

NRI Report No: 2727

Rural Non-Farm Economy Project

**Sustaining Rural Livelihoods:
A Report On Farming And
Non-Farm Activities In Three
Communities In Armenia**

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March 2003

*This document is an output from a project funded by the UK Department for International Development (DFID) and the Worldbank for the benefit of developing countries.
The views expressed are not necessarily those of DFID or the Worldbank.*



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EXECUTIVE SUMMARY

- There has been a dramatic decrease in the intensity and scope of non-farm activities in the post-Soviet period in Armenia. This is conditioned by the drastic social and economic changes accompanying transition to market in post-Soviet Armenia. For those rural households which can no longer rely on non-farm employment, agriculture has become the key safety net (subsistence production) and main source of income (sale of produce).
- At the same time, non-farm employment provides an important source of cash income to many rural households, and hence enhances their ability to cope with social risks. The non-farm economy is vital in ensuring that households can gain access to traded goods for those food products which they cannot produce themselves, and to basic services.
- The non-farm sector in villages is very small at present. There is very little state employment available now. There are very few entrepreneurs, and most of these are very small-scale and their businesses provide very little employment beyond their immediate family. Most businesses are shops and these, like other businesses, have limited scope for trade since their customers have very little money. Remittances from family members working outside the village, mainly in Russia, are a very important source of income, although the amounts of money involved are usually very small.
- The non-farm sector could potentially play a much greater role in sustaining rural livelihoods and contributing to the economic development in the rural sector in Armenia. Both in pre-Soviet and Soviet times, the non-farm sector was very important as part of the village economy. A crucial precondition for the development of the non-farm economy in Armenia is the strengthening of the market orientation of the farming sector; this has the potential to provide some cash to kick-start the non-farm sector.
- However, caution should be exercised in a transition to market-oriented farming, for example in encouraging a land market. Although ultimately a land market will be important in generating workable plots of land, subsistence agriculture currently provides a very important safety net for almost all households and if households sell their land, many will become totally destitute.
- In order to promote the development of the non-farm rural economy in Armenia, it is recommended that donor organisations adopt a two-fold strategy that combines: (i) strengthening the capacity of the central government to effectively address the existing regulatory, legislative and policy issues affecting the rural sector, and (ii) providing assistance and capacity building to specific rural communities at the local level.

1. INTRODUCTION: STUDY OBJECTIVES AND METHODOLOGY

1.1 Objectives of the Study

The main objective of this study is to examine how people in rural Armenia sustain their livelihoods after the privatisation reforms of 1991. Based on a case study of three rural communities, it examines whether farming and non-farm activities provide a social safety net to the impoverished rural population. The study is especially concerned with the types and nature of non-farming activities that people in Armenian villages are engaged in. It aims to identify the main obstacles to non-farming activities in Armenia and to present recommendations for policy design and planning.

1.2 Organisation of the Report

The report consists of two main parts. The first part analyses the farming sector in Armenia and the main obstacles faced by Armenian farmers. It is based on the fieldwork in three rural communities, and a desk review of reports and studies on agriculture in Armenia. The second part examines non-farm activities in three rural communities and is mainly based on the data generated by the fieldwork conducted in 2001 and 2002.

1.3 Research Methodology

The study relies on two main sources of data and information. First, the study is been informed through a review and analysis of published information and data on the economic and social development in rural Armenia. Second, fieldwork was carried out in three rural communities in order to produce first-hand up-to-date information and data on the situation and developments in the rural sector.

The fieldwork in the three rural communities was carried out in two stages. During the first stage in 2001, baseline data was gathered. During the second stage in the spring of 2002, a second follow-up assessment was conducted in the same villages to complement the baseline information. Ethnographic methods were used in both stages, with relatively more formal methods being used in the first stage and more informal methods, including participant observation, in the second stage.

1.4 Selection of Sites

Three villages were selected from three administrative regions (marzes) of Armenia: Hayanist village in Ararat marz, Shamiram village in Aragatsotn marz, and Verishen village in Syunik marz. The selection of marzes and villages was done through purposive sampling.

Hayanist village of Ararat marz was selected, as the population of this marz is more likely to be engaged in the non-farm economy. The geographic position of the village is conducive to non-farming activities. Hayanist is situated on the crossroads; it is close to the former regional centre Masis, the important town of Echmiatsin (centre of the Armenian Apostolic Church) and Yerevan. The village is situated in Ararat marz, which is perhaps the most affluent Armenian region, and offers greater economic prospects than other marzes in the country. Some branches of Yerevan-based

industries operated here in the Soviet past, and the population of the marz has long-standing traditions of non-farm employment.

The village has a high percentage of refugees from Azerbaijan. This is yet another reason for selecting this community. It was assumed that study of this village would allow us to understand the extent and nature of involvement of refugees in non-farm activities and the specific challenges and problems that refugees encounter in sustaining their livelihoods. In order to better understand the specifics of the refugee-populated Hayanist village, research was also carried out in the village of Hovtashat, which is situated 1 km away from Hayanist and is mainly populated by local Armenians.

Shamiram Village of Aragatsotn Marz is mainly populated by Yezidis, the largest ethnic minority in Armenia at present. The reason for selecting this village was to provide information on the level and nature of involvement in farming and non-farm activities on the part of Yezidis. Yezidis represent a very distinct ethnic and religious group. They are pastoralists and lead a rather secluded lifestyle in the less developed mountainous and pre-mountainous areas of the country. One would expect that their involvement in non-farm activities is likely to be different from that of the Armenians. The village is within easy proximity of major cities in Armenia, including Yerevan (60 km), and the important regional centres of Ashtarak (40 km) and Talin (15 km).

The third village, Verishen, is situated in Syunik Marz, which, like Ararat marz, has reasonable prospects for the development of the non-farm economy. It has a high proportion of people who previously lived in towns in Armenia, who have a higher level of education, and a relatively high level of agricultural production. In Soviet times, a large proportion of the village population used to work in the service and manufacturing industries of the nearby city of Goris. The village has a shortage of land, which makes it more likely that the residents will engage in the non-farm economy.

1.5 Research Methods

The first stage of the field research was conducted by three ethnologists (H. Kharatyan, H. Pikichyan, and G. Shagoyan) by means of semi-structured questionnaires, in-depth, family, and group interviews, focus groups and participant observation. The research team conducted a total of 39 in-depth interviews, including 13 interviews in Hayanist, 3 interviews in neighbouring Hovtashat, 8 interviews in Shamiram, and 15 interviews in Verishen; and three focus groups (one in each village). The second, follow-up fieldwork was conducted by four ethnographers (H. Petrosyan, G. Shagoyan, L. Kharatyan, and A. Shagoyan) using less structured ethnographic methods of data collection. The team spent 3 days in Hayanist and Shamiram, and 12 days in Verishen. The second stage of fieldwork was carried out during three separate periods in the spring of 2002 in order to better monitor various stages and processes of spring agricultural activities.

Respondents were selected to represent various social groups present in the sampled communities: local residents and refugees; relatively wealthy and poor; men and women; Armenians and Yezidis. In the Yezidi village of Shamiram, representatives of all of the three main Yezidi social strata (Pir, Sheikh and Miridi) were interviewed.

The main respondents of the fieldwork include the following categories of people:

- Persons involved in the non-farm economy (public sector employees, private entrepreneurs, employees of commercial enterprises and shops; service sector employees, unskilled labourers and seasonal workers, craftsmen and artists, etc.)
- Family members of non-farm workers
- Farmers
- Families of economic migrants
- Representatives of the local government and local elite

During the follow-up stage of fieldwork, the research team was hosted by local families in the sampled communities. This allowed the researchers to spend a considerable time with the local residents and document their everyday activities and problems through conversations and observations. In Hayanist, the researchers lived with a family that owned livestock and ran a small village shop. The family chosen in Verishen was involved in agriculture and cheese production. In Shamiram, the researchers lived with a family of a former teacher, which was involved in livestock breeding and owned a kiosk.

2. POVERTY AND LIVELIHOODS IN ARMENIA

2.1 Who are the Poor in Armenia?

Since independence in 1991, Armenia has faced serious economic and social challenges. Following the break-up of the Soviet Union, Armenia experienced a deep economic crisis, with an extremely sharp fall in income and output. Between 1989 and 1996 GDP fell by 60 percent, and real wages fell by about two-thirds. The macroeconomic collapse in Armenia has resulted in a drastic deterioration in living standards of the population. As a result of the hyperinflation of 1992-1995, most people lost the savings which they had accumulated over many years of work during Soviet times. The rapid drop in the value of real wages led to a dramatic decline in the purchasing power and income of households. In addition, people could no longer rely on a plethora of generous “cradle-to-grave” subsidies and social benefits and services provided by the socialist state. The existing social protection institutions and policies of the government have become eroded and unable to provide effective social security to vulnerable and impoverished groups.

Despite significant improvements in the Armenian economy since the 1992-95 economic crisis, poverty in Armenia is still severe and widespread. According to the results of a household consumption survey carried out by the Ministry of Statistics¹, about half of the Armenian population is poor (54.7%) and one quarter is extremely poor (27.3%)² (see Table 1).

