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Agriculture and Rural Cooperation
Examples from Armenia, Georgia and Moldova

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Since 1990 John Millns has been closely involved in supporting agriculture and rural enterprise re-structuring programmes in Central and Eastern Europe and the newly independent states of the former Soviet Union. His main areas of work have focused on enhancing rural incomes and employment, primarily through supporting the development of a privatised agricultural sector, promoting the development of producer groups and encouraging rural entrepreneurship.

This paper was prepared within the *"Cooperatives and their alternatives"* component of the *Agrarian Structures Initiative (ASI)* which a regional program of FAO in Europe and Central Asia. The aim of this project is to identify the advantages, disadvantages of integrating small farms into markets through farmer cooperative groups and direct contracting in the region. Studies are prepared in different countries of the region to understand the enabling environment for these institutional innovations, and to propose policy changes in order to develop inclusive and fair value chains.

More information on the Agrarian Structures Initiative and its projects is available here: http://www.fao.org/europe/agrarian-structures-initiative/en/

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Introduction

In more than twenty years considerable efforts have been made to privatise agricultural production and create competitive markets across countries of the former Soviet Union (FSU) and yet producer and rural organisations still don’t play a central or significant role in commercial trade, markets, supplies or services or have real influence on agricultural rural policy development at State, regional or local level.

Farmers in FSU countries operate within a complex and ever changing economic, social and political environment and in recent years the role of producer and rural organisations has been raised on the policy agenda, as Governments attempt to address agricultural competiveness and innovation issues and reduce rural poverty. But for some time now farmers have been presented with a variety of organisation concepts, models and philosophies by Governments, international organisations, donors, commercial enterprises and even by their own community leaders.

This paper outlines some of the main issues influencing the development (or not) of farmer and rural organisations and presents in further detail the specific situation in Armenia, Georgia and Moldova. All three countries returned ownership of the majority of land to the rural population. This resulted in large numbers of landowners managing relatively small and often dispersed land plots, but each of the three countries followed different paths to the development of agriculture and rural cooperation.

Despite sometimes significant investments and support from government and donors, the sustainability and impact of agriculture and rural cooperation still needs to be addressed and if they are to become a fundamental component of agriculture and rural development in the future. The paper presents some recommendations for a way forward.

Issues for Farmer and Rural Organisation Development in Former Soviet Union (FSU) countries

In theory at least, voluntary member-owned, financed and controlled producer and rural organisations should have a central role to play in enabling their members, and the wider rural community, to take an active part in their own development. It is more than 20 years since the Soviet Union was dissolved and yet in almost all of the former member States very few producer groups have a significant share in supplying inputs, providing farm or rural services or marketing production. They probably account for less than 5% of total trade and few influence national policy or decision-making. In reality it seems that their role still cannot be entirely divorced from wider historical, political and socio-economic considerations and the generally negative experiences of agricultural collectivisation gained from throughout the region.

A large percentage of the FSU population live in rural areas and, in general, they have lower incomes and less economic, social or educational opportunity compared to urban areas, and particularly cities. Unemployment (or underemployment) is high, often structural and worsened by an out-migration of young and skilled people. Rural infrastructure (roads, communications, utilities, health and social services) have historically had a low level of priority.

Low density rural areas, especially poorer ones, are generally seen as unattractive places to make investments, but problems in accessing credit and finance constrain productivity and a commercial farm requires a significantly higher capitalisation strategy than a subsistence enterprise. Without significant external investment or Government support a large percentage of capital will need to come from within the rural community and farmers are potentially faced with additional costs above those of basic production.

Few producers, and even the large ones, are individually not big enough to compete effectively in national or global markets and yet domestic and export market opportunities are in abundance and particularly for consistent product quality and supply. Food imports are on the rise. The considerable seasonal production and potential for agriculture across FSU countries needs to be turned into something more valuable. Producer organisations in areas such as post- harvest storing, grading and logistics supply would add value to production. So why are they not developing strongly? In reality farmer and rural organisation policies are often inadequate, inconsistent or even absent and yet paradoxically informal co-operation is on the increase and particularly between friends and family members.

To be fair to many FSU Governments, producer organisations have not been top of their policy priorities, primarily because there have been plenty of other things to do, such as; liberalising prices and markets, privatising land, food industry and capital goods and establishing an institutional structure and system of State Administration appropriate for a market economy. Producer organisations are also not the only form of business structure. Many agents already provide linkages between a number of often small, diverse and remote producers and buyers and in some cases agents, processors and retailers establish supply/marketing agreements with (informal) groups of individual farmers.

Some Governments are sceptical of supporting substantial numbers of often small producers, not really viable as full time commercial units, and would rather focus agricultural policy on larger farming units/land areas and vertical integration. Others would consider strengthening State engagement in marketing and Commodity Boards that guarantee supplies and prices and which were cornerstones for the development of agriculture in many EU countries prior to establishing and amending the Common Agriculture Policy (CAP).

Whether a Government decides to support (or not) the development of producer organisations, it is important to ensure decisions are clear, consistent, understood and implementable. They also need to be within an appropriate policy framework and legislation. In reality few farmers or rural communities will have inputs into these decisions at national, European or international levels.

Throughout FSU there is immense confusion over the interpretation of the words, and concepts, of producer groups, organizations, co-operatives, collectives or associations. The differences between commercial and various non-commercial organizations is often confused and not only by producers, but also by, inappropriate external interventions by experts, field advisers, Government administrators and donors. Organisation development is sometimes seen as a justification for project interventions and with little differentiation between commercial and non-commercial organisation. Advice on group development is often inconsistent, contradictory or confused. Producers and rural communities must carry out situation analyses on their own terms, trace their own path and generate innovations that can be solved as a group and without being over burdened with inappropriate models or dogma.

Most producers in former Socialist countries still understand cooperation as a form of collectivised production for markets that are largely defined by the Government. But as early as 1991 most countries took radical measures to extricate the State from the co-operative movement and today across FSU countries public administration is largely prevented from interfering in the internal affairs of a co-operative.

Although production cooperatives still exist and they still cultivate a large proportion of total land area, their numbers have decreased significantly in the past 20 years as their management became increasingly difficult. Most countries enabled co-operative assets to be divided amongst existing members as well as former members and their successors. This permitted members to leave their cooperative and allowed them to withdraw assets equivalent to their respective share and begin independent farming. A number soon became bankrupt and were liquidated.

The ones surviving generally manage partly owned and partly rented land from individual landowners of between 500 - 6000 ha. Land is leased from their own members as well as from other local landowners or town residents. Financial transparency is sometimes poor and payment is often made in kind and transformed into cash after the sale of products. Few have secured contractual agreements with buyers and many remain burdened with bureaucracy, excessive debt/social security obligations, asset insecurity, inappropriate legislation, taxation, management and management systems and diverse owners, that neither enables them to raise sufficient capital for investment nor provide clearly measurable benefits to farmer members beyond that of individual farming.

Only economically viable producer organisations can guarantee adequate support to their members. But capital reserves for productive assets require time to accumulate and few reserves have been, or are being, established by producer organisations across FSU. FSU producers are not able to fall back on more than 100 years of investment and support for cooperation and where group reserves have been (and are still being) built up. Over the past 20 years assets in former State influenced cooperatives primarily have been liquidated or disbursed to individual investors, rather than invested into new cooperative structures. The result is little engagement now by producers in added value, post-harvest, processing or marketing activity and little integration between farmers and markets through a value chain. Only in a few cases have assets been transferred legally to producer group ownership.

The development of new types of farmer organisation across FSU countries is often further hindered by inappropriate legislation, administrative bureaucracy and unreasonable taxation policies. Taxation can become particularly complicated. Although farmer organisations should be seen as an extension of the farm enterprise, in many countries individual farmers may be excluded from a variety of income and value added taxes, but their joint organisation is not. This discourages producers to develop groups and even more so when they realise they have to complete significant additional documentation for administration, accounting and taxation.

Producer organisations often face taxation both on "profits" and on any dividend payments that are made to members. There is little clear understanding or acceptance that producers are actually providing a service to themselves. In affect "profit" is actually an over charge/levy for the services they provide. This taxation discourages groups to make, or declare, any surplus and so have any surplus capital to invest in accumulating productive assets as a group. This lack of understanding of the differences between a producer organisation and other forms of commercial business enterprise is reflected in other legal provisions for trade. Few countries have legislation which enables a group to legally sell (under a written membership agreement) member products but without ever taking ownership of that product. Most legislation expects a group to take ownership of the product by buying and subsequently re-selling. This increases the risks and the costs and it also results in producers not really seeing their group as their own organisation but simply as another buyer, and often one of last resort.

