as private sector under cost-sharing arrangements for the agribusiness partnerships. Climate financing and/or other grant resources will also be mobilised. This also reflects GOA's compliance with IMF conditions that new external borrowing must be blended with grant funding.
19. IFAD will also seek to engage in regional and country-specific non-lending activities to support policy dialogue, institutional development, knowledge management and SSTC.

J. Organisation and management

20. The Government's lead agency for the Programme will remain the Prime Minister's Office. However, ACPP will be managed by the PIU in very close coordination and collaboration with the MOA.

K. Monitoring and evaluation indicators

21. The Programme M&E indicators will be aligned with the outcome and milestone indicators of the COSOP, which are themselves linked to selected SDG targets as follows:

Component 1: Agribusiness Partnerships

Outcome Indicators	Milestone Indicators	SDG Targets
<ul style="list-style-type: none"> • Agribusiness partnerships established and operating 	<ul style="list-style-type: none"> • No of supported rural enterprises reporting an increase in productivity, sales and profit: 	8.2
	<ul style="list-style-type: none"> • No of rural producer organisations engaged in formal partnerships/agreements or contracts with public or private entities 	8.3 10.2
<ul style="list-style-type: none"> • Smallholders have improved access to climate resilient agricultural technologies and services 	<ul style="list-style-type: none"> • No of rural producers/HH accessing improved production inputs and/or climate resilient technological packages or practices. 	1.4 2.3 2.4
	<ul style="list-style-type: none"> • No of individuals provided with climate information systems 	6.4 13.1 15.3
<ul style="list-style-type: none"> • Smallholders shift from semi-subsistence to commercial farming 	<ul style="list-style-type: none"> • No of rural producer organisations engaged in partnerships or contracts with private entities 	8.2 8.3
	<ul style="list-style-type: none"> • Percent of production (by value) of smallholder farming HHs sold 	10.2
<ul style="list-style-type: none"> • Diversified rural enterprise and employment opportunities 	<ul style="list-style-type: none"> • No of rural enterprises accessing business development services 	8.2
		8.3

Component 2: Enabling Environment

Outcome Indicators	Milestone Indicators	SDG Targets
<ul style="list-style-type: none"> Improved access to climate resilient rural infrastructure and services 	<ul style="list-style-type: none"> No of HHs benefiting from climate adaptive irrigation schemes, market, processing or storage facilities constructed or rehabilitated 	2.3 6.4 13.1
	<ul style="list-style-type: none"> No of HHs reporting improved access to markets, processing and storage facilities 	2.3 10.2
<ul style="list-style-type: none"> Human resources adequate for competitive commercial agriculture 	<ul style="list-style-type: none"> Number of persons trained in income-generating activities or business management 	8.2 8.3
<ul style="list-style-type: none"> Inclusive rural financial services 	<ul style="list-style-type: none"> No of persons/HH in rural areas reporting using rural financial services 	1.4
	<ul style="list-style-type: none"> No of financial service providers delivering outreach strategies, and financial services to rural areas 	2.3 8.3
<ul style="list-style-type: none"> Conducive legal, regulatory and institutional framework 	<ul style="list-style-type: none"> Number of policy-relevant knowledge products completed 	13.2
	<ul style="list-style-type: none"> Functioning and sustainable multi-stakeholder rural development/agriculture sector platforms supported 	
	<ul style="list-style-type: none"> Armenia's ranking in the World Bank's Enabling the Business of Agriculture (EBA) index 	

L. Risks

22. The key success factors are a reasonably strong agribusiness sector that is willing to engage with smallholders under outgrower and contract farming arrangements, and good market access. There are some uncertainties about the number of suitable lead partners in Armenia and their awareness of partnership opportunities, which will need to be clarified during Programme design. Another possible concern is the apparent reluctance of farmers to engage in collaborative activities through farmer associations, cooperatives etc.

23. However in terms of implementation capacity, IFAD's experience in Armenia since 1985 suggests that the risks are benign. Recent project implementation results have been strong and there is a sound working relationship between IFAD and GOA. The existing PIU has successfully implemented two IFAD projects.

M. Timing

24. The draft COSOP will be shared with GOA and development partners for comment during March 2018 and will be finalised and submitted to IFAD management by April 2018. A programme design mission is tentatively scheduled for May-June with a view to Executive Board approval in December 2018. The COSOP will be submitted to the September 2018 Executive Board session of IFAD, for approval.

Key file 1: Rural poverty and agricultural/rural sector issues

Priority Area	Affected Groups	Main Issues	Actions Needed
<ul style="list-style-type: none"> Persistently high levels of poverty in rural areas 	<ul style="list-style-type: none"> Around 30% of rural households are living below the poverty line 	<ul style="list-style-type: none"> Very small and fragmented landholdings confines farming families to subsistence mode Limited opportunities for non-farm income generating opportunities Aging demographic profile in rural areas 	<ul style="list-style-type: none"> Create alternative employment opportunities (agricultural and non-agricultural) Support investments by poor rural households to increase incomes by producing nutrition-sensitive high value cash crops
<ul style="list-style-type: none"> High levels of rural unemployment and under-employment 	<ul style="list-style-type: none"> All rural communities, but particularly those in areas with poor access to infrastructure and services Households with low levels of education and vocational skills Rural youth, who experience very high unemployment levels 	<ul style="list-style-type: none"> Emigration of younger and more productive individuals Aging of rural populations Heavy dependence on remittances Limited rural off-farm employment opportunities Limited access to vocational training in rural areas 	<ul style="list-style-type: none"> Promote production and marketing of labour intensive horticultural cash crops Generate employment opportunities from value addition in rural areas Provide vocational training tailored to the needs of rural businesses
<ul style="list-style-type: none"> Inclusion of women, youth and other disadvantaged/vulnerable groups 	<ul style="list-style-type: none"> About a quarter of rural households are female headed, single parent households Over one third of rural people are young Communities living in proximity to closed borders 	<ul style="list-style-type: none"> Women and youth generally lack capital needed to establish or expand rural enterprises Large numbers of single parent/female headed households Youth do not possess land or other productive assets 	<ul style="list-style-type: none"> Special support (financial and other) for start-up and microenterprises established by women and youth entrepreneurs
<ul style="list-style-type: none"> Transition from subsistence to commercial agriculture 	<ul style="list-style-type: none"> Subsistence-oriented farming households 	<ul style="list-style-type: none"> Lack of medium scale commercial actors in agricultural value chains Smallholder farming households lack capacity to invest in commercial enterprises Lack of technical and commercial skills 	<ul style="list-style-type: none"> Technical and managerial training for subsistence farmers in skills needed for commercial agriculture Improve access to a wide range of financial services (credit, insurance etc.) Awareness raising about opportunities