Table 1: Levels of poverty in Armenia: 1996, 1998/99, 2001 (in percentages)³

1996	Proportion of extremely Poor	Proportion of poor
Total	27.3	54.7
City	29.6	58.8
Village	24.4	48.0
1998/99	Proportion of extremely Poor	Proportion of poor
Total	25.4	53.7
City	31.2	60.4

¹ Social Snapshot and Poverty in the Republic of Armenia, Ministry of Statistics, Yerevan 2001.

² The poor are defined as those households whose per capita consumer expenditure is lower than the national poverty line (or minimum consumption basket). The extremely poor are those households whose per capita consumer expenditure is lower than the minimum food line. According to the 1996 national poverty survey, the national poverty line is defined at 10,784.2 drams per capita monthly expenditures and includes expenses for food and other basic non-food needs. The food line is defined at 6,612.3 drams per capita monthly expenditures and is based on a food basket calculated on the actual consumption of food products (2,100 kcal diet per day).

³ Growth, Inequality and Poverty in Armenia, A Report of a UNDP Mission led by Keith Griffin, Yerevan, August 2002, p. 52.

Village	17.7	44.8
2001	Proportion of extremely Poor	Proportion of poor
Total	15.9	50.9
City	18.2	51.3
Village	11.2	50.1

There is also increasing inequality and polarisation in Armenian society. The income of the 20% of the population with the highest incomes is 32.2 times more than that of the 20% with the lowest, which illustrates the sharp polarisation of society.⁴ This demonstrates that the benefits of the economic growth in the last five years have not really “trickled down” to a significant proportion of the Armenian population.

There are wide regional variations in the level and extent of poverty across regions and within regions. Extreme poverty tends to concentrate in the border areas, in high altitude areas and in the earthquake zone. The quality of agricultural land plays a significant difference in the regional poverty variation. Thus, in the mountainous areas, where the quality of land is poor and there is limited access to irrigation, the population tends to be poorer.

The high percentage of extremely poor people in urban areas was higher in 1998/9 and decreased markedly by 2001. This is probably due to the fact that there was a migration from town to countryside on the part of the poorest, who returned to their home villages where they could rely on kin and gain access to some land for subsistence agriculture.

Table 2: Poverty in Armenian rural areas by geographic zones

Compared to the sea level	Up to 1300 m (percent)	1301-1700 m (percent)	1701 m + more (percent)	Total (percent)
Poor	42.35	54.93	57.99	50.76
Including very poor	16.37	24.86	28.28	22.56

The incidence of poverty is somewhat similar in urban and rural areas: the poor constitute 51.3% of urban and 50.1% of rural population. Although there has been some decrease in the overall incidence of rural poverty since 1996, rural poverty is still severe, especially among the most vulnerable groups. In fact, according to the results of a 2001 study, there has been a 15% increase in poverty in the mountainous villages⁵. Rural poverty is especially significant among households who do not have access to land. At the same time, land ownership does not preclude rural poverty. Thus such crucial factors as access to irrigation and important agricultural inputs, labour, financial investment, access to social networks and access to market are crucial.

2.2 What do the Rural Poor Rely Upon?

⁴ Social Snapshot and Poverty in the Republic of Armenia, Ministry of Statistics, Yerevan 2001, p. 46.

⁵ Poverty Reduction Strategy Paper, Yerevan, 2001.

During the transition, farming has been the mainstay of rural livelihoods in Armenia. The importance of agriculture for the population can be illustrated by the fact that the decrease in productivity of the agricultural sector since the break up of the socialist state has been relatively small (8.7%) compared to other branches of the economy. The sharpest decrease was registered in the construction (85.3%) and industry (59.7%) sectors. In fact, agriculture has become the most important sector of the economy in Armenia. In 1990, agriculture constituted a small segment of the country's economy - 12.6% of the GDP. By 2000, the agricultural sector made up 46.3% of the country's output.

The relatively high levels of agricultural growth have been conditioned by several factors: (i) the relatively honest and fair privatisation of land and livestock, which established sound foundations for the rural economy and helped to prevent rapid social polarisation in villages; (ii) the increase in local demand for agricultural produce, as subsistence agriculture has become the major source for maintaining rural and, even urban, livelihoods; (iii) the cheapness of labour in agriculture due to its basically subsistence nature, and (iv) the decrease in imports of agricultural products, due to the economic blockade of the country imposed by Azerbaijan and Turkey.

Farming has become an important social safety net for the majority of the population in Armenia. The number of people involved in agriculture increased dramatically during the 1990s. This was mainly caused by the massive lay-offs in other economic branches and the emergence of unemployment levels previously unknown for Armenia. During 1990-2000, employment in the industrial sphere decreased by 64% and in service delivery by 27%. Total employment, according to official data, decreased by 21.6% (in reality this percentage may be much higher). People who were suddenly left without jobs, material income and social protection resorted to farming to support their families. During 1990-2000, agriculture absorbed more than 280,000 new workers, and the total employment level in agriculture increased from 17.4% to 44.4%.

Table 3: Employment in Armenia by field of economic activity (1=1000 people)

	Total	Industry	Agriculture	Service Delivery
1990	1630.1	494.8	283.8	662.1
1993	1543.3	362.5	519.7	541.2
1995	1476.4	302.9	551.9	545.6
1998	1337.3	209.4	567.8	503.4
2000	1277.7	179.7	484.8	566.7
Change in %				
1990-2000	-21.6	-63.7	+99.7	-26.8

Source: Ministry of Statistics

Farming provides a safety net for the population in both rural and urban areas. About 10% of all urban residents classed as self-employed are engaged in agriculture, forestry, hunting and fish hunting. A significant proportion of the urban population moved to villages after the collapse of the Soviet system, and resorted to arable subsistence farming (cultivating vegetables on small plots of land) or to livestock breeding. For example, in Hayanist, one of the study villages, there was a significant

influx of people from towns into the villages, mostly kin to villagers.⁶ Between 1994-1997, about 40 impoverished residents of Yerevan sold their apartments and settled in Hayanist hoping to support their families by cultivating food on small plots of land.

At the same time, poverty in urban areas further contributed to the impoverishment in rural areas. Due to the low purchasing power of urban residents, agricultural products were sold for very low prices, almost at the cost price, and villagers made very little profit. Moreover, the rural population has supplied their relatives in cities with agricultural products for free.

One can see the importance of farming in generating household income by analysing the income structure of the population (Table 5). Thus according to a survey of rural households, the major source of income for both the lowest 10% and the highest 10% of households is agriculture. People supplement their income derived from agriculture by salaries, pensions, allowances and money transfers from relatives and friends residing in and outside Armenia. Social assistance provided by the state provides 11% of the income of the rural poorest and 16.6% of the urban poorest.

Table 4: Income sources of the poorest/wealthiest households in Armenia (in percentage ratios)

	Village		City	
	The poorest	The wealthiest	The poorest	The wealthiest
Salary	39.0	30.1	44.7	56.9
Self-employment	0.1	3.2	2.2	15.6
Agriculture	46.3	57.7	1.5	2.8
Remittances	3.4	5.9	30.8	8.6
Transfer payments	11.0	2.9	16.6	4.6
Trade of personal belongings	0.1	0.2	4.3	11.5
Total	100.0	100.0	100.0	100.0

There are two important trends in relation to remittances abroad and assistance from relatives in Armenia. They are more significant in the income of the wealthiest 10% of the rural population, and they are more important among the urban poor than among the rural poor. Thus the income of the rural poor generated from remittances is half that of wealthy rural residents; and the urban poor receive much more in remittances (30%) than the rural poor (3.4%).

Table 5: Structure of family Income from non-farm and non-business sources (by percentages)

	Whole sample (100%)	Families not receiving remittances from abroad (88%)	Families receiving remittances from abroad (12%)
Salaries	40	47	21
Pensions	23	27	10
Social	6	7	4

⁶ Social Snapshot and Poverty in the Republic of Armenia, Ministry of Statistics, Yerevan 2001, p. 40.

Assistance			
Remittances (relatives in Armenia)	5	5	3
Remittances (relatives abroad)	13	0	55
Sale of Property	12	14	7
Total family Income	139,070 dram (US\$278)	119,187 dram (US\$238)	288,650 dram (US\$578)

Source: Lerman and Mirzhakhanian 2001

Only 12 percent of rural households receive remittances from abroad (Table 6). For them, remittances constitute the largest share of their non-farm income (55%). The level of income of these families is twice as much as the income of households without remittances. For the majority of the rural households who do not receive remittances from abroad, the major source of non-farm income is salaries (47%) and pensions (27%). On average, remittances from abroad and assistance from relatives in Armenia account for 18% of household income. A rather substantial proportion of income is generated through sales of assets, which is significantly higher among the households not receiving remittances (14%).

About 23% of the rural population is engaged in entrepreneurship and non-agricultural business activities, including food processing, mechanical and transport services, trade, etc.⁷ The proportion of the wealthier residents who are involved in non-farm activities is much higher than that of the poorest. Only 0.1% of the poor in villages has any income from self-employment, while 3.2% of the wealthiest villagers derive income from this source (Table 5). In urban areas, the proportion of residents engaged in businesses (self-employment) is much higher: 2.2% of the poorest and 15.6% of the wealthier residents are involved in various types of business.

