



UNIDO-UNDP Programme in Armenia

ENPARD Technical Assistance: Producer Group and Value Chain Development

Project number:	SAP 120603
Starting date:	upon signature
Duration:	36 months
Project site:	All Armenia
Government coordinating agency:	Ministry of Agriculture

Project Inputs (in Euro):

	Year 1	Year 2	Year 3	Total
<i>UNIDO Inputs</i>	573,405	417,905	178,401	1,169,711
<i>UNIDO Indirect costs (7%)</i>	40,138	29,253	12,488	81,880
<i>UNDP Inputs</i>	374,000	457,680	241,600	1,073,280
<i>UNDP Indirect costs (7%)</i>	26,180	32,038	16,912	75,130
<i>Total</i>	1,013,723	936,876	449,401	2,400,000

Brief description: Under the EU ENPARD Armenia 2013, EUR 20 million has been allocated for budgetary support for agriculture and rural development for 2014-2016 and EUR 5 million for complementary technical support. The overall objective of the programme is to support the Government of Armenia in ensuring an efficient and sustainable agriculture contributing to better conditions in rural areas. Within this programme UNIDO and UNDP will be responsible for a EUR 2.4 million complementary support project providing services to improve the capacity of farmers associations and cooperatives and to establish agricultural and non-agricultural pilot value chains contributing to the development of rural areas, development of improved agricultural inputs and production systems in particular for livestock, fruits and vegetables, improve access to local and international markets, and ensure introduction of environmentally friendly farming practices. This will help beneficiaries (agricultural producers, producer group members and employees, and their families) to encounter improved job opportunities and increase their incomes while emphasis will also be put on managing natural risks through, for example introducing systems for drip irrigation, hail protection, frost moderation, and post-harvest handling. In to-be-determined regions of the country the project will focus on (1) strengthening and newly establishing producer groups, (2) engaging producer groups effectively in value addition and (3) strengthening value chains that provide improved access to affordable, better quality food.. As a result, at least thirty (30) new business-oriented farmers groups (of which around 20 are anticipated to be involved in primary production with the others having additional value adding activities) are officially registered at the Agency for State Registry of the Ministry of Justice, and operational, with approved business plans, covering both agricultural and non-agricultural activities. Of these, at least 40% are women-led. The groups shall receive training and coaching (in addition, support will be provided to selected already operating groups), at least 1,000 farmers shall be trained on matters of improved primary production and group organization, and products from assisted value-adding producer groups shall attain at least 10% premium price and 20% increase in annual turnover.

CONTENTS

A. CONTEXT.....	3
A.1 GENERAL CONTEXT.....	3
A.2 SECTORAL CONTEXT	4
<i>Agricultural Production and Trade</i>	<i>5</i>
<i>Agroindustry and Food Processing.....</i>	<i>6</i>
<i>Producer Group Development</i>	<i>6</i>
A.3 CROSS CUTTING ISSUES	7
B. REASONS FOR UNIDO/UNDP ASSISTANCE.....	7
B.1 LINKS TO NATIONAL DEVELOPMENT GOALS	7
B.2 INSTITUTIONAL BACKGROUND.....	8
B.3 PROJECT RATIONALE.....	9
B.4 STAKEHOLDERS AND TARGET BENEFICIARIES.....	11
B.5 UNIDO AND UNDP COMPARATIVE ADVANTAGE	12
C. THE PROJECT	13
C1: PROJECT OBJECTIVES.....	13
C.2: THE APPROACH.....	24
C.3 GOVERNANCE AND PROJECT MANAGEMENT STRUCTURE.....	25
C.4 INTERNATIONAL DEVELOPMENT GOALS	26
C.5 TIMELINE OF ACTIVITIES	27
C7. RISKS.....	29
D. IMPLEMENTATION ARRANGEMENTS	30
D.1. COUNTERPART INPUTS:	30
D.2 UNIDO/UNDP INPUTS:	31
<i>International Staff (BL 11-00).....</i>	<i>31</i>
<i>National Staff (BL 17-00)</i>	<i>31</i>
<i>Subcontracts (BL 21-00)</i>	<i>31</i>
<i>Training (BL 30-00)</i>	<i>31</i>
<i>Equipment (BL 45-00).....</i>	<i>31</i>
<i>Local support staff and travel (BL 15-00).....</i>	<i>31</i>
<i>HQ Travels (16-00)</i>	<i>31</i>
<i>Miscellaneous (BL 51-00)</i>	<i>31</i>
D.3 SUMMARY OF THE PROJECT BUDGET	31
E. M&E AND REPORTING	32
F. COMMUNICATION AND VISIBILITY	33
G. LEGAL CONTEXT	34
H. ANNEXES	ERROR! BOOKMARK NOT DEFINED.
ANNEX 1: LOGFRAME	35
Annex 2: Letter of Request from Armenian Government.....	Error! Bookmark not defined.
Annex 3: EU Action Fiche for the ENPARD Armenia.....	Error! Bookmark not defined.
Annex 4 (only for AMC): Detailed UNIDO inputs	

A. Context

A.1 General Context

Armenia is a sovereign state landlocked in the South Caucasus region, bordered by Turkey to the west, Georgia to the north, Azerbaijan to the east, and Iran in the south. Armenia is a mountainous country with an average elevation of 1,800 metres above sea level with only 10% of the country lying below 1,000 metres. The country, with a territory of 29,743 square kilometres, contains one-tenth forests and woods, almost half arid land, and one seventh pasture land¹. Armenia has a population of 3.03 million, of which 36.7% live in rural areas, and annual population growth is 0.18%².