Priority Area	Affected Groups	Main Issues	Actions Needed
		<ul style="list-style-type: none"> • Lack of farmer cooperation • Limited integration of small-scale farming households in agricultural value chains • Farmers are reluctant to cluster or aggregate land to obtain economies of scale and employ advanced technologies 	<p>for small-scale commercial agriculture</p> <ul style="list-style-type: none"> • Support development of farmer organisations and contract farming/outgrower arrangements
<ul style="list-style-type: none"> • Resilience to climate change 	<ul style="list-style-type: none"> • Farming households in drier areas without access to irrigation 	<ul style="list-style-type: none"> • Lack of understanding about climate change challenges • Limited awareness and expertise on climate change adaption options • Limited capacity to undertake research on climate adaptation in agriculture • Sustainable management of natural resources under climate change 	<ul style="list-style-type: none"> • Irrigation system rehabilitation and modernisation • Improve water use efficiency • Adaptive research on climate change impacts and development of climate-smart technologies • Dissemination and adoption of climate-resilient farming technologies
<ul style="list-style-type: none"> • Linkage of farmers to domestic and export markets 	<ul style="list-style-type: none"> • All actual or potential small-scale commercial farmers 	<ul style="list-style-type: none"> • Limited economies of scale among upstream and downstream value chain actors • Only one significant export marketing pathway (via Georgia) • Lack of competitiveness in the domestic food market • Poor marketing infrastructure • Lack of formal quality standards and quality assurance systems (GlobalGAP, HACCP, MRL etc.) included accredited laboratories • Product quality limitations and lack of quality assurance schemes in key marketing pathways • Small domestic market requires export market development for high value products 	<ul style="list-style-type: none"> • Develop/strengthen farmer organisations • Support the establishment and development of marketing cooperatives • Support investment by medium and larger-scale agribusinesses in value chain development and contract farming/outgrower schemes
<ul style="list-style-type: none"> • Food safety and quality standards 	<ul style="list-style-type: none"> • All farmers attempting to sell produce in domestic or export markets 	<ul style="list-style-type: none"> • Inability of locally produced foodstuffs to compete with imported products in the domestic market • Limited ability to access higher value 	<ul style="list-style-type: none"> • Develop food safety and quality standards accompanied by supporting legislation and regulations • Training for farmers and other value

Priority Area	Affected Groups	Main Issues	Actions Needed
	<ul style="list-style-type: none"> Domestic food consumers 	export markets	chain actors in food safety and quality standards
<ul style="list-style-type: none"> Family health 	<ul style="list-style-type: none"> Rural families living in drier areas 	<ul style="list-style-type: none"> Access to domestic water supplies Food insecurity, nutrition vulnerability 	<ul style="list-style-type: none"> Improved small-scale rural infrastructure Nutrition-sensitive interventions
<ul style="list-style-type: none"> Level of technology employed by farmers 	<ul style="list-style-type: none"> All actual or potential small-scale commercial farmers 	<ul style="list-style-type: none"> Rural households have limited interest in investing in new technologies because agriculture is not the primary source of income 	<ul style="list-style-type: none"> Technical, managerial and vocational skills development for use of advanced agricultural and agro-industrial technologies, including youth-specific
<ul style="list-style-type: none"> Enabling environment for commercial agricultural development 	<ul style="list-style-type: none"> All actual or potential small-scale commercial farmers Rural agribusinesses 	<ul style="list-style-type: none"> Limited access to many elements needed for commercial farming/agribusiness, e.g.: <ul style="list-style-type: none"> Machinery services Financial services Processing and storage facilities Transport contractors Agronomic services Crop protection services Seed, fertiliser, agrochemicals Market information, etc. etc. 	<ul style="list-style-type: none"> Encourage/support the establishment of agro-input suppliers and service providers and increasing their outreach in rural areas Adopt a whole value chain approach which recognises the importance of all upstream and downstream value chain actors
<ul style="list-style-type: none"> Low level of utilisation of ex state-run irrigation schemes 	<ul style="list-style-type: none"> Landholders in inactive or poorly functioning irrigation schemes 	<ul style="list-style-type: none"> Forced to grow rainfed crops in areas of low rainfall 	<ul style="list-style-type: none"> Crop diversification Irrigation infrastructure rehabilitation

Key file 2: Organizations matrix (strengths, weaknesses, opportunities and threats analysis)