This following chapter aims to examine the situation in the rural communities in Armenia and identify the main constraints and issues in the farming and non-farm sectors that Armenian rural households deal with in their efforts to sustain their livelihoods.

⁷ Lerman and Mirzhakhanian, *Private Agriculture in Armenia*, 2001, Lexington Books, Lanham-Boulder, p. 64.

3. FARMING IN ARMENIA NOW: A SOCIAL SAFETY NET

Agriculture has played an important role in protecting a large part of the population during the years of transition and economic decline. Since the collapse of the Soviet economy, farms have provided most of the rural (and often urban) population with food products essential for maintaining their livelihoods. At the same time, farms in Armenia are not entirely subsistence oriented. Some 80 percent of Armenian farms report sales of some farm products.⁸ More than half the farm output is used for family consumption, but the remaining 25% of the output is sold for cash and another 5% is bartered.⁹

For some part of the rural population in Armenia agriculture however still remains subsistence oriented. These rural households produce food only for their own consumption, with only a little or no surplus that they can trade or barter. Quality and quantity of land, access to irrigation and other supporting infrastructure, availability of labour and resources for essential investments and access to markets play a decisive role in the ability of the poor to derive benefits from agriculture. Many rural households, including refugees with urban backgrounds and the elderly and disabled, are unable to cultivate land or derive any income from livestock breeding. For many of them, land is a burden, rather than an asset. These people remain unprotected from social risks and experience extreme material and social deprivation. The difficulties encountered by the Armenian farmers are expressed in the saying "It was not the land that was given to the villager, but the villager who was given to the land".

Our case study villages illustrate this situation. In Shamiram, 304 households received land after privatisation. More than a hundred of them applied with a request to give up the land because of low land productivity, difficulties in obtaining inputs and lack of access to irrigation. In Hayanist, one of the poorest villages in the region in which it is situated, inhabitants cannot produce enough food for their own consumption. The majority of the villagers are refugees with urban backgrounds, and have difficulties in adjusting to rural life. They do not have the capital – financial, human or social – to make investments in their land. In addition, most of the residents of working age have left the village. In this situation, many residents of Hayanist have become completely reliant on remittances sent by their relatives to buy basic food products from the village shops. The majority of the village residents purchase even such staple food items as potatoes, yoghurt and eggs. A similar situation exists in Verishen, where, due to the low land productivity and inability to invest in basic agricultural inputs, people mostly cultivate their homestead gardens and have to purchase wheat and other important agricultural products.

The consequence of the lack of cultivation of a large proportion of land is that many of the orchards and fruit-gardens which existed in Soviet times have died or have become pasture. There is a general process of degradation of cultivated land underway.¹⁰

In the following section, we will examine in greater detail some of the factors that inhibit the development of agriculture in Armenia. These factors relate to problems in

⁸ Lerman and Mirzakhaniyan, *Private Agriculture in Armenia*, 2001, Lexington Books, Lanham-Boulder, p. 35.

⁹ *Ibid.*

¹⁰ Materials of the Conference on Soils in Central Europe, NIS, Central Asia and Mongolia, Prague, Czech Republic, 26-29 August 2000, Section on Armenia, pp. 8-15.

the way in which privatisation was implemented as well as the general social and economic situation in the country.

3.1 Land distribution, access to land and equity

As mentioned earlier, the successful outcome of privatisation has built an important foundation for the development of agriculture in Armenia. The privatisation of land, gardens, livestock and agricultural machinery took place in 1991. According to the Ministry of Statistics, 460.1 thousand hectares of land were privatised as of January 1, 2001. Each household received 1,4 ha of land on average, of which 1.07 is arable land.¹¹ Privatisation reforms resulted in the complete supremacy of the private sector and the introduction of market relations in the agricultural sector. Before 1990, 35% of total agricultural production was supplied by the private sector. After privatisation, the contribution of the private sector to agricultural production increased to 98%. Only a few farms specialising mainly in cattle breeding remained under state ownership.

Although it was carried out in a relatively just manner, privatisation led to some problems in relation to access to land. Firstly, in the interests of equity, plots of land were distributed which were scattered and small. Some of these were too far away to cultivate, given the means available to most households. Each rural community was eligible to privatise the land, livestock and machinery that belonged to the state or collective farms of their community during Soviet times (*sovkhoz* or *kolkhoz* property). Land was first assessed and divided into different categories based on its productivity (e.g., irrigated and non-irrigated, dry soils), location (relative proximity to the village), type (pastures, arable, meadows and mountainous land), and other factors. In order to ensure fair distribution (based on the principles of “social justice”), the actual location of individual land units for each household was determined through lottery. Thus each household was randomly allocated a combination of several small land plots of different kind.

As a result, households received highly fragmented land consisting of several small plots of different size, quality and distance from the village.¹² Thus land received by a household can be comprised, for example, of a homestead garden, some irrigated land of good quality, some land of extremely low quality, and a plot situated a long distance from the village.¹³ There are cases of a household receiving up to 9 fragmented pieces of land. Some households received land situated in different parts of their local area, sometimes up to 20 or even 40 km away from its house (for example, in Lchen village of Syunik). Land fragmentation makes cultivation difficult. Farmers tend to cultivate only the land plots located close to the village, together with irrigated and relatively fertile areas. Many households which received land of especially poor quality refuse to cultivate their land, and rely on their homestead gardens to produce basic food items.

Despite efforts to achieve equity in distribution, some households benefited from privatisation more than others, which contributed to growing inequality within communities. Inequality also resulted from the principle that newly formed co-operatives would have preference in the distribution of land. Households which had formed part of a co-operative at the time of privatisation were advantaged in the distribution of land. Such co-operatives did not last long and were soon dismantled.

¹¹ Main Directions in the Development of Agriculture in Armenia in 2002, Ministry of Agriculture, Yerevan, 2002.

¹² Assessment of the Privatization Process and Its Consequences, Yerevan, 2001.

¹³ M. Gabrielyan, Contemporary Rural Population of the Republic of Armenia, Yerevan, 2001.

While in 1991 there were 148.3 thousand household farms and 24.204 collective farms, in 1997 there were 319.3 thousand household farms and 373 collective farms.¹⁴

Privatisation also produced inequitable distribution between different communities in Armenia. It benefited those communities which were situated in areas with better land. Some villages such as the study community of Verishen had very little good quality land, and their residents can hardly produce enough food for family subsistence. The most disadvantaged communities are those in the mountainous and pre-mountainous areas, where the quality of land is extremely poor. Table 7 below shows that land productivity is incomparably higher in small plots of land under 1 ha than from bigger plots of land.¹⁵ This is because smaller plots are characteristic of the fertile Ararat valley where people grow many high-value crops. The amount of land allocated was much greater in the pre-mountainous and mountainous regions, but the poor quality of land there makes it possible to grow only wheat and potatoes, which are cultivated almost entirely for subsistence and not for market.

Table 6: Land productivity by size of plot

Land size In ha	Nr of farms	Per ha			Per farmer		
		No. of farmers involved	Average Production expenses (AMD)	Average value of produce sold (AMD)	Size of plot in ha	Average Production expenses (AMD)	Average value of produce sold (AMD)
Up to 0.5	625	6.65	218.7	543.8	0.15	32.9	82.0
0.5-1	952	3.46	121.7	250.6	0.29	35.1	72.2
1-2	917	1.92	85.5	140.2	0.52	44.6	73.2
2-3	405	1.10	53.3	71.4	0.90	48.1	64.5
3-5	321	0.78	37.8	48.4	1.27	49.1	62.8
5-7	148	0.54	37.9	39.5	1.84	68.6	71.6
7 and more	29	0.45	35.4	26.3	2.23	76.4	56.8
Total	3397	1.61	69.0	114.9	0.65	43.0	71.6

Source: Socio-Economic Condition of Armenian Farms, 1999.

3.2 The importance of landholding

Land ownership provides a crucial social safety net for the majority of the rural population. In this context, the fact that there are some households and groups within the rural population that do not have land is very significant for livelihoods. Lack of land is particularly significant among refugees. When refugees moved to Armenia from Azerbaijan in 1992, they were already too "late" to take part in the land privatisation.

¹⁴ M. Gabrielyan, Contemporary Rural Population of Armenia, Yerevan, 2001, p. 36.

¹⁵ The Social-Economic Condition of Agricultural Farms and the Price Index of Agricultural Production in Armenia, Yerevan, 1999, p.27.

There are also some cases of some villages that did not have land in Soviet times, and whose residents were consequently left without land after privatisation, since they had no collective or state farm to privatise and divide. One such landless community is Torfavan village in Vardenis region in Gegharkunik Marz. The population of the village was formerly employed in mining the mineral torfe near the village. Today, when the torfe mines have been closed, the population of the village is at a loss as it has been deprived of any means of making a living. A similar situation exists in the village of Azatamut in Ijevan region. Azatamut was a workers' settlement around a factory. As with many other industries in the country, the factory was shut down, and the population of Azatamut is now both unemployed and landless. Many of its residents legally or illegally cultivate land owned by the neighbouring Ditavan village; others have annexed land by illegally cutting trees in the forest, causing environmental damage.