Most legislation is either overly detailed or too restrictive, but at the same time misses key issues, that would make the management of a producer organisation more effective and capital accumulation simpler. Far too many groups are still able to operate with a large number of members that have no particular interest in trading through, or within, the group. Both legal entities and individual farmers can become members and members can often be as diverse as teachers, lawyers, investors and even Government officials and not necessarily under the control of the primary users. The overall objective of adding value to the farm business is simply lost within a number of conflicting interests.

Not only is it difficult for groups to retain reserves it is equally difficult for them to obtain loans at reasonable interest rates, primarily due to a lack of collateral. Few have their own assets and hardly any individual members would be willing to use their personal assets for group development[1]. The lack of legally enforceable membership agreements also stop banks from considering more creative mechanisms such as lending against committed production.

Many groups are being formed simply to access grant finance and subsidies. In EU countries finance is often on a co-financing grant basis of up to 50% of the project cost. Beyond this it is unlikely that producers will feel real ownership and commitment. FSU countries also often have a variety of support measures but they often lack clarity and cohesion and without any effective medium term budgetary, payment or monitoring mechanisms. Groups are often

[1] Although there are some micro-credit programmes that have developed with loans on the basis of joint liability for repayment

stimulated by advisers rather than farmers or rural communities and success is measured against the numbers of groups registered rather than their sustainability. Too many groups are formed without a clear market or operational objective, are not supported by committed producers, and don't have a clear plan for development.

The ultimate result of poor organisation by producers managing relatively small land plots, and yet still contributing the majority of total production, is that buyers are unable to consistently obtain or contract the qualities and quantities of products they require. Paradoxically producers are often unable to sell a large proportion of what they produce. The lack of integration in a food chain makes it difficult to introduce food safety (HACCP)[2] or quality assurance schemes based on defined and verifiable production and marketing.

Smallholder farmers acting alone have limited competiveness on national markets and have little opportunity to penetrate international opportunities. Lack of organisation has also meant they lack reliable market, buyer and price information. Produce is often sold when available or from the field and without adding much value through grading, storing or packing. Post-harvest losses are high and prices obtained low. The lack of integration in particular value chains also limits the extent to which either the public or private sector can wholly or jointly promote priority products on national and international markets.

The marketing system in many FSU countries has become dependent on networks of agents buying directly from the field either working independently or for specific buyers, and in the main season many informal markets develop along roadsides. Many FSU Governments have supported the development of agricultural "wholesale" markets by providing a place for farmers and agents to sell directly to retail buyers and consumers and with facilities for storage, packing and sale both from truck and fixed facility, but in many cases with little inputs from farmers in either the financing or the management.

Small producers are also individually unable to benefit from economies of scale when negotiating with suppliers of inputs and so are unable to obtain discounts that are available for purchase of larger quantities. In Western Europe many farmer organisations have become strong by not only negotiating with suppliers but also developed as agents in their own right, or manage the manufacture of their own feeds, fuel and other input applications. This applies to other areas such as provision of credit, risk insurance, sharing of machinery, veterinary and specialist services. Therefore a large proportion of producers are unable to access high value markets and obtain premium prices and yet pay higher prices for inputs than may be necessary. The result is low incomes, profitability and competitiveness and imported produce often available at higher quality and lower prices.

Many Governments have responded by attempting to support producers in a variety of ways. Most countries have a fully or partly funded agricultural research, training and field advisory services and which primarily aim to upgrade producer skills and introduce modern production and marketing practices. Rarely are producers or rural communities effectively consulted during the design, management or evaluation of research, training, information, advisory service or donor programmes and much advice on producer organisation has simply focused on registering a group and preparing a statute.

Developing farmer organisations across FSU countries will take more than preparing enabling legislation and providing advice, technical support and finance. Independence and private

[2] Hazard Analysis Critical Control Points http://en.wikipedia.org/wiki/Hazard_analysis_and_critical_control_points

land ownership after more than fifty years of forced cooperation still affects the psychology of the farming and rural population and Governments. Many are still sceptical of cooperatives and cooperation. There is a need to seriously engage farmers and rural communities in the decision making process affecting their lives and to institutionalise their participation in policy, strategy and budgetary management at all levels.

The following presents how agriculture and rural cooperation has developed since independence in the three former Soviet countries of Armenia, Georgia and Moldova

Armenian Economy

The Republic of Armenia (Armenian: Հայաստանի Հանրապետություն), is a landlocked, mountainous country in the South Caucasus region of Eurasia. Located at the crossroads of Western Asia and Eastern Europe, it is bordered by Turkey to the west, Georgia to the north, the de facto independent Nagorno-Karabakh Republic and Azerbaijan to the east, and Iran and the Azerbaijani exclave of Nakhchivan to the south.

Armenia has a population of 3,238,000 and is the second most densely populated of the former Soviet republics. Ethnic Armenians make up 97.9% of the population. After the break-up of the Soviet Union, there was a problem of population decline due to elevated levels of emigration. However, in recent years, the emigration levels have leveled and there is steady population growth.

On 23 August 1990, Armenia declared independence, becoming the first non-Baltic republic to secede from the Soviet Union and when, in 1991, the Soviet Union was dissolved, Armenia's independence was officially recognized. However, the initial post-Soviet years were marred by economic difficulties as well as the break-out of a full-scale armed confrontation between the Karabakh Armenians and Azerbaijan. Consequently Azerbaijan instigated a railway and air blockade against Armenia and in 1993, Turkey joined the blockade. This move effectively crippled Armenia's economy as 85% of its cargo and goods arrived through rail traffic and the country depends on outside supplies of energy and most raw materials.

Armenia's economy also suffered from the legacy of a centrally planned economy and the breakdown of former Soviet trading patterns. Soviet investment in, and support of, Armenian industry virtually disappeared at the early 1990s, so that few major enterprises were still able to function. As a consequence GDP fell nearly 60% between 1989 and 1993 and the national currency, the dram, suffered hyperinflation for the first years after its introduction in 1993.

Nevertheless, the government was able to make wide-ranging economic reforms that eventually paid off. The country has had strong economic growth since 1995, and inflation has been negligible for the past several years. A liberal foreign investment law was approved as early as June 1994, and a law on privatisation was adopted in 1997, as well as a programme of state property privatisation. Armenia joined the World Trade Organization on 5 February 2003. Since 2011 Armenia has been negotiating with the European Union to become an associate member.

However, unemployment, which currently stands at around 15%, still remains a major problem and continued progress will depend on the ability of the government to strengthen its macroeconomic management, including increasing revenue collection, improving the investment climate, and making strides against corruption.

One of the main sources of foreign direct investments still remains the Armenian diaspora, which finances major parts of the reconstruction of infrastructure and other public projects. But new sectors, such as precious-stone processing and jewelry making, information and communication technology, and even tourism are beginning to supplement agriculture, a more traditional economic sector.

Agriculture and Rural Areas in Armenia

Before the dissolution of the Soviet Union in 1991, agriculture accounted for less than 20% of both net material product and total employment After independence, the importance of agriculture in the economy increased markedly and its share at the end of the 1990s rising to more than 30% of GDP and more than 40% of total employment. This increase in agricultural importance was attributable to the food security needs of the population facing uncertainty during the first phases of transition and the collapse of the non-agricultural sectors of the economy in the early 1990s. As the economic situation has stabilized and growth resumed, the share of agriculture in GDP has dropped, today it is to just over 20% although the share of agriculture in employment has remained more than 40% and rural poverty has remained stubbornly high at 35%.

Following the disintegration of the former Soviet Union, the former 869 large collective and State farms on some 147,000 separate parcels were privatized during the early 1990s to create 338,000 farms/rural households with relatively small pieces of land. The rapidity and disorganisation of land reallocation led to disputes and dissatisfaction, with conflicts particularly arising particularly over allocation of water rights and distribution of basic materials and equipment. Agricultural reforms are continuing and there are a number of problems yet to be solved. More than 150,000 ha of arable land and 50% of former pasture land across the country is still out of use. 95% of agricultural machinery is more than 10 years old.