Strengths	How to Build on Them
Institutional, Policy, Legal and Regulatory Framework	
<ul style="list-style-type: none"> Armenia Development Strategy recognises the importance of agricultural and rural development and provides a list of sectoral development priorities 	<ul style="list-style-type: none"> Prepare a formal agricultural sector strategy for official approval and adoption by Government
<ul style="list-style-type: none"> Favourable policy framework for rural and agricultural development based on subsidies, taxation benefits and direct assistance measures 	<ul style="list-style-type: none"> Review the range of agricultural support measures offered with a view to stimulating investment in the sector
<ul style="list-style-type: none"> Fully operational RFF able to channel funds to the agricultural/rural sector via financial institutions 	<ul style="list-style-type: none"> Ensure that RFF is fully institutionalised and becomes a sustainable long-term source of wholesale finance for agricultural sector development
<ul style="list-style-type: none"> Well-developed microfinance sector 	<ul style="list-style-type: none"> Seek collaboration/partnerships with microfinance institutions, NGOs and CSOs in developing investment packages for smallholder semi-subsistence households Improve access of MFIs to refinancing facilities
<ul style="list-style-type: none"> Strong NGOs/CSOs with good track record in agricultural/rural development 	
<ul style="list-style-type: none"> RAEDP PIU with strong implementation record 	<ul style="list-style-type: none"> Maintain a fully-dedicated and accountable Programme implementation team in the execution of ongoing/planned IFAD programmes and projects
<ul style="list-style-type: none"> Established network of ten agricultural service centres 	<ul style="list-style-type: none"> Further develop centres as commercially operated input supply and marketing hubs and technical service centres
<ul style="list-style-type: none"> Demonstrated capacity to implement irrigation and water supply investments 	<ul style="list-style-type: none"> Scale-up the irrigation and water supply investment model successfully implemented by IRFSP
<ul style="list-style-type: none"> Contractors with good capacity for infrastructure design and construction 	
<ul style="list-style-type: none"> WUA model successfully demonstrated 	
Other Strengths	
<ul style="list-style-type: none"> Good market demand for Armenian products providing opportunities for export-led growth 	<ul style="list-style-type: none"> Seek opportunities to develop niche markets for high value agricultural commodities with strong Armenian identity
<ul style="list-style-type: none"> Well established horticultural sector connected to export markets 	<ul style="list-style-type: none"> Apply success models in the horticultural sector to other sectors (e.g. livestock, aquaculture) where appropriate

Strengths	How to Build on Them
<ul style="list-style-type: none"> Established export marketing linkages with Russian Federation 	<ul style="list-style-type: none"> Maintain and strengthen marketing linkages with Russia (whilst developing other markets as well)
<ul style="list-style-type: none"> Established export-oriented agroprocessing companies 	<ul style="list-style-type: none"> Build partnerships between agroprocessing companies and smallholder farmers in the supply of inputs and sourcing of raw materials
<ul style="list-style-type: none"> Well established and growing wine/brandy industry with strong export market linkages 	<ul style="list-style-type: none"> Focus efforts on quality improvements and cost reduction in viticulture and winemaking
<ul style="list-style-type: none"> High level of agro-ecological diversity enabling diversified production patterns in different regions 	<ul style="list-style-type: none"> Adopt a clustering approach involving concentration of value chain development efforts in specific agro-ecological zones
<ul style="list-style-type: none"> Large, low-cost rural workforce 	<ul style="list-style-type: none"> Employ labour intensive approaches to agricultural production and agroprocessing to generate employment opportunities Provide vocational training to upgrade workforce productivity

Weaknesses	How to Remedy Them
Institutional, Policy, Legal and Regulatory Framework	
<ul style="list-style-type: none"> No documented, and officially approved agricultural sector strategy 	<ul style="list-style-type: none"> Prepare a long-term agricultural sector strategy in consultation with sectoral stakeholders and development partners
<ul style="list-style-type: none"> Agriculture contributes 18% of GDP but only receives a few percent of the GOA budget allocation 	<ul style="list-style-type: none"> Advocate for higher budget allocation as part of the agricultural sector strategy
<ul style="list-style-type: none"> Limited engagement of MOA in IFAD country programme so far 	<ul style="list-style-type: none"> Engage MOA as the lead implementing agency for future IFAD supported programmes and projects Take specific measures to engage MOA in policy dialogue on agriculture and rural development issues
<ul style="list-style-type: none"> Limited application of quality assurance and food safety standards 	<ul style="list-style-type: none"> Develop product standards, food safety protocols and pricing systems linked to these, supported by investments in product testing and certification systems
<ul style="list-style-type: none"> Lack of laboratories for product testing and certification 	
<ul style="list-style-type: none"> Heavy dependence on subsidies as a means of stimulating production 	<ul style="list-style-type: none"> Shift away from subsidising recurrent inputs to supporting investments in market infrastructure, machinery, equipment and the development of profitable marketing pathways
<ul style="list-style-type: none"> Limited availability of agricultural statistics to inform planning and policy analysis 	<ul style="list-style-type: none"> Create a registry of farms and farmers as the basis for regular and timely collection of data
<ul style="list-style-type: none"> Few (if any) agribusiness companies listed on the Armenian stock exchange 	<ul style="list-style-type: none"> Provide technical assistance to any agribusiness companies seeking to raise additional equity by stock exchange listing
<ul style="list-style-type: none"> Insolvency of FREDA limits capacity to raise equity finance for agribusinesses 	<ul style="list-style-type: none"> Develop other means of raising equity finance for agribusinesses

Weaknesses	How to Remedy Them
<ul style="list-style-type: none"> Pasture lands are community-owned and individuals do not have an incentive to invest in rangeland improvement 	<ul style="list-style-type: none"> Adopt community-based management approaches to common property natural resource
<ul style="list-style-type: none"> Limited institutional capacity and funding for agricultural research and extension 	<ul style="list-style-type: none"> Develop partnerships with the private sector for provision of agricultural extension services Collect levies on export sales to finance research and development of specific commodity groups
<ul style="list-style-type: none"> Weak human resource base at all levels - technical, vocational, professional 	<ul style="list-style-type: none"> Prepare a long-term human resource development plan for the agricultural/rural sector Ensure that employment conditions and career prospects are adequate to attract and retain qualified personnel
Other Weaknesses	
<ul style="list-style-type: none"> Large number of very small individual family landholdings – but with significant areas of farmland un-used 	<ul style="list-style-type: none"> Develop the land market to allow for consolidation of land-holdings and retirement of older farmers Encourage innovation in land tenure arrangements such as leasing land from diaspora landowners
<ul style="list-style-type: none"> Majority of smallholder farmers engaged in semi-subsistence agriculture will poor linkages to markets 	<ul style="list-style-type: none"> Pursue opportunities for high-value agricultural production and develop partnerships between smallholder farmers and agro-industrial enterprises
<ul style="list-style-type: none"> Weak integration of smallholder farmers in value chains 	<ul style="list-style-type: none"> Provide financial and technical assistance to encourage investment in marketing infrastructure
<ul style="list-style-type: none"> Marketing infrastructure poorly developed 	
<ul style="list-style-type: none"> Small domestic market and heavy dependence on a single export market (Russian Federation) 	<ul style="list-style-type: none"> Invest in the development of new products and markets
<ul style="list-style-type: none"> Aversion of smallholder farmers to collaboration/cooperation 	<ul style="list-style-type: none"> Develop farmer organisations which allow farmers to operate individually, without aggregating land, but with collaborative mechanisms for sourcing inputs and marketing produce Address issues regarding taxation of cooperatives
<ul style="list-style-type: none"> Landlocked country with most international trade pathways (other than Georgia) closed 	<ul style="list-style-type: none"> Diversify markets to the extent possible Develop air-freight export marketing pathways for high value and perishable commodities
<ul style="list-style-type: none"> Heavy dependence on irrigation but former state owned/managed irrigation schemes in poor condition and/or non-functional 	<ul style="list-style-type: none"> Rehabilitate schemes with emphasis on water efficient micro-irrigation systems managed by beneficiaries through WUAs
<ul style="list-style-type: none"> Obsolete and worn out farm and agro-industrial machinery 	<ul style="list-style-type: none"> Develop innovative means of financing acquisition of modern machinery and equipment (e.g. leasing, hire purchase syndication)