Armenia's political and economic situation depends on its geographic position as a landlocked country with closed borders to Turkey and Azerbaijan (occurring in 1993 and 1991 respectively), a partly unresolved conflict with Azerbaijan over the Nagorno-Karabakh region, and virtually no energy resources. Presently, Armenia has only two open borders to access export markets by land: Iran and Georgia. In light of the preceding, Armenia's development will depend in part on the peaceful settlement of the Nagorno-Karabakh conflict and the normalization of relations with neighbouring countries.

Being part of the Soviet Union for much of the 20th century, Armenia's economy was a centrally directed Soviet model. After the fall of the USSR in 1991, Armenia experienced severe economic collapse as did most other states that were a part of the Soviet Union. Essentially, a predominantly industrial country whose economy had been highly integrated with the other now independent Soviet republics, Armenia had to start serving the needs of its domestic market, ensure food security for its population, and rebuild its economy to be more open, competitive, and market-driven domestically, with its former sister republics, and the broader world beyond. At the time of the Soviet Union's collapse, the agricultural sector was relatively marginal, the huge state industries were shut down, and unemployment and poverty soon spread throughout the country. International aid was able to prevent severe famine, but the recently independent state started its new economy with high levels of poverty, a deep recession, and the collapse of agricultural and industrial output.

After the fall of the USSR, Armenia embarked on radical economic reforms, to include cuts in social services and the virtual elimination of financial subsidies. Poverty rose with a concomitant decline in the standard of living. With rising unemployment and the sudden loss of many people's livelihoods in state owned and operated enterprises, agriculture and subsistence farming provided an opportunity for broad-based food security and informal employment that was not possible to this degree elsewhere in the economy.

As a consequence, Armenia became the first former Soviet country to dissolve its huge state-owned collective farms and privatize agricultural land to Armenian households. Privatization led to over 340,000 small-scale farms being established with the aim to ensure at least subsistence food and informal work opportunities for the bulk of the recently unemployed. As these new landowners-now-farmers had been working in huge state-owned companies and farms, they lacked practical farming skills and experience. This, combined with fragmented production plots and often harsh growing conditions (e.g., mountainous and/or low rainfall areas without irrigation) lead to low productivity of the newly established small farms. Fortunately, as the new century approached, Armenia's economy began to recover and

¹ V. Haykazyan, J. Pretty: *Sustainability in Armenia: New Challenges for the Agricultural Sector*. Centre for Environment and Society Occasional Paper 2006-1, University of Essex

² http://www.armstat.am/file/article/demos_13_2.pdf

diversify. From 2000 to 2008, the country enjoyed strong economic growth with a real annual average GDP growth of 13%³. As a consequence, as early as 2002, Armenia began to be classified as a lower middle income country.

The recent global financial crisis seriously undermined Armenia's ability to maintain the robust economic growth and poverty reduction that the country enjoyed for much of the last decade. GDP declined by 14.4% in 2009, and registered a rather modest growth of 2.1% in 2010. This did increase to 4.7% in 2011⁴, to 7.2 % in 2012, with 6.2 % growth projected for 2013. Nonetheless, even with the turnaround of the past three years, the recovery has still been insufficient to offset the socio-economic losses caused by the crisis. Poverty levels in Armenia remain high. In 2012, 32.4% of Armenia's population was living below the national poverty line, and recent figures suggest the poverty incidence reaches 40%, one of the highest levels in Asia.

The poverty rate in Armenia climbed 17% from 2008 to 32% in 2012, according to the Armenian National Statistical Service. Poverty rates in urban and rural areas are similar – in cities it stood at 33% in 2012 after rising 18% from 2008, while in villages the rate rose 17% to 32%. There is considerable disparity in poverty rates across provinces due to an over concentration of economic activity and opportunity in urban centres and the capital. The lowest poverty rates are recorded in Yerevan – about 25.6%. Poverty is most prevalent along Armenia's borders, in more remote mountain areas. Shirak in north-eastern Armenia and Lori and Kotayk in the central part of the country are among the poorest provinces. This division has been exacerbated by a wide variance in the quality and accessibility of essential public services, such as healthcare and education. Although some elements of the country's economic reform and poverty - reduction strategies seek to correct this inequality across provinces, there seems to be few practical actions towards this end. Moreover, the return of a significant number of migrant workers after the onset of economic crisis in Russia has exacerbated the lack of economic opportunity particularly in the poorer provinces.

A.2 Sectoral Context

In the early years of independence Armenia, predominantly an industrial country, quickly enacted radical economic reforms leading to massive deindustrialization. People that lost employment in other sectors turned to agriculture, which provided some food security and at least partial employment. Meanwhile the country also quickly dismantled its 600 huge collective farms and distributed the land to individual households of around 1 hectare thus creating 330,000 small-scale farms that continue to suffer from low productivity and insufficient capital investment. Technology and infrastructure such as farm machinery and irrigation inherited from the pre-transition period was useless to small-scale farmers who also suffer from a lack of knowledge and skills related to agricultural production but also farm management and marketing. Many farms generate non-farm income through seasonal migration of male workers to other countries in the Commonwealth of Independent States. One out of three households in Armenia is now headed by a woman, and the trend is on the rise, especially in rural parts of the country. Households headed by women are likely to be the poorest households.