Today the average farm size is 1.37 ha and sizes ranging from 0.61 ha in the Ararat valley to 3.0 ha in pre-mountain and mountain areas. 88% of the farms are smaller than 2 ha and these together comprise 77% of the total land area. Each of these owners has on average three parcels of land, one of which is irrigated and two non-irrigated. About 15% of farmers also cultivate leased land with average holding size of 3.2 ha and about a third of farmers do not cultivate their land at all. Although most farms contribute significantly to food security most are unable to produce the volume required for commercial enterprise and crop yields are still generally low.

Armenia is especially rich in fruits, berries and nuts, such as apricot, grape, peaches, apples, plums, pears, pomegranates, quinces, figs, walnuts and other fruits. Agro-ecological conditions also permit the cultivation of many varieties of vegetables, including tomato, pepper, eggplant, cabbage, potato, cucumber, carrot, pumpkin, bean, garden radish, parsley, basil, coriander, mint, fennel, estragon, cress, cauliflower, lettuce, water melon, melon and peas. Winter wheat and spring barley are the dominant cereals. Maize is mainly grown for feed and in mountainous area limited cultivation of rye and oats. Alfalfa, sainfoin, clover, amaranth, feed beet and vetch are also grown as feed crops. A small amount of tobacco is cultivated as an industrial crop. Cattle, pig, poultry and sheep breeding are the most developed branches of animal breeding and the gross output of livestock products is approximately half of the overall agricultural production.

The Armenian food processing industry has in the past focused on the production of sweet jams[3], juices, tomato paste, and vegetable marinades for both the domestic and foreign markets. The wine and brandy industry remains one of the most important branches of the Armenian economy, with 35 wineries, three brandy distilleries and one sparkling wine plant.

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[3] Armenian apricot and peach jams and juices have a unique and consumer recognised taste and flavour.

There are also favourable natural conditions for the production of cheese and in the past, Armenia was a well-known cheese producing country, supplying 34,000 tonnes of cheese locally and for export and including 1,200 tonnes of Swiss and Swiss type cheeses and 800 tonnes of Roquefort cheese per year. At present a range of cheese factories, all privatized, are actively involved in production of European and traditional Armenian cheeses. Dairies are also producing ice cream, yogurt, sour cream and other products.

A significant decrease in the production capacities of food processing factories occurred in the 1990s to the extent that most enterprises were operating by 1997 at only 5 - 10% of their former capacity. In more recent years there has been some revitalization due to the gradual establishment of localised food production and marketing infrastructure. The canned food processing industry now has 14 plants with a total capacity of more than 300,000 tonnes and among them are several large canneries. As a result, the volume of export of Armenian agro-products is growing. However, many local food processing enterprises own outdated equipment and still need significant investment to upgrade existing facilities.

Agricultural and Rural Cooperation in Armenia

There is no agricultural cooperative law in Armenia and farmer organisations are mainly regulated under and the "Law on Consumer Cooperatives" adopted in 1993 and requiring operation as a "non-commercial" enterprises and with a minimum membership size of 30 persons (Article 2). Specific laws have also been passed for certain types of groups, including the Law on Water User Associations and Unions (2002) and the Law on Agricultural Credit Clubs (2002). Five articles in the Civil Code of Armenia (Articles 117 through 121) also specifically mention association and group formation.

"New forms" of cooperation were considered and promoted in Armenia, primarily by the government, as early as 1993 and based on voluntary and autonomous associations (a relatively novel concept at the time). The real focus for cooperation during the 1990s was towards "encouraging" small farmers to consolidate jointly the management of their land and crop/livestock production. These "production cooperatives" grew rapidly in number and although their numbers have fallen over the past five years there are still more than 3700 registered under the civil code and taxed as commercial organisations.

During the 1990s several local and regional unions, associations and other organizations were also formed and including in 1994 "Armenian Farmer" Association, 1995 Armenian Agricultural Union, 1996 "Agrarian Union" 1998 – 300 Water User Associations (later consolidated through donor programmes) and in 1998 Credit Clubs. Although, at least in theory, the representative organisations were independent of the State, most were viewed by farmers as quasi ministry structures to promote specific political interests and with little grass-root (member farmer) involvement and governance. Most were unable to practically support farmers and solve major problems facing the huge number of new small farmers created following the break-up of collectivised State structures and many were eventually liquidated, as promised State support did not materialise. However the government continues to promote and subsidise specific types of interest groups, such as for the management of irrigation water, for farm consolidation.

A second period of farmer group development really began in 2000 and continued over the next decade. This development was primarily driven by donors and supported primarily by grant finance, advisory and technical support, albeit with some contingencies attached. Notable groups included the formation of the Association of Potato Producers (2000), Water User Associations (2002), Agricultural Association Consumer Cooperatives (2001), 50 Credit Clubs (2001 – 2005), Milk Marketing Consumer Cooperatives (2001) and the Federation of Agricultural Associations (2001). Support from donors encouraged more interest in these "new forms" of groups amongst farmers but most struggled to maintain commitment after the end of donor support.

A major part of farmer group development even between 2000 and 2010 had been promoting the registration of groups, but followed by subsequent stagnation due to a lack of clear and often contradictory commercial and social objectives, planning or sustainable finance and eventual liquidation. After 2005 half of the 50 credit clubs formed were liquidated. In 1999 there were 297 consumer cooperatives registered with agricultural interest. By September 2011 this had fallen to 239 of which only 118 mentioned agricultural activities and very few of them actually operating.

Even so many donors remain upbeat regarding impact and promote some notable successes. USDA between 2000 – 2005 supported the development of 25 milk marketing cooperatives and milk collection centres and the volumes of collected milk through the majority of these groups and payments to members has slowly grown. The Federation of Agricultural Association Union of Legal Entities (FAA ULE) was established on December 29, 2001 by the initiative of eight local Farmers Organizations (FOs) in Armenia and today represents (at least on paper) 21 member associations from 6 regions. Farm Credit Armenia supported by USDA was established in 2007 by 57 farmers and today boasts more than 2000 member farmers and a loan portfolio of over $500,000.

Since 2010 the whole government approach to farmer group development in Armenia and, to a lesser extent donors, has been re-focused to support the 2010-2020 Sustainable Strategy Programme for Agricultural and Rural Development adopted by the Government and implemented by the Ministry of Agriculture. Farmer organizations are presented as being integral to several components of this Strategic Programme.

Essentially the Strategy is in line with the EU request as part of the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) to establish clear, and measurable, long term agricultural and rural development policies. Agricultural Cooperatives are supported within the EU through the Common Agricultural Policy under both "Pillar 1 - agriculture" "Producer Marketing Organisations (PMOs)[4]" and under "Pillar 2 – rural development" local action groups (LAGs) to develop rural areas beyond the farm sector and for environmental issues.

The EU is shaping the future of agri-rural cooperation across Europe within a common framework expressed for neighbourhood countries within ENPARD. Although finance for group development has so far not been forthcoming the Armenian government and other countries in the EU Neighbourhood programme are clearly developing their strategies on the assumption that it will. Potentially groups of farmers should be able to access grant finance for developing competitive marketing structures, adding value, for improving standards or specific regional branding such as geographical indication schemes as well as for supporting

[4] Primarily for fruit and vegetables

rural development programmes (such as cultural, educational, infrastructure programmes etc.) and on a co-financing basis

This has stirred renewed interest in farmer group development, as included in the 2010 – 2020 Strategy are specific actions for; improving legislation and creating of favourable conditions for their development, providing state support[5], further encouraging their development for farm consolidation, development of "value chains" and added value, strengthening milk collection and consumer cooperation, establishing markets and logistics centres, enabling access to rural credit, machinery, interest rate and input subsidies6 and collateral guarantees and supporting the adoption of food safety standards and broader rural development. Between January 2011 and January 2013 a further 89 new cooperatives were formed of which three quarters are operating in agriculture.

The EU is not the only agent helping to drive agri-rural development policy and cooperation across Armenia. At the same time a number of other donors remain active in the agriculture and rural sector and are providing significant finance. Since July 2011, the World Bank has supported the Community Agricultural Resource Management and Competitiveness Project. The Government of Armenia directly finances $5.33 million, and the World Bank is lending a further $16 million. The aim of this project is to improve productivity and sustainability of pasture-based livestock farms in 55 mountainous communities by increasing milk production, improving pasture management, and enhancing farm sales of livestock products.