3.3 Difficulties in livestock keeping

Many rural residents did not benefit from the privatisation of livestock. During privatisation, there was a rumour that heavy taxes would be imposed on the privatised livestock. As a result, many villagers felt discouraged and did not take advantage of the opportunity to privatise livestock. In some villages, most livestock was privatised by local mayors, ex-directors of collective farms or newly formed co-operatives. Many of those who privatised livestock later slaughtered it for meat. At present, only few households in Armenia are involved in large-scale pasturing (i.e., more than 30 cows). Most farmers have 2-3 cows, and a significant number of rural households do not own any livestock.

Those who have livestock find it extremely difficult to look after their animals. For example, the existing pastures in Verishen are quite far from the village (10-12 km). They are mostly dry, and animals do not receive adequate nutrition from them. Often the livestock returns from pasture tired and with little milk. The local villagers do not have the resources to organise transhumance to the alpine pastures in summer months. Previously, such activities were effectively organised by the collective farms. Only farmers who own large numbers of livestock use pastures intensively.

Since 1990, the overall number of livestock in Armenia has been steadily decreasing. In 2000, 59.7% of the total agricultural output of the country was supplied by crop production and only 40.7% by animal breeding. Of the villages studied, there has been a particularly dramatic decrease in the livestock of the Yezidi-populated Shamiriam village, famous for its livestock breeding in Soviet times. As most of the Yezidis are pastoralists, the difficulties in maintaining their livestock keeping traditions have led to their increased out-migration and impoverishment. Before privatisation, Shamiriam village had 12-15,000 goats and sheep, and 4-5,000 cows. After privatisation, the pastoral areas decreased in size and animal food became expensive, which led to enormous difficulties in pasturing. At present, the majority of the residents still remaining in Shamiriam are the elderly and women. Young people constitute only 30-32% of the village population, and the majority of them are female. The villagers in Shamiriam believe that their village has suffered the highest rate of emigration of all the Yezidi populated villages of Armenia.

3.4 Lack of resources for investment in increased productivity

One of the major factors that inhibit development of agriculture in Armenia is the lack of resources for much-needed investment in increased productivity. Land cultivation has become expensive. People do not have the financial resources to purchase necessary inputs and make many essential investments. Due to their material deprivation, many farmers are not able to afford expensive agricultural inputs such as seeds, pesticides, fertilisers, diesel and machinery. For example, farmers do not use such important minerals as calcium and phosphate.¹⁶ Pesticides that are affordable are often date-expired. As the existing machinery deteriorates, only a few farmers can afford to purchase new machines. In addition, the introduction of user charges for irrigation has put a strain on the rural population. Most of the rural communities in Armenia are not able to pay the required water charges. The collection rate for 2002 was estimated at 40% of the required total amount.

Research conducted in 3,400 farms in 1999 shows that 4/5 of rural households were not able to make essential investments in their farms.¹⁷ The average amount of money invested was very small: less than 65,000 AMD. Approximately 60% of all investments were made in livestock purchase, construction of houses or repairs. Reduced access to inputs such as irrigation water, fertilisers, pesticides and machinery has drastically decreased land productivity.

The lack of resources for investment is due to the widespread material and social deprivation of the rural population in Armenia. The severe economic crisis of 1992-1995 was accompanied by hyperinflation and a drastic decline in people's incomes. As a consequence, immediately after the privatisation, most people lost their cash savings and bank deposits. Credits are not accessible to the vast majority of rural households. Only a few commercial banks provide credits to rural population, and most of them require collateral. Only 1% of farmers are members of credit unions or rural co-operative banks. Most farmers borrow money from relatives, friends, or neighbours. The lack of investments can also be explained by the difficulties in accessing markets for the sale of agricultural products. Many farmers are discouraged from expanding their farms (especially animal farms), as they have no hope of finding markets for their produce.

Due to its weakened financial and administrative capacity, the state has been unable to provide agricultural extension and subsidies in order to support farmers in these difficult times.

About 45% of the rural population fail to pay their taxes – the land tax, irrigation user charges and other charges for local services – in full.¹⁸ Many farmers find that land becomes a liability, as the amount of the required land tax often exceeds their profit. In pre-mountainous and mountainous areas, farmers often give up their land in order not to pay the land tax. For example, both in the Yezidi-populated Shamiram and the refugee-populated Hayanist, most of the residents have given up most of their land and mainly cultivate their homestead gardens.

¹⁶ Main Directions in the Development of Agriculture in Armenia in 2002, Ministry of Agriculture, Yerevan, 2002.

¹⁷ The Socio-Economic Condition of Agricultural Farms and the Price Index of Agricultural Production in Armenia, Yerevan, 1999, p.24.

¹⁸ Lerman and Mirzakhaniyan, Private Agriculture in Armenia, 2001, Lexington Books, Lanham-Boulder, p. 64.

3.5 Access to irrigation

Historically, agriculture in Armenia has had strong dependence on irrigation; nearly 80% of total crop production is produced with irrigation. However, the irrigation infrastructure in Armenia has seriously deteriorated and needs significant investments. As of 2002, of the irrigation command area totalling about 285,000 ha, some 56,000 ha was not irrigated and 13,000 ha completely dried out. Most of the canal networks in the country have degraded to the extent that they need to be completely reconstructed. The condition of pumping stations, pressure pipes and tube wells is also unsatisfactory. Many rural areas have been deprived of irrigation for years.

The deterioration of the system can be attributed to a combination of causes such as inadequate design, inadequate quality control during construction, bad and insufficient construction material, and the lack of appropriate operation and maintenance.

The deteriorated condition of irrigation infrastructure constrains both the development of the agriculture sector and the profitability of existing agricultural production. A man in Shamiram said, *“It is good that the land has been privatised, and that we all received land. But we don’t need it, because of the irrigation problems. People would cultivate their land if they had water, but people have lost hope.”*

3.6 Demographic changes

The inability to cultivate land or breed livestock is often linked to the high rates of out-migration. Since the beginning of the economic crisis in the early 1990s, many working age men have left Armenia and settled in Russia and other countries, where they have found more opportunities for generating income. Some of these men stay abroad for many years; others leave their villages for several months in search of temporary employment opportunities. Most send part of their earnings to their families and relatives to support them.

Due to the continuing high rates of emigration, the rural labour force has much decreased. The number of elderly and female-headed households has significantly increased. Cultivation of field crops requires hard physical work, and is traditionally the responsibility of men. Most of the households whose male breadwinners are absent only manage to cultivate their homestead gardens, producing food for their own consumption and sometimes for bartering and sale. The lack of male labour also constrains livestock breeding, as women and the elderly find it difficult to use pastures situated in far away from their villages.

3.7 Limited access to markets

The marketing of agricultural products remains one of the main problems of the Armenian farmers. The rural population in Armenia has found it very painful to adjust to the new market-based economy. In the Soviet times, sale of agricultural products were organised through collective and state farms. With the collapse of these, farmers suddenly realised that it was their individual responsibility to organise their farms and find markets for their produce. Most of the villagers were not prepared for this, and found it extremely difficult to orient themselves in the new situation.

At present, there are very restricted opportunities for the marketing of agricultural produce in Armenia. There are virtually no wholesale markets where farmers could sell their produce in bulk. One of the reasons for this is that the food processing industry in the country is not well developed. The largest food processing factories have been closed, and wine and cognac production has significantly decreased. The newly established food processing businesses are not financially sustainable. The intermediary institutions for marketing are not well developed as yet. They resell only 6.4% of total agricultural production.¹⁹

Today, the proportion of agricultural produce that is not bartered within the village is sold either directly to consumers or to individual middlemen or intermediaries in the cities. The farmers make very little profit from sale of their produce. This is partly because the purchasing power of the city residents is extremely weak due to massive unemployment and impoverishment. However, according to the farmers it is also because the intermediaries take a large cut of any profit, leaving little for the farmers themselves. In fact, it is said that the intermediaries often make more profit by selling the produce than the producers themselves. This discourages many farmers from cultivating all of their land and causes them to limit their effort to producing food for their own consumption. When they have a surplus, they sell this, but most do not orient their production towards the market.

Most farmers in the villages studied thought it was “senseless” to invest in agricultural production. This situation has not only had an impact on livelihoods; it has also had a profound psychological effect on farmers. They think it is unfair that they only receive minimal compensation in return for their immense efforts. A villager in Hayanist said, “Nowadays, our income does not belong to us, starting from the house, ending with the sale of our produce. A farmer has to give up 30-40% of his rightful income. They [the middlemen] buy from us for 10 drams, then sell for 30 drams, and then there is the money one has to spend on transportation, road inspectors and the police. Because of these expenses a farmer is unable to get any real income. This is why most of them have given up on land cultivation [for sale].”

In Hayanist, the majority of villagers cultivate only the land surrounding their houses, and in some cases even that portion of the land is not being cultivated. The villagers have no incentives to cultivate their land as they do not benefit from the sales of their surplus. Villagers complained that the intermediaries from Yerevan would buy their produce at very low prices and then resell it in the market at a price which is twice as high. The attempts of the villagers to “get into” the market were quite unsuccessful, and most of them gave up trying. The villagers maintained that the urban intermediaries are in fact part of the “trade mafia” which exists in Yerevan, and that they attempt to keep farmers away from the market in order to monopolise the trade.