Weaknesses	How to Remedy Them
<ul style="list-style-type: none"> Lack of feed for livestock, especially pigs and poultry 	<ul style="list-style-type: none"> Focus livestock development on ruminants (cattle, sheep, goats) that do not require large amounts of concentrate feeds
<ul style="list-style-type: none"> Limited range of appropriate financial products for farmers and agribusiness 	<ul style="list-style-type: none"> Engage with financial institutions to expand and diversify their product range
<ul style="list-style-type: none"> Low competitiveness and inability to compete with imported agri-food products 	<ul style="list-style-type: none"> Focus efforts and investments on products/sub-sectors in which Armenia has a sustainable competitive advantage
<ul style="list-style-type: none"> Weak bargaining power of farmers 	<ul style="list-style-type: none"> Promote the formation of farmer groups to engage in collaborative input procurement and marketing arrangements
<ul style="list-style-type: none"> Inconsistent and unreliable supply of farm inputs 	
<ul style="list-style-type: none"> Poor business and financial management capacity of agribusinesses and farmers 	<ul style="list-style-type: none"> Provide technical and managerial support to agribusiness partnerships along with financing mechanisms

Opportunities	How to Exploit Them
Institutional, Policy, Legal and Regulatory Framework	
<ul style="list-style-type: none"> Develop a comprehensive agricultural development strategy and investment plan 	<ul style="list-style-type: none"> Seek support from development partners to formulate the strategy and investment plan Mobilise the investments required to implement the plan
<ul style="list-style-type: none"> Membership of the Eurasian Economic Union 	<ul style="list-style-type: none"> Take full advantage of bilateral trade opportunities within the Union
<ul style="list-style-type: none"> Strengthen collaborative action between groups of smallholder farmers 	<ul style="list-style-type: none"> Build stronger farmer associations
<ul style="list-style-type: none"> Existence of Farm Service Centres throughout the country 	<ul style="list-style-type: none"> Use centres as commercially operated focal points for improved extension services to farmers
Other Opportunities	
<ul style="list-style-type: none"> Connect the commercial and subsistence sectors to exploit potential synergies between the two in terms of market access and commercialisation 	<ul style="list-style-type: none"> Build agribusiness partnerships between agribusinesses and smallholders who are interested in transitioning from semi-subsistence to small-scale commercial farming
<ul style="list-style-type: none"> Armenia is a net food importing country 	<ul style="list-style-type: none"> Exploit potential for import substitution, e.g. cereals, meat, edible oils, fruit and dairy products
<ul style="list-style-type: none"> Growing international demand for certified organic produce 	<ul style="list-style-type: none"> Developed niche, organic and fair-trade markets and certification schemes for Armenian products
<ul style="list-style-type: none"> Large and growing demand for high quality crop and livestock products in non-traditional markets to the south of Armenia 	<ul style="list-style-type: none"> Diversify export markets, e.g. Iran, Middle East and Gulf countries
<ul style="list-style-type: none"> Most households have substantial backyard plots suitable for intensive gardening operations 	<ul style="list-style-type: none"> Increase productivity of home gardens for improved nutrition and income generation through investments in waster supply, plastic tunnels, tools, seeds etc.

Opportunities	How to Exploit Them
<ul style="list-style-type: none"> Mobilisation of un-employed and under-employed rural youth 	<ul style="list-style-type: none"> Provide vocational training, apprenticeships/internships and other forms of work experience for youth in rural communities
<ul style="list-style-type: none"> Link smallholder farmers to school feeding programmes 	<ul style="list-style-type: none"> Commercialise the school feeding programme by promoting local procurement of inputs by catering businesses

Threats	How to Mitigate Them
Institutional, Policy, Legal and Regulatory Framework	
<ul style="list-style-type: none"> Borrowing limits will curtail capacity to finance agricultural sector investments 	<ul style="list-style-type: none"> Prepare a comprehensive agricultural sector strategy and investment plan to assist in domestic and international resource mobilisation Mobilise grant resources and loans under concessional terms
<ul style="list-style-type: none"> Government unable to allocate sufficient budgetary resources to achieve agricultural/rural sector development goals 	
Other Threats	
<ul style="list-style-type: none"> Natural disasters such as earthquakes and extreme climatic events 	<ul style="list-style-type: none"> Ensure that all reasonable preparation and mitigation measures are in place Develop and market appropriate agricultural insurance products
<ul style="list-style-type: none"> Resurgence of conflict, particularly in border areas 	<ul style="list-style-type: none"> Develop contingency plans and alternative livelihood options for rural communities in areas at high risk of conflict
<ul style="list-style-type: none"> Natural resource over-exploitation/degradation, especially soil groundwater and pasture lands 	<ul style="list-style-type: none"> Work in close collaboration with the Ministry of Natural Protection in developing community natural resource management plans
<ul style="list-style-type: none"> Plant and animal disease outbreaks 	<ul style="list-style-type: none"> Develop and maintain, prevention, surveillance and outbreak management plans
<ul style="list-style-type: none"> Cheap imports put downward pressure on domestic food prices 	<ul style="list-style-type: none"> Concentrate development efforts on commodities/sectors where Armenia has a strong and sustainable competitive advantage
<ul style="list-style-type: none"> Closure or restricted access to export markets 	<ul style="list-style-type: none"> Product and market diversification Participate in regional trade forums
<ul style="list-style-type: none"> Increasing climatic variability and long-term climate change puts downward pressure on agricultural productivity 	<ul style="list-style-type: none"> Develop and/or adopt climate-resilient agricultural practices Access climate funds (e.g. GEF and GCF) to finance profitable adaptation and mitigation measures