A "Community Fund" is made available for the implementation of Pasture/Livestock development plans and managed around village communities[7]. A range of village group activities are supported including infrastructure to access/use remote pastures (e.g. spot road improvement, stock watering points, milk cooling devices, etc); agricultural machinery to produce/harvest fodder (grass cutters, hay making machines, silage choppers, etc.); rehabilitation measures for degraded areas (fencing, supplementary seeding, etc.); support for fodder production (leguminous plant seeds, corn seeds, etc.); improvement of breed (artificial insemination); training, technical services, as well as support investment in organization of pasture management mechanisms at the village level. In order to ensure the effective implementation of village programmes Pasture User Associations (PUAs) are created and currently 33 PUA Consumer Cooperatives have been established.

The United States Agency for International Development (USAID) also promotes more effective rural development through the Civil Society Local Government Support Program (CSLGS Program) in support of inter-community associations (ICAs) and promotes procurement of shared services such as for water supply, waste management, public transportation, and music, arts and sports schools. USAID estimate there are 58 existing ICAS in Armenia and covering 60% of Armenias communities and 40% of the population outside of Yerevan. USDA also continues to support farm credit primarily through Farm Credit Armenia a cooperative financial institution.

A number of NGOs also continue to operate and fund agri-rural cooperative development. The United Methodist Committee on Relief (UMCOR) manages the Sustainable Cooperative Extension and Agricultural Development (SCEAD) programme with the aim of improve the livelihood of farmers and small-scale agricultural entrepreneurs in the Ararat, Armavir and

[5] A budget of 400 million AMD per year (1 million USD) over the 10 year programme is provisionally allocated for group development
[6] Particularly for nitrogen fertilizer, diesel and wheat seed
[7] Between 100,000-300,000 US$/village is provided

Vayots Dzor Marzes (Provinces) through development of their production, management, pre-processing and marketing capacities and including cooperation. Oxfam within the framework of the Small Farmers Livelihoods project have established, and continue to support, 10 agricultural cooperatives primarily for cold storage and product collection/assembly.

To facilitate these developments the Government is intending to adopt a new law on cooperation and is reconsidering issues such as membership size requirements, status and commitments, roles of decision making bodies, financial sustainability and statutory capital and taxation.

Georgian Economy

Georgia (Georgian: საქართველო) is a sovereign state in the Caucasus region of Eurasia. Located at the crossroads of Western Asia and Eastern Europe, it is bounded to the west by the Black Sea, to the north by Russia, to the south by Turkey and Armenia, and to the southeast by Azerbaijan. Georgia covers a territory of 69,700 km² and its population is almost 4.7 million.

On April 9, 1991, shortly before the collapse of the Soviet Union, Georgia declared independence and embarked on a major structural reform designed to transition to a free market economy. As with all other post-Soviet states, Georgia faced a severe economic collapse. The civil war and military conflicts in South Ossetia and Abkhazia aggravated the crisis. Agriculture and industrial output diminished and by 1994 gross domestic product had shrunk to a quarter of that of 1989.

Attracting foreign investment became the Georgian government’s number one objective and subsequently the situation improved. By 2006 Georgia's real GDP growth rate had reached 12%, making Georgia one of the fastest growing economies in Eastern Europe. Budget revenues increased fourfold and a once large budget deficit turned into a significant surplus. The World Bank dubbed Georgia "the number one economic reformer in the world"

Since 2006, a ban on imports of Georgian wine, and increased charges for gas, by Russia helped to slow growth and spike the Georgian lari's rate of inflation. Even so growth continued, albeit at a slower rate, and driven primarily by foreign direct investment and increases in tourist revenues. Georgia's economy is becoming more devoted to services (now representing 65% of GDP), it has maintained a solid credit position in international market securities, developed as an international transport corridor and has become more integrated into the global trading network, with imports and exports accounting for 10% and 18% of GDP respectively.

Despite evident economic success, Georgia still has a high unemployment rate of 12.6% and has fairly low median income compared to European countries. More than 30% of the population lives below the national poverty line[8] and with an average monthly income of a household averaging GEL 347 (about 200 USD).

Agriculture and Rural Areas in Georgia

Georgia is rich in agricultural tradition and an integral part of the history, mentality, and cultural heritage of the country and yet today agriculture and food production is lagging well behind development of other parts of the economy. Even so agriculture is important because it still accounts for more than 50% of employment. 85% of persons employed in agriculture are self-employed.

During the Soviet period, Georgia was far more agriculturally productive than neighbouring countries and on much smaller land areas, but today the country imports a significant

[8] Down from 54% in 2001

proportion of its food. Georgia has good levels of rainfall and a wide variety of rare microclimates needed for growing high value crops and yet surprisingly has low agricultural productivity (more than three times lower than in developed EU countries), massive under-utilisation of fertile agricultural land and decreasing soil fertility due to lack of crop rotations or good agricultural practices.

Georgia's agricultural collapse was severe following the end of the Soviet period and a collectivised agricultural system. From 1991 - 2001 agricultural production contracted by an average of 11% per year, the most profound collapse in the region and reduced Georgian production output to around 32% of its Soviet level. Even after 2001 the Georgian agricultural sector has recovered by only a total of 6%, an average of 0.6% per year, much slower than the rest of the economy. Livestock numbers are less than 36% compared to 1990 and more than more than one third of agricultural land is currently not cultivated.

Even within the past decade, and while the large majority of Central and Eastern Europe and countries of the former Soviet Union have, been increasing their production, in Georgia meat and potato production has halved, grain production has decreased by 77%, vegetables 63%, fruit 32% grapes 27%, milk 30%, eggs 14% and largely substituted by imports.

In 2009 food product import was GEL 1,576 million (USD 947 million) compared to GEL 333 million (USD 200 million) fifteen years ago. 80% of food that is sold is now imported. Food self-sufficiency has fallen to 34% and in some basic commodities such as wheat, for bread flour, and vegetable oils to as low as 8% and with significant implications for food security. Georgian families spend more than 50% of their disposable incomes on food. Daily food consumption has fallen by 6.35 since 2004 and almost half of Georgia's population consume below 2100 kcal - the minimum recommended based on international standards (WFP), while 25% of the population consume less than 1600 kcal.

A severe result of falls in agricultural production and employment has also been an adverse effect on poverty. The average annual income of one person employed in 2012 agriculture is about GEL 2300 (1381 USD) and which is a little more than 1/3rd of the average annual income for the rest of the population and with additional vulnerabilities for women, ethnic minorities and remote regions. It is calculated that 53% of people employed in the agriculture sector live primarily from agricultural subsistence and 23% of them live in extreme poverty[9]. According to the Food and Agriculture Organization of the United Nations Georgia's per capita agricultural production index decreased by 29%, between 2003 and 2009, the worst index amongst 194 countries analysed from across the world.

Following the break-up of collectivized farms during the early 1990s, most rural dwellers received, and now manage, land of less than 1.5 hectares[10]. 98.4% of all farms are smaller than 5 hectares. Major hurdles exist for their development. Many landowners are not farming out of choice, but out of necessity and the % share of elderly population in rural areas is increasing. Difficulties remain in buying and selling land, accessing appropriate technologies, inputs (machinery/fertilisers/chemicals/seed/irrigation/artificial insemination, feed) as well as access to, and availability of, loan capital[11][12] that could help add value through slaughter, storage or processing. Despite Government investments into road infrastructure many villages remain isolated from the larger domestic markets.

[9] UNDP Poverty Statistics
[10] Between 1992-1993 0.76 million hectares of agricultural land was transferred into private ownership of physical persons
[11] The majority of interest rates are between 18 – 30%
[12] The share of agricultural lending in the banks' total loan portfolio stood at 1.8% as of August 2011

Since 1991, Georgia has embarked on a major structural reform programme focused on transition from State command to a more free market economy, but in recent years agriculture has simply not been viewed as priority and Government spending on the agricultural sector has been erratic. Aggregate spending of the Ministry of Agriculture went up by almost 7 times from 2000 to 2007, but then fell back by two thirds. At its low-point in 2010 spending on agriculture was less than ½ per cent of total Government spending. From 2007 - 2010 the majority of the large expenditure items in the Ministry of Agriculture budget were social support of one kind or another, providing hand-outs of flour, food and fuel. Any specific agriculture support subsidies subsidy payments have primarily been provided to processors[13] and not directly to farmers.

The Government also significantly reduced both staff and their responsibilities. From 2000 - 2007 the number of staff of the MoA dropped by 87%[14] and this significantly reduced its ability to carry out even the most fundamental statutory responsibilities, such as monitoring animal disease, food safety or security. 19 regulatory and inspection departments were closed and municipal branches of the Ministry were replaced with regional branches therefore reducing dramatically local representation.