Despite all these challenges, over the past decade, food and agriculture has established as one of the main sectors of Armenia's economy and the main source of employment in rural areas. During 2004-2008, the total sector represented just over 25% of the national economy with production agriculture alone being nearly 19%. In 2012, agricultural production was estimated

³ UN Food and Agriculture Organization of the United Nations. *Eastern Europe and Central Asia Agroindustry Development. Country Brief Armenia. 2012.*

⁴ 2014-2016 Medium-term public expenditure framework. <http://www.gov.am/files/docs/1184.pdf>

to be approximately 19.1% of GDP, and employment in agriculture was 37.3% of the overall work force⁵. The agricultural production sector in Armenia consists of 340,000 individual private farms⁶, 202 consumer cooperatives of an agriculture nature⁷, and approximately 100 large state and private agricultural enterprises. The agro-industrial sector employed 18,300 people (or 21.8% of the total manufacturing labour force) in 2009. Hence, together with production agriculture, the food and agriculture sector as a whole employs some 400,000 workers.

Agricultural Production and Trade

According to the data of the Armenian State Committee of the Real Estate Cadaster in 2013⁸, the total arable land in Armenia is 448,200 hectares (with farmers managing over 82% including 75% of perennial crops but only 50% of pastures). Thus, while the number of farms seems to have declined by about 5% since the initial major land distributions after independence, average farm size is still just over 1.1 hectares of land in cultivation and just over 1.4 hectares of total arable land. Within crop agriculture, grains represented 172,206 hectares; fodder, 66,925; fruits and berries, 39,285 (of which only 34,108 were being harvested); potatoes, 31,243; truck crops, 25,211; grapes, 17,415 (of which only 15,723 being harvested); melons, 5,128; and technical crops, 3,494⁹. Based on these estimates, more than 100,000 hectares, or approximately 20% of arable land, was not in production.

Overall increases in agricultural production in Armenia have been positive if not dramatic over the past nearly two decades. While crop production is often hard to analyse because of variations in year-to-year levels of weather and shorter-term market conditions, data seems to suggest some reasonable increases between 1995 and 2010 in grains (28%), potatoes (13%), vegetables (57%), and grapes (44%) with declines only in berries (12%) and forage crops (40%).

In the livestock sector, beef production has increased since 2000, at first slowly and in recent years more quickly, though this in part reflects the slaughtering of milk cows in response to dropping milk prices during the financial crisis. The marketing of sheep also grew steadily since 2000 driven by demand from Iran. However, this caused a dramatic increase in live animal prices in 2008/9 which has led to reductions in herds of 10-20% that may negatively affect future growth. Pork production and pig numbers experienced a major decline beginning in 2007 following the outbreak of swine fever. However, this has begun to result in the establishment of commercial piggeries although pig stocks overall remain low as farmers continue to be nervous about reinvesting in this sector. While in 2009 milk production had increased by nearly 50% since independence, it has seemed to have stabilized and even declined slightly, possibly as a result of the herd reductions during the financial crisis. In 2009, egg production was just over 20% greater than found at the time of independence with most of this growth experienced in 2008-9.

Between 2004 and 2008, the export of food commodities increased from 10.0% to 14.4% of total exports. The world financial crisis, however, soon had an adverse effect on foreign trade to include agriculture. During the first 9 months of 2009, the volume of agricultural exports decreased by over 35% which resulted in a nearly 8% decline in the total output of the food and agriculture sector (to include processing) based on the first 11 months of that year.

⁵ National Statistics Service of the Republic of Armenia 2013 <http://armstat.am/am/?nid=82&id=1516>.

⁶ 2010_2020 Sustainable Strategy Program for Agricultural and Rural Development" of Armenia <http://www.minagro.am/am/>

⁷ Cooperative legislation reform: Guidelines for Armenia, <http://icare.am/icare/publications>

⁸ State Committee of the Real Estate Cadastre adjunct to the RoA Government <http://cadastre.am/>

⁹ National Statistics Service of the Republic of Armenia 2013 available at: <http://armstat.am/>

Agroindustry and Food Processing

The agroindustrial sector generates Euro 455 million, or about 50% of total manufacturing output with food processing representing nearly 80% of this total. The agro-industrial sector (mainly food and beverage) consists of 831 agro-industrial enterprises (or about 35% of total industrial enterprises), most of which are private small or medium-scale enterprises that were generally created through the privatization of former state-owned processing companies. Output declined by 6.4% in 2009 after nearly a decade of steady growth. Labour productivity in agro-processing is growing over time, doubling between 2005 and 2009. Important subsectors include alcoholic and non-alcoholic beverages, preserving fruits, and dairy processing. Wine, brandy and cheese are the most important products. The main suppliers of raw materials to processing units are private farmers who produce over 98% of gross agricultural product.

Food processing is considered to have high development potential, especially with establishment of foreign corporations and their investments. Given limited arable land and transport problems, the country's comparative advantages in agriculture will most likely not lie in the production of bulk commodities such as grains but rather in the production of high-value products.

Producer Group Development

The project considers producer groups to be comprised of not only cooperatives and associations but also smaller scale and/or less formal farmer and entrepreneurial groups as well as agriculturally-related businesses with more than one owner. Producer groups could be focusing on primary production or value addition. According to data from the government's State Registry, 3,737 production and 338 consumer cooperatives¹⁰ are presently registered in Armenia, of which, as noted above 202 are agricultural. Numerous international and national programmes have focused on promoting the development of cooperatives in Armenia. As a consequence, in various facets of cooperative development, some progress has been made. Nonetheless, many established cooperatives fall short of their development potential and some even ceased to exist or exist only on paper due to (1) the backgrounds and outlooks of many farmers, (2) the frequent lack of understanding of the purpose, principles, and characteristics of cooperatives, and (3) minimal participation by cooperative members in their management and economic activities. Thus, to date, the cooperative movement in Armenia remains underdeveloped and is yet to be considered an important contributor to the development existing agricultural value chains.