Access to external markets is almost impossible for Armenian farmers. The privatisation took place parallel to the blockade imposed by Azerbaijan and Turkey, and the Georgian-Abkhazian conflict, which made communication with Russia difficult. Thus the newly formed stratum of land owners was from the very onset of the reform denied access to the markets of the “near abroad”. At present, Armenia does not have economic connections with neighbouring Turkey and Azerbaijan; and there are limited opportunities for trade with Georgia because of the high levels of poverty in Georgia too and the relative self-sufficiency of its internal market. In addition, agricultural products imported into Armenia (wheat flour, eggs, milk powder,

¹⁹ The Social-Economic Condition of Agricultural Farms and the Price Index of Agricultural Production in Armenia, Yerevan, 1999, p. 36.

and meat) sometimes push out local produce from internal markets by undercutting them in terms of price.

3.8 Refugees: a particularly vulnerable group

Refugees as a social group are especially vulnerable in Armenia. Refugees are generally poorer than the local population in their villages. Most did not benefit from the privatisation of land, livestock and machinery. Most of the refugees have urban backgrounds and they are not used to agricultural work. For example, before 1993, the majority of the refugee population in Hayanist village used to work in the manufacturing, construction and service delivery sectors. When the state enterprises were closed, these people lost their “urban occupations” but they have not become farmers either.

In some villages, the refugees arrived too late to participate in the distribution of land. In other villages, as in Hayanist village, many refugees refused to participate in the privatisation of the land and the livestock which took place in 1991. Only 1 of 16 villagers who took part in the focus group received land during the privatisation in Hayanist. Those who accepted their landholding at the beginning, later gave up their land in order not to pay an expensive land tax. As a villager in Hayanist said, “Most of us did not participate in the privatisation in 1991. At that time we all worked in Yerevan-Masis and did not want to cultivate land. We voluntarily gave up the privatised land and livestock”.

In Ararat marz, most refugees who do have land, do not cultivate the majority of it and only grow fruit and vegetables for their own consumption in their homestead gardens. Most of them live on remittances sent by their relatives in Russia and other countries. Impoverishment among refugees contributes to the extremely high rates of emigration. Most able-bodied and entrepreneurial refugee men leave their villages for Russia and other countries in search of better opportunities. Those who stay behind are mostly the elderly who often cannot perform agricultural work and women, for whom it is culturally inappropriate for them to do this work.

An important factor that affects the ability of refugees to benefit from agriculture is their weak social capital. Informal social networks are very important in determining economic opportunities in Armenia. As newcomers, refugees often do not have sufficient contacts with persons holding position of influence and authority within and outside their communities. Most of the important positions in the local communities are occupied by the local Armenians. The majority of refugees are Russian-speaking, which further restricts their access to information. As a consequence, refugees are unable to take advantage of many existing opportunities. For example, the most important economic positions such as service delivery and trade in Hayanist were seized by the residents of the neighbouring areas. Credit programs are less accessible to refugees; most refugees have a sense of hopelessness and do not even attempt to compete with locals.²⁰

²⁰ H. Kharatyan, Poverty of Vulnerable Groups in Armenia, Yerevan 1999.

4. THE NON-FARM ECONOMY

In practice, it is difficult to disentangle farming and non-farm activities in Armenia, since many non-farm activities are closely tied to farming, and households which are engaged in non-farm activities also rely on farming.

However, the distinction between farming and non-farm activities is useful for analytical and practical reasons. It allows us to distinguish between various sources of income and livelihood strategies on the part of different groups of rural population and enables policy planners to design strategies tailored to the needs of these groups in order to enhance their capacity to cope with social risks. The non-farm economy in this paper is taken as including all types of income-generating activities that go beyond farming and livestock breeding. It includes various types of income generating and entrepreneurial activities including trade and commerce (e.g. shops and kiosks; food processing), delivery of private goods and services (e.g. transport); provision of paid labour (e.g. seasonal work); employment in the public sector (e.g. in schools and health institutions). This paper does not consider generation of income from sale of produce from individual farming and livestock breeding as a type of a non-farm activity.

4.1 The Non-Farm Economy in Soviet Armenia

Armenian villages have deeply rooted traditions of engagement in non-farm activities. Historically, before Soviet times, Armenian villagers have always been engaged in trade and commerce, craftsmanship, construction and applied arts (painting, cross-stones, and carpet making). In Soviet times, with the heavy industrialisation of the country during the 1970s, branches of various industries were established in rural areas, providing employment to many rural residents. Soviet-era state-owned enterprises specialised in many different products, including such things as textiles, shoes, processed food products, cement and carpets. In some villages, up to 200 people were employed in such enterprises.

In addition, a large proportion of the rural population was employed in the public sector institutions, such as schools, kindergartens, clinics, hospitals and cultural institutions (e.g., as dance and fine arts teachers). These people constituted the core of the “village intelligentsia”, or village intellectuals. There was a considerable number of people employed in various services, including shops, cafeterias, restaurants, hair salons, and dressmaking ateliers. All of these activities were formal, and people engaged in these sectors were considered to be “state employees”. As there was no official private sector in Armenia, all non-farm activities were within the public sector domain.

On an informal level, there were many urban and rural residents who were engaged in various non-farm activities and enterprises, without registering their activities and paying legal taxes. These people constituted the core of the “parallel” or “informal” economy of Soviet Armenia. A separate group of rural non-farm workers were administrative employees or “*nomenklatura*”.

During Soviet times, many rural households combined non-farm employment with small-scale private farming. Many of them had one or two cows and a small land plot, although the majority of these households did not have members who were members

of collective and state farms. Produce generated from the homestead land was mainly consumed by the family itself, except in the Ararat valley, where it was sold at the city markets. Proceeds generated from the sales of produce from homestead land were not taxed by the state (hence it is very difficult for the villagers to reconcile themselves to the idea of paying taxes on the sale of such produce now). However, the main source of income of non-farm workers was the official salary that they received for their employment, and the proceeds from agriculture were only supplementary to the household budget.

4.2 The Non-Farm Economy in Post-Soviet Armenia

There has been a dramatic decrease in the intensity and scope of non-farm activities in the post-Soviet period in Armenia. One of the main reasons for the decline of the non-farm economy in Armenia is the closure of most public enterprises, decrease in the number of public jobs and the lack of, or very limited market demand for the types of goods and services that the non-farm workers used to produce. With the collapse of the Soviet economy, a significant number of rural non-farm workers suddenly found themselves unemployed and deprived of their main source of income. For example, during the Soviet years, half of the population of Verishen was employed in the 4-5 major industrial enterprises located in Goris and Verishen. Thus about 150 Verishen residents worked at the machine factory nearby, and about 200 women from Verishen were employed at a textile factory. All these enterprises were closed, leaving most of their employees with no choice but to resort to subsistence agriculture or emigrate to Russia and other countries.

Box 1: Fighting for Survival in Verishen

Some ten years ago, over 200 residents of Verishen were employed in construction and services in Verishen and the regional centre Goris. The population of Verishen was known in the area for its highly skilled specialists - builders, bricklayers, masons, and skilled construction workers. However, over recent years, all of these people have become redundant as most state-owned enterprises in the region were closed, and the need for construction jobs diminished.

For many of the newly unemployed, survival has been very difficult. As the village owns very little land, and it is of poor quality, the only way for people to survive is by growing vegetables and fruits on their homestead land plots. About 400 villagers have left Verishen to look for better opportunities outside Armenia. Attempts to start up businesses and petty trade were not successful for many villagers. Some 5-6 people attempted to start up small-scale production of knitted-goods such as socks and linen. However, they were soon forced to shut down their workshops, as the goods they produced were not marketable. They believe that they would only be able to make a profit if they had access to the markets in Russia. This however is very difficult; especially as the air transportation is extremely expensive. Residents of Verishen are convinced that only people with good connections and influential positions can be successful in business.

Another cause of the overall decline in the non-farm economy has been negative attitudes towards involvement deriving from the current social and economic situation in the country. Many households in rural areas find it increasingly difficult and have little incentive to engage in non-farm activities within the changing social and economic context imposed by the market economy. People are not enthusiastic about setting up small businesses and reluctant to take up new initiatives. In Shamiram, the respondents thought that none of the villagers who migrated to Russia would be willing to come back and set up businesses in the village, "because things are getting worse and worse here, without any prospects for improvement. We are not only talking about Shamiram, but about Armenia as a whole."

The following sections of this report will offer an analysis of the main factors that affect the involvement of people in non-farm activities in Armenia.

4.2.1 The difficult adjustment to the new political and economic environment

Many people have not been prepared for the need to assume new roles and responsibilities under the rules of the market economy. Now that the state can no longer provide jobs and income security, most people have found it psychologically difficult to look for sources of income on their own and to cope with the everyday uncertainty in their lives. After years of being employed by the state, which guaranteed income and security, many people still continue to dream about paid employment in the public sector. In addition, many do not have the necessary skills and knowledge to adjust to the needs and requirements of the new, market-based economy. In all of the communities studied, the majority of the respondents have not attempted to undertake any economic activity, simply hoping that the situation will change and the state will again provide them with jobs. Many people expect that “the state should do something,” “the state should provide,” “the state should take charge,” “the state should organise...” A villager in Hayanist said, “Our youth have left, and we cannot become new-style workers... No, it would be better if there was a factory or a plant where we could work for certain hours and come back home...”