Most of the Government policy focus in recent years has largely been on centralisation and privatisation into large commercial units and to encourage major investments which will eventually regenerate the sector, provide for the domestic market, and encourage export. More than 40,000 hectares of agricultural land has been sold by the Government in an attempt create farms of significant size, but agriculture still currently accounts for only around 3% of total foreign investments (FDI) and in export terms agriculture is a fairly miniscule portion of the total economy[15]. Primary international investments have been with tangerines, mandarins and nuts. Vegetables and grains are largely grown on smallholdings and animal/meat production has shifted dramatically over the past decade to export sales of live animals rather than meat sales for domestic consumption as domestic consumption prices have fallen.

There are a number of important issues constraining agriculture and rural development in Georgia. Arable land is now mostly privatised but a particularly pressing issue for the development of a commercial agriculture market remains land registration. After several rounds of land privatisation there still remains confusion over who owns what. Land has to be registered before it can be considered as properly owned and many people have been slow to do this. Much grazing land is still community owned by municipalities and ‘managed’ by villages. The communally owned grazing land definitely creates problems with under-management and, particularly, overgrazing. This contributes to commonly commented-upon problems in the animal sector, like low milk yields and slow weight gain. Communal grazing also makes disease control more difficult. There are also major rural infrastructure issues that still need to be addressed such as a need for significant rehabilitation of irrigation and drainage systems.

The credit, leasing and insurance markets do not function effectively for the needs of Georgian agriculture. Only 1% of total commercial lending is provided to the sector. Interest rates and premiums for credit are high and conditions strict, due to the perceived high risks, absence of an effectively functioning land market, lack of security collateral and an absence

[13] Such as to wineries for grape harvesting
[14] Ministry of Agriculture (2008), Overview of the Budget of the Ministry of Agriculture 2000-2007. p13
[15] In 2011, nuts were 3.5% of total exports, wine, grapes and spirits together were 5% and live animals were 1.2%.[15]

of insurance. Direct foreign investments in agriculture is only between GEL 16-32 million (USD 10-20 million) annually[16]. The result is a scarcity of cash for development and even for short term seasonal funding.Agricultural support services are currently provided by a complicated array of cross-cutting service delivery organizations that exist in primarily in terms of agricultural input suppliers and international development organizations and Government agencies, such as the Georgian Agricultural Corporation.

At the same time, Georgia has become more integrated into the global trading network. Import tariffs have been abolished on approximately 90% of products and there are no quantitative restrictions (quotas) on imports and export[17]. Georgia is a member of the WTO and has GSP agreements with the EU and the US and has formally started negotiations on the Deep and Comprehensive Free Trade Agreement with the European Union. Georgia also has a free trade agreement with Turkey and preferential access to most countries of the former Soviet Union, although breakdown in relations with Russia has severely affected exports into this major market.

Even so, few agricultural inputs or outputs are certified to international standards. Farmers often do not trust the quality of the inputs they buy or consumers the quality or safety of the food offered for sale. Georgian product names and brands are not well protected or promoted and farmers often have little or even no information on market prices, buyers or opportunities.

For these reasons the Government is currently completing an Agricultural Strategy for Georgia and associated action plan including development of farmer organisations over the next decade.

Agricultural and Rural Cooperation in Georgia

The Law on Entrepreneurs provides the general framework that governing all business forms. The legal forms for organizing an agriculture enterprise are as a General Partnership (GP), Limited Partnership (LP), Limited Liability Company (LLC), Joint-stock Company (JSC), and a Cooperative (CO). Farmer organizations can also be organized as a non-profit association (NCE) form and governed by the Civil Code. In Georgia registration for all types of organisations is generally quite simple and can be completed in one working day. The average number of members in registered Georgian farmer organisations is 37, although those operating with a cooperative legal form have more members than those registered as associations.

Few farmer or rural community organisations operate effectively for managing land or water resources, supplying inputs, marketing outputs or for providing any kind of agricultural or rural support services. Although many farmers cooperate, few farmer groups are legally registered and a tiny number would be able to operate sustainably without donor support. Over the past decade the Government has played a very minor role in the development of agricultural cooperatives in Georgia and preferring not to support any specific kind of business form or to present cooperation as a defined policy measure. Almost all farmer cooperative development has therefore been driven largely by donor support and focused on

[16] 1-2% of total foreign investments into Georgia
[17] There are zero customs tariffs on 7,200 products with Georgian origin

particular regions, commodities or donor objectives (high poverty, internally displaced persons, gender and environmental issues).

Some notable donor programmes have included; USAID Support to Added Value Enterprises (SAVE) activity, also known as AgVantage [18]. AgVantage supported the development of the Gori Fruit Association, in Shida Kartli, potato producers in Akhalkalaki (growing and distributing seed potatoes) and the Tskaltubo Greens Growers Association in Kvitiri, Tskaltubo district; OPTO International supported cooperating dairy farmers for introducing new technologies, improving production and marketing and better engaging women in the dairy sector[19]. The Swiss Development Cooperation have continued support over almost a decade to cooperative development in cattle breeding and potato production in Samtskhe-Javakheti[20].

In all the projects support had included training, advice and information as well as grants of seedlings, trees, livestock or production, harvesting, storage, transport and processing equipment that has averaged around 45,000 USD per organisation. Many groups have also received donations from more than one donor and with most preferring to add value/finance to existing groups rather than initiating and developing new ones.

Farmer cooperative development without such support is very rare in Georgia and the few that have established on their own initiative have soon been encouraged to join and “benefit” from the financial and other support provided by an appropriate donor programme. More than 100 donor support projects are currently operating in support to agriculture and rural development in Georgia.

While cooperatives provide a useful mechanism for disbursing technical assistance and donor support, in its various forms, the commercial and financial sustainability of such groups after this support ends is less clear. Almost all producer organisations in Georgia have at least 50% of passive members and the remainder provides very low levels of financial or product/trade commitment. A result is that few groups offer services exclusively to their member and are managed by relatively few persons.

Some groups have managed to establish commercial contracts with buyers, particularly in the milk sector alongside the dairy processor Ecofood, others have secured loans for development, particularly for potato production in Akhalkalaki or have prepared their own tenders such as for milk processing as part of the of the Millennium Challenge Fund. Others have developed their skills and act as training and consultancy service providers offering training and consultancy to other farmers and funded by donors, such as the Biological Farming Association ELKANA and or the Gabja Agribusiness Association (GABA).

Donors will continue to have substantial impact on the development of farmer cooperatives in Georgia for some time to come and financing of this area over the next 5 years is expected to rise rather than fall. The European Neighbourhood Programme for Agriculture and Rural Development in Georgia (ENPARD Georgia) by itself is a €40 Million EU-funded programme signed with the Government of Georgia in December 2012 and with a €15 million allocation to support to the establishment of “business-oriented” small farmers' groups.

[18] Implemented by ACDI/VOCA
[19] Implemented by OPTO International
[20] As part of the Market Alliances Against Poverty Programme and implemented by Mercy Corps/ABCO

The Georgian government elected and appointed in December 2012 is currently upgrading the Agricultural Strategy to 2020 which has increased, at least on paper, its commitment to cooperation “Cooperation is one of the essential preconditions for the development of agriculture in Georgia. Given the small household production and fragmented land conditions, such unions can increase the competitiveness of Georgian farmers, increasing their income and integrating them into the supply chain”[21].

This commitment is being accompanied with new legislation in support of agricultural cooperative development and including consideration of targeted financial contributions and tax exemptions. In 2013 the government also intends to support a national awareness campaign to promote effective farmer cooperation (commercial and representative) and accompanied by a farmer, and farm adviser, training and development programme.

[21] Strategy for Agriculture till 2020 – Ministry of Agriculture of Georgia

Moldovan Economy

The Republic of Moldova is a landlocked nation of 4.18 million people in Eastern Europe located between Romania to the west and Ukraine to the north, east, and south. It declared itself an independent state with the same boundaries as the Moldavian Soviet Socialist Republic in 1991 as part of the dissolution of the Soviet Union. A strip of Moldova's internationally recognized territory on the east bank of the river Dniester has been under the de facto control of the breakaway government of Transnistria since 1990.

Since independence, Moldova introduced a market economy, liberalized prices and interest rates, stopped issuing preferential credits to state enterprises, backed steady land privatization and removed export controls. Initially this resulted in rapid inflation and from 1992 to 2001 Moldova suffered a serious economic crisis and energy shortages contributed to sharp production declines. After this the economy began to change and since the country has shown steady annual growth of between 5% and 10%. The overall unemployment rate declined to 6.6% in 2011 (from 7.4% in 2010). As a result of decreases in industrial and agricultural production the relative weight of the service sector in the economy of Moldova started to grow and began to dominate GDP.