To address this issue, the Government of Armenia has adopted the "2010-2020 Sustainable Strategy Program for Agricultural and Rural Development" of the Republic of Armenia, in which the development of cooperatives is mentioned among the strategy's main priorities (see also section B.1)¹¹. Additionally, a draft Law on Cooperatives is developed and international expertise of the legal act is completed.

Beyond cooperatives, there have been other successful approaches to farmers organizing for mutual benefit. For example, experiences of the Swiss Development Cooperation (SDC) in Armenia suggest that the leveraging of private investments into milk collection centres and running them as private businesses may provide a more effective approach than funding or subsidising cooperatives¹². Another example of apparent successful producer groups are the Water User Associations (WUA). Research suggests that the water management system in Armenia is more successful than in Georgia or Azerbaijan because of these associations even

¹⁰ 2012-Armenia in Figures. www.armstat.am

¹¹ Republic of Armenia (2010). 2010-2020 Sustainable Strategy Program for Agricultural and Rural Development", Republic of Armenia., RA, 4 November, 2010, no. 1476-N.

¹² http://www.swiss-cooperation.admin.ch/southerncaucasus/en/Home/COMPLETED_PROJECTS

though they are charging higher water rates than in the other two countries¹³. Practically all the country's irrigated land is under WUAs, and collection charges and rates have increased countrywide whereby the current charge is now just above the full recovery cost of operating the system.

A.3 Cross cutting issues

a) Climate change adaptation and mitigation: A significant portion of Armenia is prone to natural disasters such as droughts and floods, which will likely worsen in the future as a result of climate change. Such natural hazards pose serious threats to food security and agricultural development in the country, because of resulting crop losses and the spread of plant and animal diseases. While there are limited possibilities to prevent these disruptive events, there are positive good practices that help increase the resilience of rural communities in risk prone areas to better adapt to, mitigate the impact of, and facilitate early recovery after such shocks. Options include measures for hail protection and the use of drip irrigation.

b) Gender: Most small semi-subsistence family farms in Armenia are run by the male holders in collaboration with female family members, both of whom are formally categorized as self-employed and both of whom in fact are contributing to the family income. Since Soviet times, men and women working in farming have had relatively equal rights. Additionally, education levels of both men and women farmers are mostly good. Increasingly, more farms are being managed by women as migration—predominantly male—has a distinct gender dimension in both urban and rural areas and deeply affects families and society. Up to 20% of Armenian families have a male member working outside the country¹⁴ while still others have men leaving rural areas and farms for better positions in urban areas. In addition to migration, armed conflicts have also increased the number of women-headed households. All these factors have created the current situation where 27% of households are headed by women.¹⁵ These women comprise a vulnerable group, carrying both the burden of household management and work outside the home whether on family farms or elsewhere. In order to maintain the household, women are often involved in informal economies where worker's rights are often not protected.

c) Youth: The economic decline in Armenia was accompanied by rising unemployment (18.7% in 2012 versus 16.4% in 2008) with the youth unemployment rate (15-24 years old) climbing to 35.4% in 2012. Hence, tackling income generation and unemployment, particularly youth unemployment, remains a serious challenge for Armenia's socio-economic development. The youth employment to population ratio, which indicates the ability of an economy to create jobs in the country, is very low at around 19%. Further, as a result of the declining economy and minimal employment opportunities, labour migration and youth unemployment have become crucial issues.

B. Reasons for UNIDO/UNDP Assistance

B.1 Links to National Development Goals

The project directly targets national development priorities and specific policies set by the government. With regards to the **development of the agricultural sector**, as set forth in the 2010-2020 Sustainable Agricultural Development Strategy of the Republic of Armenia¹⁶, the main goals of government are promoting the industrialization of agriculture, increasing food security, and shaping favourable conditions for promoting export-oriented production. The

¹³ <http://www.undp.org/content/georgia/en/home/library/poverty/comparative-analysis-of-agriculture-in-the-south-caucasus--2013/>

¹⁴ *Progressive Social Technologies Centre: Study of Migrants Returning to Armenia in 2002-2008.*

¹⁵ *IFAD: Armenia Gender Profile, 2007.*

¹⁶ *Government of Armenia. 2010-2020 Sustainable Agricultural Development Strategy of the Republic of Armenia.*

reasons for this priority focus on agriculture by the government are that agriculture comprises a high share of growth and GDP, is a key link to the growth of the agro-industrial sector which has large export and growth potential, and can be a major contributor to enhanced and balanced regional development.

In order to achieve its main objectives, the government's Strategy for Sustainable Agricultural Development envisions increased competitiveness of locally produced farm products, the substitution of imported agro-products, and the development of an export-oriented food and agricultural sector. In addition, the strategy promotes zonal specialization, efficient distribution of production, development of production and technical services, and application of new technologies to reduce agricultural risks. Furthermore, through fostering the strengthening of producer groups, the issue of fragmentation of the Armenian agriculture will in part be addressed.