Key file 3: Complementary donor initiatives/partnership potential

Agency	Priority Sectors and Areas of Focus			Complementarity/Synergy Potential
World Bank	The WB portfolio in Armenia includes 25 active projects of which eight directly or indirectly impact on the agricultural sector:			<ul style="list-style-type: none"> Potential for WB/IFAD to intensify engagement in policy dialogue through the Japan funded Policy M&E Capacity Building Project WB supports the “productive alliance” approach – essentially the same as the agribusiness partnerships proposed under SO1 of the COSOP WB and IFAD are both supporting irrigation development using the WUA approach to system management Many lessons have been learned under CARMAC I and II which could inform any IFAD initiatives in the livestock sector
	Project	USD m	Approved	
	<ul style="list-style-type: none"> Additional financing for Irrigation Systems Enhancement Project (ISEP) involves construction of key water infrastructure and WUA strengthening and performance monitoring. 	2.0	Nov 17	
	<ul style="list-style-type: none"> Agriculture Policy M&E Capacity Building Project 	1.8	Jan 17	
	<ul style="list-style-type: none"> Social Investment and Local Development Trust Fund 	2.4	Aug 16	
	<ul style="list-style-type: none"> Local Economy and Infrastructure Development Project 	55.0	Dec 15	
	<ul style="list-style-type: none"> Armenia Social Investment and Local Development Project 	30.0	Mar 15	
	<ul style="list-style-type: none"> Second Community Agriculture Resource Management and Competitiveness Project (CARMAC II) 	32.6	Jun 14	
	<ul style="list-style-type: none"> EDB Irrigation Project Preparation 	0.5	Mar 14	
	<ul style="list-style-type: none"> Irrigation System Enhancement Project (ISEP) 	30.0	May 13	
EU	The Comprehensive and Enhanced Partnership Agreement Between the EU and Armenia (CEPA) was signed in November 2017. The agreement covers: job creation, more business opportunities, fairer rules, better value for money, more safety and security, a cleaner environment, better education and more opportunities for research and strengthened democracy and human rights. The current portfolio of projects relevant to the COSOP includes:			<ul style="list-style-type: none"> ENPARD work with producer groups and cooperatives provides lessons to inform implementation of the COSOP Physical infrastructure developed under ENPARD may be used by proposed agribusiness partnerships Value chain approach is similar to that proposed under SO1 of the COSOP Organic agriculture initiative may identify commercialisation opportunities.
	Project	EUR m	Duration	
	<ul style="list-style-type: none"> Wool for Jobs: wool value chain development with a focus on SMEs 	0.5	2018-20	
	<ul style="list-style-type: none"> Strengthening current and future employment and self-employment programmes through sustainable value chain management systems 	0.5	2017-18	
	<ul style="list-style-type: none"> Economic Empowerment through Social Enterprise 	0.4	2017-19	
	<ul style="list-style-type: none"> Organic Agriculture Support Initiative (OASI): Implemented by Austrian Development Agency 	2.8	2015-18	
	<ul style="list-style-type: none"> European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) in Armenia. Institutional development, 	20.0	2015-17 (to be	

Agency	Priority Sectors and Areas of Focus			Complementarity/Synergy Potential
	farmers associations and improving access to affordable food – with a focus on women, youth and other vulnerable groups. Implemented in association with UNDP (producer groups), UNIDO (value addition) and FAO (access to food).		extended)	
	<ul style="list-style-type: none"> Support to SME Development in Armenia: Implemented by GIZ. 	6.4	2015-19	
USAID	<ul style="list-style-type: none"> USAID's overarching goal in Armenia is to help the country succeed as a more engaged, prosperous and well-governed society. Its three objectives are: (i) enhancement of inclusive and sustainable growth; (ii) more participatory, effective and accountable governance; and (iii) selected health outcomes improved and sustained (Country Development Cooperation Strategy, 2013-2017). Under the first of these three objectives USAID supports a number of activities in the agribusiness sector, promotion of rural entrepreneurship and market access. Within selected value chains USAID's efforts focus on SME financial management, business planning and investment, access to finance and support for women rural entrepreneurs. Current programmes include: <ul style="list-style-type: none"> Partnership for Rural Prosperity (PRP) – helps rural communities identify local economic growth opportunities, expand employment prospects for women, youth and vulnerable groups, upgrade infrastructure and improve access to finance and markets. Advanced Rural Development Initiative (ARDI) – develops competitive rural value chains to increase incomes and improve livelihoods of 48 rural communities. Also builds the capacity of rural entrepreneurs, specifically youth and women. Support for the Armenian agricultural census. Support to the Agribusiness Teaching Centre (ATC) and the International Centre for Agribusiness Research and Education (ICARE) 			<ul style="list-style-type: none">
KfW	<ul style="list-style-type: none"> KfW Development Bank, together with the Armenian Central Bank, formed the German-Armenian Fund (GAF) in 1999. Since then, loans have been given to MSMEs and private households via the GAF. Mortgage refinancing was introduced in 2009 and gave the market for housing financing a new momentum. Furthermore, investments in renewable energy and in the rural sector are financed through the GAF. The GAF's target groups are SMEs and agribusinesses. Two programmes for agricultural financing totalling EUR 23 million have been implemented through the GAF, mainly for cattle breeding, crop production and small hydropower plants. The GAF has entered into framework credit agreements with almost all Armenian banks and some MFIs. Under the GAF over 65,000 loans valued at EUR 375 million have been extended to SMEs. KfW is supporting a pilot programme on agricultural insurance to be launched in 2018, 			<ul style="list-style-type: none"> GAF agro-lending operations provide useful experience to efforts to modernise the farming and agro-processing sectors GAF training has benefitted other rural finance programmes, including the RFF, as practically all PFIs of GAF are also using the services of the RFF. There are good opportunities for IFAD to leverage technical assistance and