Even so in 2009, Moldova was described by the European Parliament as the poorest country in Europe in terms of GDP and has barely reached the economic level it maintained in 1994 and still only 40% of the GDP registered in 1990. According to the UNDP Human Development Report, the registered GDP per capita is US$ 2,100 PPP, which was 4.5 times lower than the world average. The economy remains vulnerable to higher fuel prices, poor agricultural weather and a general skepticism from foreign investors. The early 2000s saw a considerable growth of emigration of Moldovans looking for work[22] and still today Moldovans abroad account for almost 38% of Moldova's GDP, the second-highest percentage in the world.

A particular feature of Moldova’s economy is a persistently high negative net export balance. Trade deficits have been a constant issue since 1997, with their share of GDP growing steadily since 2000. Moldova’s main trading partners are the EU and CIS, which together account for 90% of the country’s foreign trade. In 2011, the volume of bilateral trade between the EU and the Republic of Moldova increased by 27.9%. In 2011 the Republic of Moldova exports to EU countries constituted 1,083 million US$, while imports from the EU represented 2,256 million US$. The main products trade is as follows: Moldova is dependent on imports to cover 97% of its energy needs. Energy import costs amounted to approximately US$645 million, equivalent to 14.6% of GDP or 17.5% of total imports in 2007 and almost entirely derived from Russia.

The Republic of Moldova competes to attract foreign direct investment (FDI). FDI contributed 3.91% of the country’s GDP in 2011 and inflows amounted to €274 million, 44.5% more than in 2010. Tax legislation provides various benefits, including VAT refund on tangible assets and services, related to long-term investments; exemption from VAT and customs duties on assets included in authorized capital and avoidance of double taxation in accordance with international agreements. The Public-Private Partnership mechanism allows provision of services, partially or fully, by private companies with transfer of the construction,

[22] An estimated 700,000 (16%) of Moldovans are estimated as living and working abroad

operation and financing risk to the private sector and special provisions are made for free economic zones and industrial parks.

Agriculture and Rural Areas in Moldova

Moldova's rich soil and temperate continental climate (with warm summers and mild winters) have made the country one of Europes most productive agricultural regions. The highly fertile chernozem soil covers 75% of the agricultural land (2.48 million hectares) and supports wheat, corn, barley, tobacco, sugar beet, and soybeans. Beef and dairy cattle are raised, and beekeeping is widespread. It is also known for its sunflower seeds, walnuts, apples, and other fruits as well as the production of a wide range of horticultural products. This makes the area ideal for agriculture and food processing.

54% of the population is classified as rural and agriculture traditionally has been regarded as the main pillar of the national economy, 27% of the population is involved in agriculture and a further 15% in agri-processing and marketing. Income from agricultural activities is low and has been decreasing over the years contributing 19.1% of total income in 2010, down from 28.4% in 2007, while the income from remittances alone was 22.8% in 2010[23].

Agricultural production amounted for roughly €1.4 billion in 2011 and increased by 4.6% compared to the previous year. Agricultural output has accounted for over 15% of GDP[24] in the last five years and 36% when combined with the food processing industry. Agri-food products account for approximately 41% of total exports and particularly wine and spirits, as well as fruit and vegetables, both fresh and processed. 70% of exports go to CIS countries and 30% to the European Union, mostly in the form of semi-finished products.

During the 1990s much of Moldova's agricultural land was transferred from state to private ownership and today 73.8% is in private ownership (1.84 million ha) and 26.2% is owned by the State (660,000 ha). Around 40% of agricultural land is held by limited liability companies, 37% by family farms, 10% by other forms of business organizations, 10% by production cooperatives and 3% by individual enterprises. In general, the structure of Moldova's agricultural production is 70% vegetal and 30% animal production.

Following land reform and privatisation the structure of agriculture land use changed. More than 1million title holders now manage as individual plots of 1.4 ha and further sub-divided into separate plots based on land type (arable, orchard, vineyard).. In many cases it is not possible to use these small plots efficiently and so affecting the extent of large scale mechanisation for crop production, such as for grain, sunflower and sugar beet. Farms of less than 10 ha account for 72% of total agricultural production in volume terms and 80% of all horticultural products.

Fruit and vegetable production and processing is significant as well as significant cereal production including wheat, barley, corn and rape seed, sugar beet[25], sunflower, soya and tobacco[26] production. Moldova is also one of the largest European exporters of walnuts[27].

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[23] 10% of remittances are being spent on investments on the farms such as acquisition of new land, farm buildings or farming machinery.
[24] Down from 31% in 2000
[25] 3 million tons of sugar beet and 360,000tons of sugar. The industry employs over 40,000 people.
[26] Moldova is one of the leading Eastern European producers of raw tobacco
[27] Moldova is the 4th largest exporter of shelled walnuts in the world behind the USA, Mexico and China and with a volume of 9,163 tons and a value of €29.8 million.

36%, of livestock production is poultry, 29% pigs and 28% sheep and goats. Fish and honey production[28] is increasing and rabbit breeding is practiced mostly in households.

The pattern of animal ownership is highly fragmented and there are very few organised animal based production units. 97% of milk (576,000 tonnes in 2010[29]) is produced by smallholders with less than 5 cows[30] and milked by hand. In fact there are here are only 49 enterprises in Moldova with more than 50 milking cows. Beef and veal is predominantly from culled cows (cow beef) and unwanted calves (veal) and again almost exclusively from producers with less than five livestock. Mixed farming (animals and crops) is not practiced, nor are forage crops included as part of normal arable cropping rotations. The legislative basis for common grazing rights and obligations is unclear.

Food processing is a major industry accounting for 43.5% of industrial output and more than two thirds of export. The country has 27 canneries, 9 sugar mills, 9 large meat-processing plants and many small and medium scale processing plants. After privatisation in the late 90's, many enterprises modernised their equipment, organisation, management, raw material supply and trade channels. The main fruit and vegetable crops processed are field tomatoes and apples.

Moldova has a well-established wine industry producing around 300-350 million bottles of wine and 20 million bottles of sparkling wine annually, primarily for export and generating approximately 15% of the national annual government budget. 95% of vineyards are under private ownership and with a vineyard area of 147,000 hectares of which 102,500 hectares are used for commercial production from vineyards concentrated in the central and southern regions. 90% of the country's wine production is made for export. Moldova also produces liqueurs and sparkling wine.

But Moldova is not without other significant problems. Between 2009 and 2012, the prices of agricultural inputs increased by 55% for diesel, 50% for seeds and 45% for fertilisers and low and inconsistent quality of much agricultural produce restricts marketing opportunities available to growers. Overall soil fertility in is declining and many common pastures are degraded due to a lack of management and overgrazing. Rural infrastructure (roads, energy, irrigation and domestic water supply, education, waste collection) remains in a dilapidated condition, The World bank estimate that more than 90% of the rural water supply systems are either in need of capital repairs or need to be reconstructed.

Agricultural and Rural Cooperation in Moldova

For a number of years now agricultural and rural cooperatives have been given quite a high profile by the Government of Moldova and operate within a quite well developed legal framework which includes:

- Law on entrepreneurship and enterprise No.845-XII of 03.01.92;
- Law on organization and functioning of agricultural and food markets, No. 257-XVI of 27.07.2006;

[28] 2,500 tonnes a year and 50% exported
[29] Of which only 147,500 tons of raw milk entered the commercial supply chain and the remainder was consumed on farm
[30] Not necessarily all dairy cows

- Law on small business support and protection, No.112-XIII of 20.05.94;
- Law on small farming business, No.1353-XIV of 03.11.2000;
- Law on business cooperatives, No. 73-XV from 12.04.2001
- Law for supporting small enterprises sector, No.206 of 07.07.2006

The fiscal code is also advantageous both to individual small farm enterprise and farmer cooperatives with 0% income tax payable and options to use simplified accounting options.

During the 1990s considerable technical and financial support was provided by the World Bank and bilateral donors to establishing and strengthening farmer representative bodies at regional and national level. Today three bodies lobby for farmers interests at regional and national level and most farmers and their associations are members of one or the other:

1. The National Farmers Federation of Moldova (NFFM) established in 1995 by associations of farmer cooperatives from 29 villages and today operating through 11 regional organizations across Moldova, 11 Information and Consultancy Centres (CICs), 26 District Information Offices. Registered membership is 700 local farmer organizations representing over 27,000 farmers. As well as lobbying for farmer interests, NFFM state their goal as being to improve the welfare of the rural population, through the realization and protecting the civil, economic, social and cultural rights of all land owners and persons practicing agricultural businesses and services.