With regard to the latter, the ***strengthening of producer groups***, the Strategy for Sustainable Agricultural Development also makes the case for assisting in the formation of cooperation between farmers and processing entities, assisting smallholders in the establishment of production that can more quickly adapt to changing markets, and rationalising the distribution of processing organizations across rural areas in appropriate parts of the country. To assist in the development of producer groups, the government is currently working on a new legislation for cooperative development.

With respect to rural development, one main aim of government is to create non-agricultural jobs and expand the share of non-agricultural incomes in rural areas. This makes the development of the agro-processing sector crucial to contribute to such growth and to more balanced regional development and employment creation. Main targets of government support to agro-processing and other ***value addition*** include the introduction of advanced technologies and the increased competitiveness of products. In this the Strategy for Sustainable Agricultural Development foresees promoting the development of the processing industry, especially SMEs, for wines, preserves, jams, muraba, comfitures, syrups, dried fruits, spices, national desserts (alani, sujukh, doshab), and the packaging of herbs (including medicinal herbs) for beverages and teas. Furthermore, an export promotion strategy is envisaged to be developed, marketing support rendered, and contractual relations developed with producers of raw materials that can be enhanced.

As delineated in this document, the project will address directly or indirectly all the above elements of national policy. Through linking three important government priorities, the proposed project is in line with current government policies and addresses strategic goals set for the development of the country. Specifically, the project will assist in (1) developing a sustainable agriculture through increased access to markets, increased productivity and the formation of producer groups; (2) expanding the agro-processing sector through developing value addition components of selected value chains; and (3) reducing migration from rural communities to urban areas and abroad through increasing producer household incomes and creating rural employment opportunities.

B.2 Institutional Background

The European Union has been engaged in the agriculture sector in Armenia since the 1990s. In 2010, the EU Delegation conducted a "Review of the EU-assisted Development Aid in the Agriculture Sector in Armenia over five years" and a Sector Policy Support Programme (SPSP) was elaborated. Further, in the current European Neighbourhood Policy (ENP) Action Plan, one of the priorities for action by the EU in Armenia is to "enhance agricultural production and rural development."

Armenia also forms part of the EU's recent initiative "European Neighbourhood Programme for Agriculture and Rural Development" (ENPARD), including, *inter alia*, improving agricultural productivity and developing public and private capacities on the basis of a well-defined long-term sector-wide strategy, prior capacity assessment and sector stakeholder involvement. As part of the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD Armenia) the EU has allocated EUR 25 million.

Under the framework of ENPARD, the EU Delegation to Armenia has requested UNIDO and UNDP to provide EUR 2.4 million of technical assistance for the development of producer groups and selected value adding chains. In a similar request, the EU Delegation has posted to FAO for a EUR 2 million ENPARD technical support program to improve the institutional capacity of the Ministry of Agriculture in policy making and formulation of sector support, improved agricultural productivity and access to land, and the planning for and conduct of an agricultural census. Both projects are intended to provide technical assistance to and complement the implementation of the ENPARD EUR 20 million grant of the EU to the Government of Armenia, and their activities shall be in line with the ENPARD action plan that still is to be developed during the inception phase of all ENPARD projects.

Finally, the project is in line with the UN Development Assistance Framework (UNDAF) 2010-2015 which describes the areas of cooperation between the UN System and the Government of Armenia towards addressing the economic, social, governance and environmental challenges facing the country. The UNDAF is aligned with the National Millennium Development Goals (MDGs) and with the Government reference integrated into national and local development frameworks.

B.3 Project rationale

The project addresses problems and opportunities associated with three main areas related to the ENPARD agenda:

1. Producer group development

- Farmers do not typically become part of effective producer groups that help source inputs and add value to their products through better production and harvesting practices, transformation, and/or marketing support.
- Producer groups can face difficulties in registration and acquiring the required permits for providing production inputs and handling, processing and marketing food and non-food products.
- Producer groups are often not sustainable if artificially established by development agencies where the motivation for involvement is primarily to access free or heavily subsidised financial and in-kind resources.
- Generally, prior support has been only on cooperative models rather than the broader range of opportunities for collective action and producer groupings that have equal if not greater potential.
- Producers groups frequently do not foster joint learning and coordination among members.
- Producer groups often lack specialized members with capacities in business planning and administration.
- Producer groups frequently lack access to adequate capital.
- Formally women, youth, and other vulnerable groups do not face challenges in forming and participating in producer groups; however, limitations may exist in relation to the time available to them, their readiness and their absorptive capabilities
- Producer groups can build on common understanding among members and develop trust, shared vision and mutual accountability while social and economic relationships between members are taken into account.

2. Agro-processing and other value addition

- Producer groups are frequently not able to process their primary products and add value to the degree that opportunities exist to do so.
- Producer groups do not generally engage in product development and often lack capacities in packaging, branding and labelling.
- Only few producer groups have the size and are able to deliver appropriate products in sufficient quantity and quality to meet the requirements of national and international buyers.
- Producer groups have not significantly ventured into niche market production of gourmet, organic, and fair trade foods.
- Producer groups often lack access to national and international markets for food and agricultural products due to the difficulty of competing with higher quality products from other countries, particularly Europe, or fulfilling the respective requirements of those markets.
- Producer groups frequently lack capacity to comply with food safety and quality standards for entering the higher-value European markets.