Despite the current high rate of rural unemployment, the state does not have any policy on agricultural labour and does not provide any effective support to the rural unemployed. According to the law, rural people who own land or livestock cannot be legally considered unemployed. As discussed earlier, many land or livestock owners cannot derive benefits from these and are in reality unemployed and without any income. At present, these people are unable to use the services of the employment centres (e.g., training, help in job hunting), and hence have no opportunity to learn new skills and receive access to relevant information.

4.2.2 Emigration

As a result of the increasing economic and social difficulties, many young and capable men have left Armenia for Russia and other countries in order to find better economic and employment opportunities. A lot of these people are very entrepreneurial and hard working and run successful businesses abroad. As a consequence, many of those who could potentially contribute to the development of the rural economy are absent. Most economic migrants do not wish to come back to their villages in Armenia, as they see no future prospects for themselves and their families. According to a resident in Hayanist, “there isn’t a single family in the village who does not have someone in Russia”.

4.2.3 The importance of access to social networks

Most rural residents who have any significant involvement in the non-farm economy are those who have positions of influence and access to important social networks. Most “village businessmen” are the same *nomenklatura* who held administrative posts in Soviet times, or former managers of Soviet enterprises and industries. Many of them continue to be influential today and hold important administrative and

managerial positions. These people have been able to utilise their connections, authority and better access to information to take advantage of many new economic opportunities. They also have significant experience and skills that help them better orient themselves to new situations, take risks and manage their businesses. This rural elite today owns most local businesses such as shops and food processing industries. Most of the managers of the former state-owned enterprises used their positions and took control of these enterprises when they were privatised. The rural elite benefits from projects supported by international organisations as well as from rural co-operatives and credit schemes.

The majority of the rural population, on the other hand, perceive themselves to be powerless, and do not make any effort to involve themselves in economic activities in their area. Most of them are convinced that the market is “closed” to outsiders who do not have access to networks and influence.

The inability of rural residents to undertake economic initiatives is further affected by the lack of information. Often, farmers are unaware of their rights, as well as of the existing legal and economic opportunities. In all of the villages studied, it was mainly the local mayors and their relatives who were informed about the development programs that were being implemented in the region.

The rural elite is well connected to local towns and cities. In Hayanist, for example, most of the important economic positions are held and opportunities taken up by urban residents from Yerevan and neighbouring towns. Important activities such as agricultural processing and sale of agricultural products, as in many other rural areas, are in the hands of more influential city-based people. Here, where the population is composed of refugees, they are especially powerless. They have few connections and minimal influence.

4.2.4 Traditional norms: a source of social support but a disincentive to entrepreneurship

Networks of solidarity and mutual assistance based on kinship and ethnicity are an important safety net for many impoverished households. Thanks to the existing relations of reciprocity and mutual help, most households have managed to survive the darkest years of transition. Relatives, friends and neighbours in Armenian villages help each other with food, clothes and essential household items and provide moral support; in case of emergency most households can rely on their co-villagers' support.

At the same time, some traditional norms can constrain entrepreneurial activity. For example, it is a commonly accepted social norm to provide services to relatives and friends free of charge. Often co-villagers “borrow” food, money and services, but do not pay them back or delay repayment knowing that the lenders may be embarrassed to ask for repayment. In Verishen, as most people do not have cash at hand, the local barber provides services for credit. Most people promise they “will pay later, but most of them don't pay at all.” Many craftsmen and owners of shops and cafes interviewed for this study complained that the existing social norms undermine their businesses.

4.2.5 Remittances: essential to livelihoods but disincentives to self-sufficiency

A significant proportion of the rural residents in Armenia relies on the remittances sent by their relatives residing outside Armenia as well as transfers of money by the relatives and friends in Armenia. The amount of money sent in remittances and transfers is not large, and it is only sufficient to cover basic expenses. However, remittances and transfers have been crucial in supporting the livelihoods of many rural poor

On the other hand, remittances also de-motivate people. Thus in Shamiram, the deputy village mayor was convinced that remittances sent by relatives abroad created disincentives for people to engage in market-oriented farming and to undertake other income generating activities. He noticed that in one year when the inflow of remittances into the village decreased, the village produced more agricultural product as people were forced to rely on themselves. The deputy mayor thought that, “when supported too much, people become lazy.”

4.2.6 Access to credit

Most of the poor have very limited access to credit. Most banks do not provide credits to the rural population. Those that do provide credit ask for collateral, which most poor cannot afford. Most commercial banks in Armenia are concentrated in the regional centres, and only recently have they started opening branches in the rural areas. The rural population is not aware of the banking system and has very little information on the existing credit opportunities. In addition, people are often not willing to take the risk and borrow money. A villager in Hayanist for example said he was afraid to apply for a loan as he was not sure whether he could return it. He also believed that in order to obtain a loan one needs to have connections, “My friend works at the Central Bank, and he can arrange for a loan for himself with a 4% interest rate; but I cannot [get this rate and cannot] afford to take a loan with high interest rate”.

4.2.7 Limited access to a local consumer market

The widespread material and social deprivation of the population in Armenia hinders economic activity in the country. As the consumer demand for many goods and services is very low, most rural businesses struggle hard to maintain their existence. The rural population as a rule has very little cash, and it is only available when they sell their crops at the beginning of autumn or when they receive remittances or transfers. Hence most rural shops and services are forced to “lend” good and services to customers, until the latter obtain cash to repay. Most of the rural shops keep long lists of debtors. As a rule, debts are paid back within 5-7 months, although some debtors apparently remain on the list for up to 3 years! The weak purchasing power of the rural population undermines the sustainability of businesses. In Verishen, seven people were bankrupt in 1993-2001. These families invested \$2,000-4,000 in their shops and were not able to return their investment.

Things are no better in trying to sell to markets within outside the village but within Armenia. Most rural entrepreneurs in Armenia find it extremely difficult to find markets for their agricultural produce (e.g., cheese, dried fruit, etc.). Rural residents are often not willing to take a risk to start up commercial production or to expand

existing businesses, as they do not have much hope of finding a market outside their community. One of the main problems is the extreme material deprivation of residents in the urban areas. Just like the rural population, most urban residents are impoverished, and their consumption levels are low.

It is almost impossible to export agricultural produce because of the railroad blockade imposed by Azerbaijan and Turkey and road and transportation difficulties with Russia.

4.3 The Nature of Non-Farm Activities in Armenian villages now

As discussed earlier, agriculture has been the main source of income for the majority of rural households in Armenia during transition. The decrease in non-farm activities following the collapse of the Soviet system resulted in the increased reliance on farming by those who previously earned their living solely by non-farm activities. Most non-farm workers rely on farming as the basis of their household livelihoods. Thus none of the households in the villages studied were exclusively involved in non-farm employment. Only in a small number of cases did non-farm activities provide as much as 60-70% of household income. In most cases, non-farm income comprised 10-40% of total household income.

Non-farm activities are important in supplementing the household budget. They generate much-needed cash to cover basic necessities. As a rule this sum is quickly spent on electricity bills and repaying debts at the village food shop. The rest of the cash income is mostly spent on purchasing food and other basic items. When people run out of cash, they are usually forced to barter for food and other important household items and/or borrow food from the village shop. The non-farm economy is also important for providing households with access to shops and basic services essential for maintaining their everyday life²¹. Thus the existence of rural commerce allows residents to satisfy a rather substantial share of their food needs (41%).

Based on the research in the three rural communities, one can distinguish several types of non-farm activity that rural households are engaged in:

- Trade/commerce (especially shops and small kiosks)
- Services (e.g. restaurants, petrol-stations, cart repairing services, hairdressers, shoe-makers)
- Transport services
- Industrial enterprises (e.g. bakeries, mills, furniture-making factories, cheese-producing factories)
- Work in state institutions or local government administration – so-called ‘state-budget work’ (teachers, medical services, administration, power stations, post-offices, workers, cleaners, etc.)
- Craftsmanship and applied-arts (constructors, dress-makers, carpet-makers, wood and stone carvers, video operators for weddings and parties)
- Contractual work for a private employer (vendor in a shop, waiter/waitress, driver, baker, worker etc)
- Occasional, contractual labour

²¹ Lerman and Mirzakhanian, *Private Agriculture in Armenia*, 2001, Lexington Books, Lanham-Boulder, p. 64.

In all of the villages studied, the most common type of non-farm activity was trade, followed by services (restaurants and cafes, transport services, and paid labouring) and industrial enterprises (mill, bakery, furniture production, cheese workshop, etc.). In all of the cases, these activities were based on local resources and oriented towards the local consumption market.

Different types of non-farm activities have varying degree of “prestige” in the perception of local village society. Industrial, service and trade entrepreneurship are considered to be the most profitable and prestigious. State-budget and contractual works are, however, considered to be the most honourable.