2. The National Union of Agricultural Producers Associations (UAP) comprises of 17 Agricultural Associations representing over 2000 smaller groups enterprises and almost 25,000 farmers managing 50% of Moldovan farmland. As well as lobbying for smaller farmer interests they also provide information and consultations to its members on attracting investment and implementing new technologies.

3. The Farmer Federation "Agroinform" was established in 2001 as a network of NGOs and maintains a nationwide coverage of 27 regional non-governmental member organizations and engaging more than 4,000 farmer members. Primarily the Federation offers, consultancy, training market information and trade services.

All three have been so far able to sustain their activities through tendering for government projects, through winning additional donor work and by charging for specific training, consultancy and information services. They have also benefitted substantially from the structure of a decentralised national extension and training service based on service provider contracts and for which all three representative organisations are able to tender.

The National Agency for Rural Development (ACSA) is a non-governmental organization operating since 2001 and which has the mission to sustainable development of rural communities through setting-up and developing a professional network of information, consultancy and training service providers for agricultural producers and rural entrepreneurs.
Presently ACSA manages a network of 35 service providers, including representative farmer organisations, contracting about 425 consultants, out of which 75 regional and 350 local consultants. Activities are primarily funded through direct contracts provided by Government and donors.

This relatively organised regional and national structure or farmer representation and engagement has enabled farmers to have some significant impact on the development of national agri-rural policy. On the basis of the Government's Activity Program, European Integration: Freedom, Democracy, Welfare 2011-2014[31], the Ministry of Agriculture and Food Industry (MAFI) has developed "Strategic priorities for the activities of the Ministry of Agriculture and Food Industry of the Republic of Moldova in the years 2011 – 2015[32]" and farmers through their representative organisations have been closely involved in its development. it is within this strategic framework that the MAFI utilises state budget funds for agriculture support and including EU Budget Support of around €30 million[33].

Cooperatives are eligible for preferential access to a number of government subsidy programmes that are not always available to individual farmers and covering areas such as, farming credit, risk insurance, investments into orchards, vineyards and greenhouse vegetable production, equipment and breeding stock purchase, post-harvest and agri-food processing. Farmers and their groups are also being encouraged to actively participate in major infrastructure developments such as development of wholesale markets.

A number of other organisations represent farmers, traders and processing companies in specific commodity areas. The Fruit Producers and Exporters Association -"Moldova Fruct" was founded in 2006 and now has 95 companies in a membership managing more than 20,000 ha of fruit-vegetable-growing areas. The Oenologists Union of Moldova was founded in 1998 and now has 16.000 grape and wine producer members covering 70% of the vineyards of the country. The Sugar Beet Producers Association was founded in 2007 and comprises 750 sugar beet producers. Similar national organisations exist for beekeepers, nut producers and exporters, seeding materials, potatoes, sheep and goats, cattle breeding, milling, poultry and berries.

However while farmers are seemingly well represented at policy and commodity level their commercial engagement into integrated and coordinated value chains through the marketing of outputs, supply of inputs or provision of farming support services (other than training and consultancy) remains very low and accounts for less than 5% of total trade. This is despite considerable donor support to agriculture and rural development over a number of years and which is likely to continue for the foreseeable future.

The World Bank have operated in Moldova since 1993, and invested between 2006 and 2013 US$81 million on improving agricultural competitiveness, soil conservation, community forestry, rural investments and services and including into farmer cooperative development.

The U.S. Agency for International Development (USAID) has had substantial influence on the development of agricultural cooperatives through the Private Farmer commercialization Program and the Private Farmers Assistance Program and primarily focused on improving supplies of inputs. This included the formation of one of the largest cooperatives in Moldova, the Agrostec Input Supply Cooperative, formed in 2001 with 15 trader members and today operating with more than 100 and with sales volumes in excess of $15 million. USAID support ended in 2004, but between 2011 – 2016 have continued to support the Agricultural Competitiveness and Enterprise Development Project (ACED) working on improving the competitiveness of Moldovan high value agriculture (HVA) and by addressing constraints in fruit and vegetable value chains at the marketing, production and policy levels, including the encouragement of farmer cooperation.

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[31] http://www.gov.md/doc.php?l=en&idc=445&id=3729
[32] http://maia.gov.md/doc.php?l=ro&idc=48&id=14595
[33] The Agency for Intervention and Payments in Agriculture, was established by Government Decision no.60 of 4 February 2010,

The Millennium Challenge Account is financing the High Value Agriculture Project, 2010 - 2015 and acting as a catalyst for investments into high value production and including promoting an institutional and policy environment for irrigated agriculture and for increase rural incomes[34]. This has included establishing 11 Water Users Associations and engaging 6000 agricultural producers.

Since 2000 IFAD have managed a portfolio of 5 programmes of value US$70 million for rural financing and development of rural enterprise; agricultural revitalization, marketing and business development and including cooperation. The Food and Agriculture Organization of the United Nations (FAO) are engaged in supporting the Government in transforming from subsistence to market orientated agriculture, management of natural resources and livelihood threats and Governance and regulation of public good functions that support market orientated agriculture, value addition, trade and economic integration.

Significant bilateral programmes include the Japanese International Cooperation Agency (JICA) Agriculture Development and Food production (2KR) programme supporting since 2001 equipment leasing to small scale farmers and their groups and with a total budget of US$ 23 million and the Swedish International Development Cooperation Agency (SIDA) with particular programmes aimed at NGOs and cooperatives and including for export development and trade.

However the European Union is the major donor to the Republic of Moldova and has allocated more than €500 million to Moldova since 1991 and with a further €500 million provided, between 2010 and 2013, to support EU integration objectives. As part of this disbursement he Economic Stimulation in Rural Areas, Sector Policy Support Programme (the ESRA SPSP) is in the process of implementation. This is a €70 million programme, that will receive an additional Euro14 million top-up from EaPIC in 2013, which included specifically allocated support to:

- Supporting horizontal cooperation and vertical integration of producers groups through direct investments in shared production, storage, processing and logistic infrastructure
- Support the development of production of GI and Traditional Specialities in rural area
- Support in the development of organic production, marketing and certification
- Support the implementation of EU food quality and safety standards in the milk, fruit and vegetable sectors
- Support in creation of a system of farmer's markets in rural areas

[34] Compact Program, Transition to High Value Agriculture Project
http://mca.gov.md/upload/documents/0607121339055327thva_eng.pdf

Recommendations for a Way Forward

In more than 20 years considerable efforts have been made to privatise agricultural production and create competitive markets across countries of the former Soviet Union and yet producer and rural organisations still don't play a central or significant role in commercial trade, markets, supplies or services or have real influence on agricultural rural policy development.

Georgia, Armenia and in Moldova all returned the majority of land to the rural population and resulting in large numbers of landowners managing relatively small and often dispersed land plots. But while decision making is now decentralised to individual landowners the supportive structures able to sustain a vibrant commercial and innovative agriculture and rural population are still not fully in place and rural poverty remains a significant issue.

Farmer organisation would seem to be an obvious development and where farmers themselves take some considerable responsibility for improving their own marketing, input supplies and support services. Across Western Europe and throughout the World, producer and rural organisations have been highly successful in helping to improve agricultural competitiveness and have contributed significantly to rural development. In the European Union (EU) their development is a key component of the Common Agricultural Policy (CAP) that covers all member States. More than 50% of inputs supplied to farmers and production marketed from their farms are sold through the organisations that they jointly own. Across Europe an estimated 40,000 farmer cooperatives employ some 660,000 people and with a global annual turnover in excess of EUR 300 billion[35].

The development of farmer and rural organisations ultimately depends on the willingness and commitment of farmers and rural communities to develop and continually improve their own jointly organised activities. Producers should not have to rely on Governments to stimulate their own organisations, but even for producers simply wanting to sell their potatoes together, as an officially registered group, the legislation, management, administration and bureaucracy involved can sometimes be quite daunting.