3. Value chain development and improving access to food

- Producers have generally not organized to market their production cooperatively for higher returns, but instead most products are sold directly to middlemen.
- Producers often lack the knowledge and skills to produce better quality products with higher productivity.
- Producers commonly lack access to primary production knowledge, extension services, and business development services.
- Producers can lack access to appropriate, competitively priced farm inputs of the needed quality.
- Producers typically lack access to the national and international investment community and capital markets providing reasonable rates and terms.

Based on the three areas identified above, the project intends to do the following:

- *Promote the development of primary producer groups* in the to-be-identified marzes and value chains through the application of flexible organizational models and intensive sensitization and training programmes while taking into consideration existing data on value chain conditions and development opportunities as well as the local context and specific needs of producers. The key problems facing Armenian agriculture are well documented and revolve around small and fragmented farms. At an average 1.4 ha, farms are not unusually small for transitional agriculture, but farming at this scale has the effect, as elsewhere, of providing subsistence but limiting opportunities for commercialization. In most Western economies cooperatives have been able to play a major role in the development of their agricultural sectors and rural areas. In many former Soviet republics that tried to establish market-economy-based cooperatives (in transition from the planned-economy kolkhoz and sovkhoz models from Soviet times), the development of cooperatives falls short of its true potential for various reasons. The first of these has been the absence of appropriate laws for the establishment and operation of effective cooperatives. Second, producers still resist forming such entities due to the perception that this would be a return to state managed farms and factories. Also the various negative experiences that producers may have had with both old and new types of cooperatives also come into play. Third, even when cooperatives have been established as part of well-planned donor and other projects, these are often artificially created and only exist so long as members continue to receive free goods, services, and financial assistance. The challenge now is to find models for

cooperation that move away from theoretical “best-practice” solutions to realistic “best-fit” approaches that take into account local conditions, the capacities of members, and real development needs. With this in mind the project will be sufficiently flexible to not only promote cooperative models but also to embrace other forms of collective action and producer groupings that contribute to (1) the economic development and well-being of producers and their families, (2) mitigating climate change risks and (3) building resilience to natural disasters. These can include producer associations, Limited Liability Companies (LLCs), partnerships, other standard legal entities, and even loose temporary relationships to address specific issues or activities. In this document, all such business-oriented entities, including cooperatives, are referred to collectively as “producer groups.”

- *Add value to primary products* in order to increase incomes of producers. Presently, given the high quality of local agricultural products, significant idle production capacity, availability of qualified workers and relatively low labour costs, agro-processing and other value addition for primary agricultural products provide an important development opportunity. If successfully addressed, value addition will increase incomes and employment in both primary production and processing thereby providing better livelihood opportunities for people in rural areas. In fact, current government policies consider agro-processing as one of the priority sectors for development for transforming the Armenian economy from low-value-added to high-value-added production. Successful agro-processing needs to emphasize balanced regional development and the engagement of rural communities. It also must start from real growth opportunities based on sufficient primary production; existing physical capacities, skills and local knowledge; readily available technical innovation; and upgrading solutions and marketing opportunities. The project will engage in supporting the Government of Armenia to develop value addition facilities and infrastructure as well as developing and strengthening the skills and capacities of producer organizations in their effective use.
- *Strengthen value chains* in other areas than producer group development and value addition, including primary production, post-harvest handling, storage, transport, business services, capital access, and trade, which will enable the production, processing and marketing of higher value quality goods. While this project will concentrate considerable resources on producer group development and value-addition, these applications may not be successful unless appropriate steps are also taken in other components of the value chain. In fact, actions which address these other components, e.g., input supply, access to capital, business services, can sometimes have equal if not greater positive effects on employment creation and income enhancement. Experience has taught that in underdeveloped economies and for sectors within these economies, it is generally necessary to understand all components of a value chain and then address multiple components of that chain for development initiatives to be successful. Hence, the project will include support in the establishment of better business linkages and services between value chain actors and service providers, and the improvement of the functioning and governance of the value chain through concerted efforts of coordination. Ultimately, all the preceding should result in better functioning chains for food products that will improve the well-being of Armenian consumers through better access to more affordable, higher quality foods.

B.4 Stakeholders and Target Beneficiaries

Stakeholder partners for the project will be:

- Ministry of Agriculture, other line ministries and government agencies;
- Regional departments of agriculture, local authorities, and extension services;
- Non-governmental and other organizations and providers of advisory services engaged in agricultural, rural and agro-processing development; and

- Input providers and buyers of products of the targeted value chains.

The project will focus on improving primary production, value addition (to include product development), and marketing. As a consequence, targeted producers, producer group members and employees, and their families will be the direct beneficiaries of the project through job creation and increased incomes. This in turn will benefit the rural communities of the targeted producers and producer groups as a result of new opportunities to establish related value chain support enterprises and the multiplier effects which occur with any expansion of a local economy. Additionally, Armenian consumers will directly benefit as more products will be available nationally of a better quality and price. Furthermore, the project will promote exports which will lead to improved trade balances, a stronger currency, higher incomes, job creation, and resulting multipliers in the targeted components of the value chains. Finally, due to the special attention of the project to women, youth, and other vulnerable parts of the population, these groups will have improved access to employment, business, and income-enhancing opportunities that would not have existed otherwise.

B.5 UNIDO and UNDP Comparative Advantage

UNIDO is the leading specialized UN agency in supporting industry development. It has strong expertise worldwide in supporting value addition in agriculture on a micro to medium scale in developing and transitional countries. Additionally, it has vast experience supporting farmers groups and cooperatives around the world in setting up processing and transformation equipment and provide related training and coaching to make these operations effective and profitable. Among others, UNIDO has unique experience to help farmers groups and cooperatives embed their value addition operations in the wider value chain, to include support to supplier network development, product development and marketing support, and creating links with buyers.