Agency	Priority Sectors and Areas of Focus	Complementarity/Synergy Potential
	beginning with a feasibility study to be undertaken with MOA and the Central Bank (the regulatory authority). EUR 5 million has been allocated to the pilot programme which will focus initially on insuring crops for damage caused by frost, hail, drought and winds.	<p>training synergies with these GAF operations.</p> <ul style="list-style-type: none"> • Potential for IFAD-supported initiatives to link with the emerging agricultural insurance industry.
GIZ	<ul style="list-style-type: none"> • GIZ is supporting the European Neighbourhood Policy and the negotiations on an association agreement with the EU. This is part of the German Government's Caucasus Initiative which supports regional cooperation and integration among the three South Caucasus countries: Armenia, Azerbaijan and Georgia. Priority areas include: (i) sustainable economic development; (ii) democracy, municipal development and the rule of law; and (iii) environment and natural resources. Specific projects include: <ul style="list-style-type: none"> - Sustainable management of biodiversity in the Southern Caucasus (regional) – EUR 19.4 million - Integrated erosion control in mountainous areas (regional) – EUR 4.7 million 	<ul style="list-style-type: none"> • Limited potential for synergies
ADB	<ul style="list-style-type: none"> • Armenia joined ADB in 2005. Current Country Partnership Strategy (2014-2018) supports: (i) transport infrastructure by working to improve regional and urban roads in Yerevan and secondary cities; (ii) water and other urban infrastructure and services in secondary cities; and (iii) energy security, by diversifying energy services, rehabilitating and upgrading electricity transmission and expanding distribution networks. • Since 2005, Armenia has received USD 1.19 billion from ADB, including for advancing key projects in many areas, such as transport, finance, energy security, and water supply and urban services. This funding was provided for 12 sovereign projects, four non-sovereign projects, and 24 technical assistance grants totaling USD 15.2 million. Source: ADB Development Effectiveness Brief, 2017 	<ul style="list-style-type: none"> • Scope for direct collaboration or partnerships is limited given ADB's emphasis on infrastructure and urban development. • However, there are a number of secondary/ peripheral areas where ADB-support may complement the IFAD country programme: <ul style="list-style-type: none"> - Rural roads - Promoting regional cooperation - Safeguarding historical, cultural and natural sites - Water supply - Business registration - Support for SMEs and women entrepreneurs - Disaster risk management
FAO	<ul style="list-style-type: none"> • FAO's Country Programming Framework (2016-2020) is aligned with the SGS and the UNDAF. It identifies three priority areas: (i) sustainable use of natural resources, disaster risk reduction and management; (ii) animal health, plant protection and food safety; and (iii) food and nutrition security and poverty reduction. Cross cutting themes from FAO's Strategic Framework include gender, statistics, nutrition and climate change. The current (2018) 	<ul style="list-style-type: none"> • Significant potential for partnership with the IFAD country programme, especially in the areas of sustainable natural resource management, food and nutrition

Agency	Priority Sectors and Areas of Focus	Complementarity/Synergy Potential
	<p>project portfolio includes the following projects:</p> <ul style="list-style-type: none"> - Design of a web-based donor coordination platform linked to GOA priorities for the agricultural sector – EU funded through ENPARD - TA for grape Phylloxera resistant planting material - Development of a concept note for GCF funding - Food safety risk assessment, veterinary services and phytosanitary – funded by Russian Federation - Support to MOA in SDGs implementation and monitoring - Regional initiative on empowering smallholders and family farms - Conservation and development of dual purpose cattle breeds - Regional programme on capacity building for food security and nutrition – funded by Russian Federation - European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) – EU funded. Implemented in collaboration with UNDP and UNIDO - Reducing the advance of anti-microbial resistance - Improving feed supply and enhancing processing in the dairy sector <p>Source: FAO Country Programming Framework for Armenia 2016-2020</p>	<p>security and rural poverty reduction</p> <ul style="list-style-type: none"> • Donor coordination platform provides a good framework for engagement of IFAD and other development partners in policy dialogue • Potential for collaboration on accessing GCF funding to co-finance the IFAD country programme • Potential for triangular cooperation among the three Rome-Based Agencies (RBAs) • Coordination to take place within the UNDAF framework
WFP	<ul style="list-style-type: none"> • WFP's draft Armenia Country Strategy Plan for 2019-2023 includes recommendations for achieving the SDG2 targets by 2030. This include: <ul style="list-style-type: none"> - Covering all pillars of food security - Health care, social protection and territorial policies to reduce hunger and malnutrition - Revising social protection instruments to reach the most deprived - Increasing public awareness on health and nutrition - Innovative approaches to increase the productivity of smallholder farms and mitigate the consequence of climate change - Coordinate policies on food and nutrition security • The central pillar of WFP's country programme is school feeding under a national programme launched in 2014 which currently reaches 89,000 children in all ten Marzes. The overall objective of the Country Strategic Plan is to facilitate full, smooth and sustainable handover of a nationally-sourced, nutrition sensitive school feeding programme embedded in the national social protection system. The plan is to fully hand over the programme to GOA by 2023. • The plan aims to link smallholder farmers to school meals and optimise supply chain/procurement processes by means of piloting various modules that will inform strategy and policy design. 	<ul style="list-style-type: none"> • Significant potential for the IFAD country programme to engage with the school feeding programme by supporting the commercialisation of school feeding involving partnerships between catering companies and smallholder farmers. • Potential for triangular cooperation among the three Rome-Based Agencies (RBAs) • Coordination to take place within the UNDAF framework
UNDP	<ul style="list-style-type: none"> • Large and highly diversified country programme and office with 30 regular staff and 70 project staff. Annual budget around USD 15 million. 	<ul style="list-style-type: none"> • Significant potential for partnership with the IFAD country programme,