More than a decade ago the Food and Agriculture Organization of the United Nations (FAO) identified key issues constraining group development across Central and Eastern Europe[36] and presented opportunities for their development that will help to overcome:

- Inadequate group management, leadership and education
- A general unwillingness by farmers to collaborate and unclear benefits derived from cooperation
- Insufficient start-up and operational capital
- A lack of innovation, value added activity and entrepreneurial spirit
- Generally small farm sizes and sometimes unclear land ownership
- Unclear cooperative legislation and inappropriate taxation policies
- Ineffective marketing and market access

So far legislation has largely developed to encourage consolidation of agricultural production into larger joint farming units and managed as production cooperatives or for "non-

[35] Copa-Cogeca Statistics

[36] Developing Producer Groups and Rural Organizations in Central and Eastern Europe – Issues and Challenges (2001)

commercial, not for profit" activities. Legislation has primarily focused on for regulation, control and taxation and not really for encouraging the kinds of commercial cooperative and representative structures that are required for competing in complex value chains that require planning, vision, innovation, investment and change and focused on improving business opportunity.

Legislation and taxation needs to recognise the fundamental difference between a producer organisation and other business forms i.e. as an extension of the farm business and not as a business formed to maximise return on capital invested. Where crop commitment to a group is high or business activity is predominately with members, possibilities should exist for tax exemptions and so avoid tax duplication. Such a policy would also help in strengthening the capital base for cooperation. Specific legislation also needs to be in place which will allow group ownership of individual farmer production and for limiting non-member trade and decision making. Voting and benefits that are received have to be according to usage of the group and not according to investment.

Producer organisations will grow more effectively within an enabling legislative, political and economic environment and Armenia, Georgia and Moldova are their updating legislation and taxation policies, but this alone will not be enough without the implementation of coherent and consistent policies towards producer and rural organisation development and within a Medium Term Expenditure Framework (MTEF) and clear recognition conditions for groups that are to receive financial support and with an effective agency for payments.

Assuming a more facilitatory environment is in place for the development of producer organisations, producers themselves need to separate political from commercial activity and focus on establishing and communicating clear group objectives. They need to apply and enforce strong membership criteria (for acceptance and expulsion) and with only one category of member, develop renewable annual membership agreements that encourage member trade and ensure total management and financial transparency. Producer organisations need to encourage a steady increase of working capital and reserves.

There needs to be a recognition that farmer cooperation does not exist in a single form and that commercial cooperation is significantly different to representation, lobbying or the broader issues influencing rural development.

Commercial farmer organizations aim to reduce farmer costs, increase total income or minimise their risk. Their primary aim is as an extension of the farmer members own business by improving their economic effectiveness and positioning in the marketplace. As their primary activity is working with, or through, their own farmer members they need to be considered differently to other business forms that are based solely on capital returns. Commercial farmer organizations can be sub-divided into 5 types:

- Production groups[37]
- Input Supply Groups (fertilisers, chemicals, breeding cattle, machinery, credit etc.)
- Service Groups (artificial insemination, veterinary, market promotions, etc.)
- Marketing Groups (strawberries, lamb, grain etc.)
- Special Interest Groups (young farmers clubs, pedigree livestock breeding clubs, handicrafts etc.)

[37] In Western Europe most production groups are focused on supplying a particular crop to a particular specification and to a particular buyer. In FSU countries they are more often interpreted as being a group of farmers agreeing to work the land together.

Buyers can help by formulating agency and contractual agreements with producer groups, working with them to standardize varieties, define clear specifications and standards for products and preparing joint codes of practice for commodity sectors. They can also assist in developing financial innovations with banks and risk insurance companies based on committed and contracted production. The establishment of buyer/producer clubs or inter-professional organisations would help in strengthening relations between producers and buyers and assist in solving bottlenecks in particular value chains. These inter-professional organisations can provide market and research information, input into macro-scale policy advice and arbitrate in the case of conflict. Possibilities would also exist for later linking these groups to Internet based trading systems, such as for cereals pricing and enable improved representation and promotion on international markets.

The Government can further support by encouraging the formation of more product focused commodity associations (such as for grain, milk. pork etc.) and value chain linkages. This can be further encouraged by working with all participants in particular chains and jointly funding activities to specifically improve the effectiveness of these chains, supporting national and international food promotions and developing brands based around varieties or regions. Further help could be given by providing selective co-financing support for group purchase and management of added value investments (such as for packing, storage, grading or processing) or for improving key food safety and infrastructure (such as abattoirs, trade markets, handling and logistics). This would also include engaging the farming community in decision making when existing assets are to be privatised, where significant support to Government agri-trade infrastructure is proposed or where group management is possible of assets such as pastureland. Particular support can be directed to new groups by providing facilities for trade and places for meetings and at least cover part of their, administration, accounting, legal or management costs for the first few years of operation.

Under a socialist system former collective farms provided support not only for agricultural production but also contributed resources to rural social services. Modern commercial groups are either financially unable or commercially reluctant to get involved in areas for which the State is expected to take the leading role. Non-commercial cooperative organizations for representation and rural development issues (social, education, infrastructure etc.) need to be developed separately and managed differently.

Certainly it is preferable for producers and rural communities to be given opportunity for direct participation in policy making and representative organisations at local, regional, national and eventually international level can help to facilitate this participation, but inclusive and democratic forums need to be established with recognised mechanisms for regular participation and consultations between Government, producers and rural communities and in order to jointly solve key issues in agriculture and for rural development. Moldova has made significant progress in this respect.

In relation to the much broader issues of rural development and poverty the active participation of all potential beneficiaries in a in a meaningful way is desirable and with real public/private investment in support. To achieve this there is a need to decentralise decision-making, adopt participative development approaches, empower local and regional communities, respect the principles of subsidiarity and stimulate new thinking to tackle economic and social issues and preserve or improve the natural environment. This is difficult in countries that have experienced decades of centralised decision making and still with little conceptual understanding or clear policies towards "rural" development.

Armenia, Georgia and Moldova have expressed a clear commitment to establish closer relations with the European Union and fundamental to EUs Neighbourhood |Policy (RNP) is to establish clear agricultural and rural development policies and prepare a suitable institutional infrastructure for their implementation. Local Action Groups (LAGS) are seen by the European Union as being fundamental to rural development strategy, and in support of change, particularly in less-favoured regions[38]. LAGS are made up of public and private partners and include representatives from different rural socio-economic sectors (such as business managers, local administrators, teachers and lawyers) and not just agricultural producers. In the European Union they have primarily been developed to engage local rural communities in decision making for the development of their own communities.

LAGS identify priorities and develop proposals and strategies for development in areas such as infrastructure, adding value to local production, improving the quality of rural life and social facilities or making the best use of natural and cultural resources. In the EU LAGS have received financial assistance since 1991 primarily through the "LEADER" programme to implement local development strategies and jointly financed by the EU, national budgets and the private sector (including by the local communities themselves).

The EU define the objective of the LEADER programme as being to: "encourage the adoption of participatory bottom-up approaches to development, in particular to harness innovation, creativity and solidarity in rural communities, create subsidiarity in decision-making, decentralise policy implementation, introduce integrated sustainable rural development programmes and illustrate new directions that rural development can take"[39].

Projects are selected by a Managing Authority of the Member State and within the framework of a national rural development plan and priorities. LAGS have to be officially registered to submit proposals and the Managing Authority can be a national, regional or local, private or public body, approved to manage the programme.

However in Armenia, Georgia and Moldova the EU, the relevant governments or even the farmers and rural communities are not the only agents influencing agriculture and rural development. There remains significant support from international donors. Donors need to be consistent in their approaches to producer organisation development and not send confusing and often contradictory signals to producers and rural communities and aim to provide synergy with national strategies.

Donors, extension and advisory services also need to better and fundamentally understand the different types of cooperative groups that can operate, to recognise that cooperatives can benefit larger farmers as well as the small ones, and to give practical rather than theoretical advice and support. Best practices from inside and outside of the own country need to be identified and presented. Many groups have difficulties in accessing markets simply because they lack information on where, or to whom, they should market their produce or can develop their business simply because of lack of understanding of suitable technologies, breeds or varieties.

[38] The aid to farmers in Less Favoured Areas (LFA) provides a mechanism for maintaining the countryside in areas where agricultural production or activity is more difficult because of natural handicaps. In place since 1975, it is a long standing measure of the Common Agricultural Policy.
[39] http://enrd.ec.europa.eu/leader/en/leader_en.cfm

More roundtables need to be held with group participation and fewer conferences and lectures. There is a need to link up groups and ideas and help can also be provided by facilitating rather than dictating planning meetings. Producers and rural communities need to be able to carry out a situation analyses and trace their own path and based on reliable and relevant information and within an appropriate and enabling legal, fiscal and economic framework.

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ANNEXES

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