UNIDO currently implements the project “Productive work for youth in Armenia” that supports youth-led enterprise creation and expansion and promotes sound development of the local private sector. The project overcomes the missing link between financial and non-financial services. In close cooperation with local institutions, the project provides young entrepreneurs pre- and post-start-up financial support. As the lack of sufficient capital is considered a major hindrance to successful business creation and development, by setting up a youth entrepreneurship fund, the project enhances the access of young entrepreneurs to needed capital resources for business start-up and expansion. As a consequence, the perceived higher credit risk of young entrepreneurs is mitigated, and it is demonstrated that they are credit worthy. This is expected to ultimately result in systemic change, i.e. the public and private sector rendering more financial and non-financial support to youth-led business start-ups.

Further, UNIDO supports local entrepreneurship in vulnerable communities populated by refugees by enhancing business competencies of local would-be entrepreneurs, expanding access to credit through establishment of a seven-year SME-supporting fund, and upgrading local infrastructure by building or refurbishing community-owned facilities. UNIDO has a very good reputation to be not simply supply driven but in working towards addressing concrete needs of farmers groups and private sector associations. Finally UNIDO has a neutral position and strong partnership and cooperation with the Government of Armenia, as well as with key stakeholders present in the country.

UNDP is a leading UN agency for economic development initiatives engaged in the food and agriculture sector with experience throughout the Caucasus region addressing value chains from producer to consumer. Among its activities in Armenia, UNDP undertook an integrated community development project in Lusadzor which included return of non-cultivated land to crop rotation, distribution of seedlings, planting of orchards, construction of internal irrigation networks, introduction of artificial insemination for cattle, establishment of greenhouses, and

establishment of a cooperative kitchen (including bakery, fruit drying capacity, and cold storage). UNDP has also completed other agro-related projects in Armenia to include stakeholder training in marketing, production technology, planning, business, dried fruit production, and greenhouse technologies; development of a marketplace web portal; support to 19 dried fruit producers; construction of 46 greenhouses with drip irrigation in Aknaghbyur, Ptghavan and Tavush communities; support for cheese production in Koti; and establishment of a collection centre with cold storage, sorting, and packing in Bagratashen. Additionally, UNDP has successfully piloted the installation of anti-hail nets for vineyards in the Aygehovit, Tavush and Alvank communities.

In neighbouring Georgia, UNDP has engaged in numerous successful projects to include expanding access to farm credit through infusion of capital into the micro-credit sector, expanding and strengthening business development services, and establishing agriculture/agro-processing vocational education and training (VET) centres. Presently UNDP is engaged in the Pankisi Valley where the focus is on assessing agricultural and market development needs; developing farmers' production capabilities through the provision of extension; assistance in animal husbandry; creating and developing farmers associations; and developing a small dairy processing plant. UNDP is also engaged in the development of vulnerable communities in Shida Kartli providing consulting services to farmers; demonstration projects in food processing and preservation; and improved access to agriculture markets through harvest consolidation. UNDP is completing a project in the Ajara Autonomous Republic to expand and enhance business development services, improve professional skills and employment prospects in agriculture, and promote agriculture trade. Specifically, the project established the Batumi Business Incubator and the Trade Promotion Centre, the development of an Extension and Consolidation Model, and the publishing of relevant stakeholder guides. Very importantly, UNDP is undertaking a large ENPARD three-year initiative in the Ajara to increase and improve services to small farmers; develop business-oriented small farmer groups, associations, and other forms of profit-based collaborative actions between farmers; and develop the institutional capacity of the Ministry of Agriculture of Ajara. UNDP will utilize the knowledge, experience, and skills from ENPARD Georgia and other regional projects to enhance the effectiveness of the ENPARD initiative in Armenia. .

C. The Project

C1: Project objectives

The overall objective of the EU UNIDO-UNDP ENPARD Technical Assistance project is to support the Government of Armenia in ensuring an efficient and sustainable agriculture that contributes to better conditions in rural areas of the country. The primary outcome of the project is to increase rural household incomes through increased production and value addition in targeted value chains and marzes. In particular, the project will support the implementation of the main EU ENPARD grant to the Government of Armenia (GoA).

The three proposed outputs from this project are:

- Output 1: Strengthened and newly established primary producer groups.** Within the targeted value chains and marzes, the project will develop effective, sustainable new producer groups as well as assist and strengthen existing ones in the various stages of their development.
- Output 2: Producer groups effectively engaged in value addition.** The project will support the building of physical infrastructure as well as human capacity and skills that enable producers to add value to primary agricultural production.

Output 3: Strengthened value chains that provide improved access to affordable, better quality food. The project will identify and develop key intervention points at any level within the selected value chains that will benefit not only stakeholders of those value chains but also Armenian consumers locally and nationally.

Specific activities to be undertaken to achieve each output include:

Output 1: Strengthened and newly established primary producer groups. This output focuses on the organization of people engaged in primary agricultural production in the target marzes and value chains. As a result of this output at least twenty (20) new business-oriented farmers groups involved in primary production are officially registered at the Agency for State Registry of the Ministry of Justice, and operational, with approved business plans, covering both agricultural and non-agricultural activities. Of these, at least 40% are women-led. Training is conducted for staff at these at least 30 producer groups in a) business planning, administration and organization, b) budgeting and financial management c) commodity marketing, d) food safety and traceability at production level, and e) policy advice for agricultural and rural development decision-making. Further, manuals for establishing/operating producer groups will be developed and disseminated and at least 1,000 farmers (of which min 40% women and min 30% young) will be trained in the targeted marzes as to possible structures and benefits of group organization.