It is difficult to generalise about any so-called class of “entrepreneurs” as these are people of different qualities and skills. An entrepreneurial attitude beyond the desire to simply do something to get a little cash hardly exists at present in Armenian villages. There is a somewhat negative attitude towards entrepreneurs who are purely oriented towards profit and do not take into account their social obligations. Most male and female respondents in the study villages considered entrepreneurship as a temporary or “crisis” occupation and as being nothing more than a means to ease their survival in the difficult times.

Box 2: A successful business in Verishen

In 1994-95, two brothers in Verishen sold their two horses and a cow, and invested in a small business – they decided to bring petrol from Yerevan and Abovian and sell it in the village. In order to avoid paying taxes, they did not register their business and operated illegally. The brothers were quite happy with their business, “The petrol business was 1,000 times better than farming”. Soon though, the competition at the local market increased, and many other people started reselling petrol. The business was no longer profitable.

The brothers decided to switch to cattle breeding and invested all the profit gained from the petrol business in purchasing cattle. They now have a rather successful business. They produce milk and cheese and manage to sell most of their produce. They utilise their wide network of connections for selling their cheese. Their friends in Yerevan buy most of their cheese at a good price and then resell it. As their cheese is of good quality, there is always a high demand for it.

Trade (shops and kiosks). Approximately 40% of non-farm activities are in the field of commerce or trade. The majority of people in the three villages studied understand the term “business” as meaning “trade,” and “trade” is primarily understood as running a shop or kiosk. All the villages had several small and big shops and/or kiosks. Most shops sell food, tobacco and basic household items (e.g., soap). There are also shops that sell important agricultural inputs such as animal food, pesticides and fertilisers. The owners of shops and kiosks combine trade with agriculture. Moreover, according to them, most of their income is generated through agriculture. Products are the cheapest and of the lowest quality. Trade in the village shops is usually very slow, and it only becomes active in the summer (as people buy ice-cream and cold beverages), autumn (increased consumption of agricultural products), and before the New Year holidays.

Many people have tried to open shops, but only a few businesses have survived. Shops do not provide major source of income as the impoverished population does not have cash to pay for goods. The majority of customers buy goods on credit. Thus the shopkeepers rarely have control over their proceeds. People repay their debt after they obtain cash from selling their crops or receiving remittances or social assistance. One informant said: “Four years ago I opened a shop on the first floor of my house. I spent US\$2,000. Our villagers all know each other and are relatives.

They would borrow food and other goods without paying their debts on time. All my goods were lost through these debts. I was forced to close the shop in a year. Even now I have some old debts still to be returned.” This situation discourages people from setting up new businesses. The primary sources of income for the family in Hayanist that owns a shop are the disability pension of the mother-in-law, and the income they derive from their homestead garden. The proceeds from their shop rank last in importance.

Box 3: Setting up a shop in Hayanist

This shop belongs to a young refugee lady. She set up the shop with the help of a loan of US\$5,000 from a relative. Sales are 4-5 times better in summer than in winter. She buys her products from wholesale distributors in Yerevan. Transportation is very expensive and a return trip to Yerevan costs her 3,000 drams. Just as with all other rural shops in Armenia, she has her book of debts. The shop's total debt, from its establishment until January 2003, is US\$1,400. In 1.5 years, however, she managed to repay the loan of US\$5,000. One strategy she has employed is to never lend products to those who are not likely to return the money. Most people do pay eventually, after they receive their proceeds from land, or money transfers. The shop assistants are paid in kind and can take items from the shop as salary. They are also provided with dinner by their employer. The shop assistants are her relatives, and she is happy to help them by employing them.

Private Enterprises. Most of the existing private enterprises relate to agriculture, and are mostly food processing enterprises (cheese and milk processing, fruit drying, etc.). Some 10% of all small enterprises are bakeries.

Service delivery. Most of the state-run service delivery enterprises in rural areas have been closed. Service delivery and crafts have a very low demand. There is no demand even for construction workers due to the drastic decrease of construction activities in the poor rural areas. The demand for such essential services as restaurants, hairdressing, dressmaking and car repair is also low due to the lack of financial resources of the population. Most of the service providers work without licenses in order not to pay taxes.

A fairly common form of service delivery is providing paid labour for seasonal harvesting or animal breeding. Providing transport services is another type of service delivery common in Armenia. In Hayanist, several households have cars and lorries that can be rented by the villagers. The lorries are extensively used during the harvest season for delivering crops to the middlemen traders in the city. As petrol is expensive the cars are rented rarely, only several times a year.

The majority of the village population relies on existing networks of reciprocity and uses many services free of charge or on credit. In-kind payment (in crops, meat or dairy products) is quite common. In addition, the cost of services is very low (e.g. barber charges 200 drams or 50 cents for a haircut).

There are some residents who work for an individual employer on a contractual basis (mostly as shop assistants, waiters, etc.). They work rather long hours, although in some cases their salary can be relatively high. For example, the saleswoman in the shop in Hayanist earned 1,000 drams a day (US\$2).

Public sector employment. Many people still prefer working in the public sector, and are still nostalgic about the Soviet past when they had guaranteed employment and income. State employment is still considered prestigious. Some managed to

retain employment in the public sector, for example teachers or primary-health care sector workers. However, their salaries are very low (their average monthly salary is about 20 USD) and do not provide any significant means of supporting their households. Because of the chronic budget arrears, public salaries are often delayed for months. Typically, public salaries make up about 10% of a household budget where a member is employed in the state sector. This money is important, despite the small sums involved, as it brings in additional cash that allows the household to pay taxes, utility payments and other minor expenses.

Generally, there is more involvement in non-farm activities in Ararat marz than in other marzes of Armenia. Due to the relative affluence of Ararat marz, the population here tends to invest more in a variety of economic initiatives. For example, one of the activities that is typical of this region is the production of furniture (doors, windows, and chairs). Furniture production is organised in the workshops, which have survived since Soviet times and have been privatised and bought by their managers.

Box 4: Enterprises and individual non-farm activities in Mkhchyan village in Ararat marz

- | | |
|---|--|
| <ul style="list-style-type: none"> • Four private dentists • School teachers /often work as private tutors/ • Music school teachers /often private tutors/ many male musicians play at weddings, parties and funerals/ • Dance studio • Private bus/shuttle • Four vans for delivering agricultural products to city markets • Repair services • Flour shop /sells other goods in retail/ • Fertilisers and pesticides shop • Shop selling agricultural equipment • Fish breeding farm | <ul style="list-style-type: none"> • Winery • Production of vodka • Meat processing • Mill • Wood-work workshop • Petrol station • Production of pipes and tools • Five barbers • Repair of electric appliances • Car repair service • Car Hire • Agro equipment repair • Carving on tombstones • Tailor • Photographer |
|---|--|

4.4 Who is Engaged in Non-Farm Activities?

The research in the three rural communities allows us to distinguish several categories of rural residents who are involved in non-farm activities. These include:

- Former and present administrative *nomenklatura*
- Former managers of state enterprises
- People with special skills (e.g., craftsmen, artisans)
- The relatively wealthy - more than the poor
- Residents of villages situated near urban areas
- People in the areas where the majority of the population is urban (Syunik)

Households, which have benefited most from the existing economic opportunities and have greater involvement in the non-farm economy, are those whose members had jobs as administrative staff (*nomenklatura*) or managers of enterprises in the Soviet times. They continue to hold positions of influence and have access to important networks in the post-Soviet period. For example, most of the successful businesses in the refugee populated Hayanist are owned by the former village

administration head. Many formerly state owned enterprises such as the district transportation enterprise providing minibus service and the local mill were privatised by their former directors who live in Yerevan. There are three petrol stations in the village, owners of which are from the neighbouring Hovtashat. There is a similar situation in Verishen. Thus the former village administration head owns one of the largest shops in the village and a petrol station. In 1992, while he still had his position, he privatised the Verishen House of Repairs, which is a two-story building with plenty of rooms, facilities and a warehouse. Local residents admitted that they do not have the power and resources to be more active in taking advantage of the existing opportunities. The respondents were convinced that only those who have good contacts, financial resources and high social status can succeed.

Generally, refugees and Yezedis are less involved than others in non-farm activities. Refugees living in rural areas of Armenia are the most vulnerable part of the rural population. The situation in the refugee villages of Ararat is especially dire. There are about 50 villages in Ararat that are populated exclusively or largely by refugees. Although most rural communities in Ararat are relatively affluent, the situation with refugee villages is quite the opposite. Refugees are powerless and poor. They rarely come up with independent economic initiatives and rely on remittances and social assistance to survive.

Armenians are generally more engaged in non-farm activities than Yezidis. Non-farm activities were not common in the Yezidi villages even before privatisation. Historically, the Yezidis have not had strong traditions of non-farm activities. Yezidis are generally less educated than Armenians, and have a deeply rooted pastoralist culture. The idea that they should cultivate the land and take care of livestock prevails among them. This belief does not come from religious or ideological convictions but rather forms the core of their ethnic identity, where ethnicity is perceived to be closely linked with economic activities. The difficulties in maintaining their livestock breeding traditions during the 1990s have led to the increased out-migration and impoverishment of Yezidis.