Agency	Priority Sectors and Areas of Focus	Complementarity/Synergy Potential
	<ul style="list-style-type: none"> • Three priority areas are: (i) democratic governance; (ii) poverty reduction; and (iii) environment and energy. • The democratic governance initiative includes the following projects/programmes: <ul style="list-style-type: none"> - Women in local democracy - Rapid regulatory reform of government services - Establishment of a youth studies centre - Assistance to negotiate and conclude the European Association Agreement - Border management between Armenia and Georgia - Kolba innovations laboratory - Access to services for people with disabilities - Support to the electoral process • The poverty reduction initiative includes: <ul style="list-style-type: none"> - Support for agricultural and small businesses in vulnerable communities - Vocational education and training - Support to SME development - Plastic waste recycling - Conduct of the agricultural census - Integrated support to rural communities in border regions - TA for producer groups and value chain development (EU/ENPARD funded) - Rural tourism development • The environment and energy initiative includes: <ul style="list-style-type: none"> - Disaster risk reduction and prevention - Adaptation to climate change in mountain forest ecosystems - Financial sustainability of Armenia's protected areas - Economic valuation of ecosystem services - Management of obsolete pesticides and contaminated sites - Preparation of national communications to the UNFCCC - Green urban lighting - Improving energy efficiency in buildings - Lake Sevan coastal zone cleaning - Ozone layer protection - Clima East pilot project in forest and rangeland management - Mitigation of climate change risk for rural communities - Solar energy (GEF small grants programme) - Sustainable land and forest management in mountain areas - Environmental education and awareness raising 	<p>especially in the areas of rural poverty reduction, sustainable natural resource management, and environment and energy</p> <ul style="list-style-type: none"> • Coordination to take place within the UNDAF framework

Agency	Priority Sectors and Areas of Focus	Complementarity/Synergy Potential
GEF	<ul style="list-style-type: none"> • GEF is currently funding Sustainable Land Management for Increased Productivity in Armenia (SLIMP) which is fully harmonised with the IFAD-financed Infrastructure and Rural Finance Support Programme (IRFSP). SLIMP integrates soil and water conservation measures to restore resilience to land degradation and climate risk of the agro-ecosystems in communal lands. The GEF Trust Fund is providing a grant of USD 3.9 million, to complement IFAD and OFID funding for IRFSP. • GEF has funded 44 projects (32 national, 12 regional/global) in Armenia with total grant funding of USD 188 million. The GEF Focal Point is the Ministry of Nature Protection. GEF agencies working in Armenia include: IFAD, WB, UNDP, UNEP and UNIDO. 	<ul style="list-style-type: none"> • Good potential to source GEF grant funding to enhance the climate resilience of IFAD programmes and address issues such as land degradation and water resource management
EBRD	<ul style="list-style-type: none"> • EBRD's Strategy for Armenia (approved in November 2015) is to "enhance private sector competitiveness by strengthening capacity, increasing corporate transparency and improving the business environment". The Bank targets assistance for improving the business regulatory environment, achieve more sustainable and resource-efficient growth and strengthen assistance to MSMEs through a combination of finance and advisory services. Enhancing access to finance through SME loans is a "cornerstone of the Bank's strategy. • EBRD's current portfolio in Armenia amounts to EUR 285 million of which 82% is private sector. Only one agribusiness project has been financed, a loan of EUR 19.6 million to the Yerevan Brandy Company in 2000. 	<ul style="list-style-type: none"> • Limited potential for synergies
AFD	<ul style="list-style-type: none"> • AFD has four priority areas in its partnership with the Armenian Government: urban development, rural and agribusiness development, clean and renewable energies and development of the private sector. AFD has been operating in Armenia since 2012 and has approved EUR 125 million of loans and EUR 12.5 million in grants including investments in reservoirs and irrigation. 	<ul style="list-style-type: none"> • Possible synergies in agribusiness partnerships and irrigation development
EIB	<ul style="list-style-type: none"> • Since 2000 the EIB has approved 17 loans to Armenian entities totalling EUR 334 million, mostly for transport, energy and water supply. None have been for agribusiness or rural enterprises. 	<ul style="list-style-type: none"> • Limited potential for synergies

Key file 4: Target group identification, priority issues and potential response

Typology	Poverty Level and Causes	Coping Actions	Priority Needs	Support from Other Initiatives	COSOP Response
Semi-subsistence rural households, food insecure and vulnerable rural women and men, farmer organisations, youth and rural entrepreneurs	<ul style="list-style-type: none"> Moderate to severe poverty levels Vulnerability to global economic shocks and international food and commodity price fluctuations, impact food and nutrition security Insecure and limited access to land tenure Fragmented pattern of landholdings (95% of farms with an average size of 1.4 ha, usually fragmented into three or four parcels) Limited access to irrigation water (only 30% of arable land is irrigated) Low utilisation of agricultural land (only 32%) Weak farmers' cooperation Limited use of advanced technologies Lack of knowledge about effective farming and marketing practices Low level of investment in production and 	<ul style="list-style-type: none"> Subsistence farming with occasional sale of surpluses in local markets Use of unsustainable farming practices Borrow credit at high cost Engage in low productivity wage labour Emigration and remittances Social welfare payments 	<ul style="list-style-type: none"> Greater local employment opportunities (Agricultural/non-agricultural) Improved nutrition-sensitive natural resource management practices Assistance to gain land tenure Improved rural infrastructure Access to improved inputs, technology and finance to increase nutrition-sensitive agricultural production Assistance in establishing viable links with the market Access to business development skills and information 	<p>Government:</p> <ul style="list-style-type: none"> Social policies addressing rural poverty National programs on nutrition and school meals promoted in collaboration with WFP and FAO Government provides subsidies to poor rural families, including vulnerable groups e.g. women and youth <p>Other donors: See Key File 3</p> <p>NGOs:</p> <ul style="list-style-type: none"> Greenlane (National NGO) helps farmers improve the quality of their products through the creation of farmer groups and cooperatives, introducing new technologies, and organizing seminars and research projects; organic farming Strategic Development Agency (SDA, national NGO) 	<ul style="list-style-type: none"> Support the establishment of farmers' groups/organizations and agribusiness partnerships Support nutrition-sensitive investment in natural resource management and climate resilience Promote diversification of rural employment and income Support legal and regulatory framework, e.g. land tenure security Ensure adequate and stable policy framework Improve access to inputs and information, vocational skills for agro-industrial technologies Enhance access to rural

Typology	Poverty Level and Causes	Coping Actions	Priority Needs	Support from Other Initiatives	COSOP Response
	<p>marketing and under-developed market infrastructure for harvesting, storage, processing and marketing</p> <ul style="list-style-type: none"> • Very limited commercial linkages between agribusiness and smallholder farmers • Degradation of natural resources • Limitations in the policy, legal and regulatory framework including food safety and quality standards (Armenia ranks 35th of 62 countries in the World Banks Enabling the Business of Agriculture (EBA) index) 			<p>designs & implements innovative “win-win” schemes in the areas of livestock development, agriculture, community/regional development and business support infrastructure</p> <ul style="list-style-type: none"> • Center for Agribusiness and Rural Development (CARD, a national foundation) promotes the application of advanced agricultural technologies; agricultural processing and the development of competitive food products for domestic and export markets; improving food safety and food security at the production, processing and service level; promoting animal genetics, improvement of animal health and husbandry practices; establishment of new policies and regulation at government level <p>Private sector</p> <ul style="list-style-type: none"> • CARD AgroServices 	<p>infrastructure</p> <ul style="list-style-type: none"> • Strengthen marketing, market systems and their linkages with smallholders

Typology	Poverty Level and Causes	Coping Actions	Priority Needs	Support from Other Initiatives	COSOP Response
				providing agricultural services and products to farmers and agribusiness in Armenia <ul style="list-style-type: none"> • CARD AgroCredit (Universal Credit Organization registered and licensed with the Central Bank of Armenia) provides agricultural and agribusiness financial services for sustainable agricultural development (e.g. loans for modernization of production, financing of seasonal production and/or commercial/trading needs, financial leasing of agricultural machinery and equipment) 	
Rural women, including female-headed households (FHHs)	<ul style="list-style-type: none"> • Moderate to severe • Gender Inequality Index value of 0.293, ranking 61st out of 159 countries • High incidence of FHHs (27%) mainly due to emigration • Strong association between FHH with 	<ul style="list-style-type: none"> • Subsistence farming with occasional sale of surpluses in local markets Use of unsustainable farming practices • Engage in low productivity wage 	<ul style="list-style-type: none"> • Better access to secure land tenure • Better inclusion of women, particularly the most vulnerable (FHH and landless), in income generating 	<ul style="list-style-type: none"> • UNDP programmes on Women in local democracy • ADB support to women entrepreneurs • EU ENPARD programme on institutional development, farmers 	<ul style="list-style-type: none"> • Gender Action Plan mainstreamed in all projects • Encourage, promote women in leadership positions • Improve/promote

Typology	Poverty Level and Causes	Coping Actions	Priority Needs	Support from Other Initiatives	COSOP Response
	<p>children and increasing incidence of poverty</p> <ul style="list-style-type: none"> • Women are overrepresented in informal employment (82% in agriculture vs. 60% male), unpaid work in family farming and in domestic reproductive activities • High gender wage gap: 64.4% Limited ownership of productive assets, collateral needed for subsistence and commercial purpose_(e.g. half of the FHHs own up to 2 ha of land, and a quarter less than 2 ha). Limited access to financial services. • High impact of lacking infrastructure to women workload, compared to men • Unsatisfactory access to technical knowledge and information on agriculture, extension services and training • Limited access to market due to women's limited control over equipment and transportation 	<p>labour</p> <ul style="list-style-type: none"> • Borrow informal credit at high cost • Emigration and remittances 	<p>activities</p> <ul style="list-style-type: none"> • Improve rural infrastructure • Access to improved inputs, technology and finance to increase nutrition-sensitive agricultural production • Access to business development skills and information 	<p>associations and improving access to affordable food focuses on women and youth.</p> <ul style="list-style-type: none"> • USAID programmes PRP and ARDI support women and youth in rural entrepreneurship and market access. • Greenlane extensive programmes on income generating activities for rural women • SDA, through municipalities working groups, supports FHH with specifically tailored activities 	<p>women's access to business development</p> <ul style="list-style-type: none"> • Improve women's access to financial services through specific products • Enhance access to rural infrastructure • Strengthen marketing, market systems and their linkages with female producers
Rural Youth	<ul style="list-style-type: none"> • Moderate to severe • Lack of business opportunities in rural 	<ul style="list-style-type: none"> • Emigration mainly to Russia • Remittances from 	<ul style="list-style-type: none"> • Access to credit • Access to business development skills 	<ul style="list-style-type: none"> • UNDP: Establishment of a youth studies centre 	<ul style="list-style-type: none"> • Promote youth skills for employability

Typology	Poverty Level and Causes	Coping Actions	Priority Needs	Support from Other Initiatives	COSOP Response
	<p>areas (30% rural/urban youth are unemployed)</p> <ul style="list-style-type: none"> • Lack of access to vocational training, knowledge Lack of access to information and technology • Lack of access to affordable financial services 	<p>other family members</p> <ul style="list-style-type: none"> • Engage in low productivity wage labour 	<p>and information Access to vocational training Friendly market integration</p>	<ul style="list-style-type: none"> • EU ENPARD programme on institutional development, farmers associations and improving access to affordable food focuses on women and youth • USAID programmes PRP and ARDI support women and youth in rural entrepreneurship and market access • SDA, through municipalities working groups, supports youth with specifically tailored activities such as internships and training 	<ul style="list-style-type: none"> • Promote youth and women entrepreneurship opportunities • Improving quality of and access to labour market information system • Access to credit and mitigation for lack of collateral