More men than women are involved in non-farm activities. Women are involved in barter and small-scale sale of agricultural produce; they are also employed as administrative and state-budget employees. The positions that most women occupy are relatively "invisible". Women mostly work for others rather than as individual entrepreneurs. They tend to work on a contractual basis for individual employers, mostly in service delivery. In the villages studied, there was only one woman in Hayanist who owned her own shop. In all of the communities studied, individual businessmen were mainly men. Men are also involved in handicrafts, applied arts and occasional labouring jobs. This pattern reflects the traditional model of social stratification of the Armenian society that assigns men to high and low status positions, and women to take up medium status roles in society.

5. CONCLUSIONS

1. There has been a **dramatic decrease in the intensity and scope of non-farm activities in the post-Soviet period in Armenia**. Reasons for this have been:
 - The closure of most public enterprises, the decrease in the number of public jobs and the lack of market demand for the types of goods and services that the non-farm workers used to produce. With the collapse of the Soviet economy, a significant number of rural non-farm workers suddenly found themselves unemployed and deprived of their main source of income.
 - There is very low consumer demand for many goods and services in both rural and urban areas and external markets are hardly accessible at all, so that rural businesses struggle hard to maintain their existence.
 - Many rural residents have found it extremely difficult to engage in non-farm activities within the context of the market economy.
 - Many entrepreneurial and capable men who could potentially contribute to the development of the rural economy have left Armenia for Russia and other countries.
 - There is a sense of powerlessness and of lack of access to important social networks and information. Most “village businessmen” are the former *nomenklatura* who held administrative posts in the Soviet time as well as the former managers of the Soviet enterprises and industries, i.e., those who have position of influence and connections.
2. For those rural households which can no longer rely on non-farm employment, **agriculture has become the main source of income and key safety net**. It has played an important role in protecting the population in Armenia from destitution during the years of transition and economic decline. At the same time, subsistence farming, upon which many rural households are still reliant, cannot contribute to agricultural growth in the long run. It does not provide an effective route out of cash-poverty. There are also serious environmental costs to subsistence farming, as crops are not rotated and fertilisers are often not used. The consequence of the concentration on subsistence farming has been the lack of cultivation of a large proportion of land, which has meant that most of the orchards and fruit-gardens which existed in Soviet times have died or have become pasture. There is a general process of degradation of cultivated land underway.
3. **Many Armenian villagers, and especially the poor, are finding it very difficult to break out of subsistence production**. They have difficulties in gaining access to enough useable land, to irrigation and other supporting infrastructure, to financial resources for essential investments and to markets. Many rural households, and especially refugees with urban backgrounds, the elderly and disabled and female-headed households, cannot cultivate all their land and for them land is a burden rather than an asset.

4. Households cannot rely entirely on subsistence production. They **need some cash income** to allow them to buy food which they cannot produce, trade goods such as clothing, and basic services.
5. For many rural households, their **main sources of cash income** is **remittances** from relatives who have emigrated, mainly to Russia; **social assistance**; and **mutual help networks** based on kinship or ethnicity. They **sell a little of what they produce** although this is mainly for subsistence. For many of the poorest and vulnerable, emigration has been the only solution to their problems.
6. **Non-farm employment is also an important source of cash income** for many rural residents, even though the amount of cash involved is very small.
7. **Refugees** living in rural areas of Armenia are the **most vulnerable** part of the rural population. Refugees are powerless and have few connections and little influence. They are poorer than the local village residents, as most of them have urban backgrounds and are unable to benefit from farming. They rarely come up with independent non-farm initiatives. They tend to rely on remittances and social assistance to survive.
8. There are some **differences** in the response to the current situation of the **mainstream Armenian and of the Yezidis**. Armenians are generally more engaged in non-farm activities than Yezidis. As most of the Yezidis are pastoralists, the difficulties in maintaining their livestock breeding traditions have led to their increased out-migration and impoverishment.

6. RECOMMENDATIONS

It has been argued that a crucial precondition for the development of the non-farm economy in Armenia is the **strengthening of the farming sector**. Development of the agricultural sector depends on successful design and implementation of a wide range of policies and programs, including a plethora of legislative, financial and policy measures in various sub-sectors. The State Strategy on Agricultural Development of Armenia (2002) addresses many of the important bottlenecks in the development of the rural sector. Some of the problem areas that come out vividly from the research in the three rural communities are:

- Solving the problem of **land fragmentation**; linked to this, development of **land markets** (although this should be done with caution, given the heavy dependence of some groups of the population on subsistence agriculture)
- Improving the **irrigation system** and farmer practices related to use of irrigation.
- Promoting the sustainable use of **pasture resources**.
- Improving **agricultural extension services** in order to increase knowledge and improve farming practices in relation to market-oriented production
- Provision of **essential inputs and mechanisation**, including support to input and service suppliers and subsidisation of the most essential inputs.
- Fostering the development of local agricultural markets.

Development of the rural non-farm economy depends on such changes at the macro level as an improved business and investment environment, development of financial markets, and strengthening of the rule of law in the country.

In order to promote the development of the non-farm rural economy in Armenia, it is recommended that donor organisations adopt a two-fold strategy that combines: (i) strengthening the capacity of the central government to effectively address the existing problems in the rural sector, and (ii) providing assistance and capacity building to specific rural communities at the local level.

In relation to (i) above, some of the measures to support the non-farm rural sector could include the following:

1. **Develop a policy framework and draft legislation** on agricultural labour and rural employment (e.g. adopting rural employment laws).
2. **Design and implement programmes to support the rural unemployed** – including those who have land but are in effect unemployed. For example, the State Employment Services could develop and implement specific technical assistance programs and training courses targeted at the rural unemployed (e.g., business education on non-farm activities, in particular courses on self-employment, small and medium size businesses; training for professional skills improvement; accessible information on employment level and opportunities for villagers).
3. **Strengthen rural finance and credit programs oriented towards small and medium enterprises**. This includes (i) strengthening involvement of commercial banks and micro-finance organisations, including NGOs, in rural areas; and (ii) encouraging development of micro-credit programs specifically tailored to the needs of low-income rural residents both in farm and non-farm economic activities (“social-oriented” micro-credit programs). In order to encourage the development of rural businesses, the government could consider provision of tax exemptions to non-farm rural enterprises.

4. **Increase information flow** to the population about available opportunities. For example, small business centres can be established in rural areas to provide consultancy and legal advice to rural residents. These centres can also develop and implement training programs to teach skills such as proposal writing; business plans, fund raising, marketing, etc.
5. **Develop the rural economic infrastructure**, including improvement of roads and transportation means. It is particularly important to develop cheap means of transport, as well as to increase the number of market places in regional centres where agricultural produce can be sold.
6. Attempts should be made to **empower and build the capacity of some of the poorest households and vulnerable groups** who because of their lack of influence and access to important social networks cannot benefit from economic opportunities. It is particularly important to reach those who belong to minority groups such as refugees from Azerbaijan and the Yezedis. It is also important to make the participation of women in the rural non-farm economy easier.

In relation to (ii) above, it should be noted that **community driven development programs can be an effective means to empower and enhance the capacity of the poorest and marginalized groups and households**. In particular, through special outreach efforts households from vulnerable groups can be involved in participatory micro-projects, where they can assume control over resources and decision-making with regard to important local development issues. The experience of the Armenian Social Fund has shown that such initiatives can help local communities acquire useful knowledge, improve their managerial and organisational skill and enhance social capital. Participation in such initiatives can help community members gain access to wider social networks outside their kin and immediate circle of friends and acquaintances. It is important that such programs be designed so that the poorest groups participate in micro-projects in partnerships with their community leaders. Such engagement of leaders with local communities can help strengthen intra-community bonds and co-operation. Bottom-up approaches can also be used for establishing rural savings mobilisation schemes.

The **following enterprises**, of which there is a tradition in many villages, are likely to be feasible in Armenian villages:

- Processing of agricultural produce such as fruit (jams, fruit juices etc.), vegetables, meat, and milk-products
- Wool and leather production
- Carpet-making
- Wine production, particularly in Ararat marz
- Production of fruit-based spirits
- In the Syunik region, production of jams from berries and the processing of nuts to make nut butters

To address the lack of knowledge about how to set up a business, it is recommended that **training and information services** be provided within villages covering the following areas:

- The market economy and how it works
- Taxation and Custom Laws

- On-going economic projects in Armenia and how to utilise assistance through these projects

It is important that training be made available to excluded groups including minorities (such as the Yezedis) and refugees, and to those who have land (currently classified as employed and therefore excluded).

Specific recommendations for the study villages are:

- For Hayanist village, the (re)-establishment of an enterprise to process vegetables, particularly tomatoes and peppers; this would provide villagers with both employment and a market for their produce.
- For Shamiram, the establishment of an enterprise or enterprises to produce wool and leather goods.
- For Verishen, which has a land scarcity and a history of craftsmanship, an enterprise or enterprises processing stone and wood and producing finished stone and wood items.

In order to set up such businesses, **grants** could be made available for start-up costs and **loans** following this to enable businesses to purchase basic equipment and to get through the first few years.

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