Activity 1.1: Identify value chains in the targeted marzes. The project will focus on establishing agricultural and non-agricultural pilot value chains in a number of marzes to be identified drawing from a series of selection criteria including (a) supportiveness of national agricultural development strategy and government priorities, (b) reasonable probability of success of development interventions within project time horizon, (c) vulnerability of communities to natural disasters, (d) impact potential in income generation, employment creation, and poverty alleviation, (e) adequate financial and technical resources to match project activities and make material impact, (f) complementarity and/or duplication avoidance in relation to prior, ongoing, or proposed donor/government initiatives and (g) usefulness for providing effective development models in targeted value chains. Substantial research on these parameters has been conducted in the past and will be used by the project in the identification process in addition to the project's own stakeholder workshops and if required additional enumerations. Value chains with possible negative social and environmental impacts will be excluded. FAO (FAO ENPARD activity 2.5) and the Ministry of Agriculture will provide input and guidance during this selection process. Potential synergies will be identified and developed with existing value chain initiatives under the Community Agricultural Resource Management and Competitiveness Project (CARMAC II) and various existing rural finance schemes.

Activity 1.2: Identify existing and the potential for new business-oriented producer groups: The project will survey types, sizes, and activities of existing groups and initiatives in the identified value chains and marzes where multiple producers have joined together (e.g., cooperative, association, limited liability company, other legal entity, informally) to address issues such as input and capital procurement, equipment availability and utilization, harvesting, marketing, transportation, technical information, field trials, production research, packing, processing, storage, extension and other technical services. The focus will be on identifying producer groups where self-initiative and motivation already exist. In addition, opportunities for establishing new producer groups will be identified. Then a prioritization process will be undertaken for determining existing and potential producer groups with the most promise for meeting project objectives. Prioritization criteria shall include reasonable probability of assistance success, number of people who will benefit, possible employment generation, opportunities for marketing the producers' products, and potential for expanded revenues and profits. According to Government priorities emphasis will also be paid particularly to supporting measures of drip irrigation, hail protection, and post-harvest handling. Once

prioritization has occurred, it will be possible to develop a detailed implementation plan for Output 1. Nonetheless, while it is ideal to identify and prioritize producer groups, other beneficiaries and detailed actions in the early stages of the project, conditions are fluid. As a consequence, the project must remain flexible and open to new possibilities in the face of a changing operating environment.

Activity 1.3: Educate producers as to organizational development options. A major reason for the limited development of producer groups in Armenia has been the lack of adequate knowledge among producers as to the range of organizational possibilities and their benefits, requirements, and regulatory and tax implications. Working closely with the Ministry of Agriculture, its Regional Extension Centers (GAMKs [their abbreviation in Armenian]) and FAO, the project will (1) identify those organizational structures which have the most potential for benefiting producers; (2) with FAO, assemble existing laws and regulations relevant to the organizational structures identified, and (3) conduct education sessions to familiarize producers with the options open to them and help them understand the advantages and caveats of collective action. As it is expected that legal, regulatory, and tax policies for producer groups may evolve over the next three years due to the Ministry of Agriculture's and FAO's efforts to improve and rationalize related laws, the attractiveness of one type of group over another may change during the coming months. As a consequence, refresher courses will be offered over the life of the project. Prior to the conclusion of the project, utilising existing tools, UNDP will work with the Ministry of Agriculture and FAO to develop appropriate materials, for continuing initiatives to educate producers in the appropriateness, establishment, and operation of various types of producer groups. In this activity UNDP will also be able to draw from works on country-wide cooperative development and promotion carried out under FAO's ENPARD component (FAO ENPARD activity 1.5).

Activity 1.4 Establish new producers groups: The project will support the establishment of at least thirty (30) new business-oriented farmers groups, of which a minimum of 40% will be led by women, in the targeted marzes with emphasis on groups building on common understanding and trust among their members while considering social, economic, political, and community relationships between members. As such entities are often not sustainable, the project will avoid supporting producer groups that have been artificially established by development agencies and where the motivation to participate is driven primarily to secure free or heavily subsidized services, materials, and equipment. Specifically, project assistance will include providing assistance in (1) meeting with prospective members to explain opportunities and risks (2) developing a joint vision and mutual accountability, (3) reviewing options as to the legal and organizational structure, (4) developing by-laws and organizational and administrative structures for the option chosen, (5) advising on legal and other steps necessary to become officially registered and operational, and (6) assisting with the formal establishment of the producer groups, to include formation of boards, elections of board members and officers, and the securing of necessary staff. Once established, producer group members and employees will have access to appropriate training and assistance opportunities outlined elsewhere under the various activities of Outputs 1, 2, and 3. Additionally, if the Ministry of Agriculture is planning to do so, the project, in coordination with FAO, will assist in the establishment of an Office (or Desk) of Producer Organizations. This would be a one-stop location where interested producers can obtain information on laws, regulations, and tax policy related to relevant producer groups and where any necessary permits, licenses, or accreditation can be secured.

Activity 1.5: Develop managerial, administrative, and operational capacities of producer groups. Important to the success of the project will be the further development of new producer groups once established and the strengthening of existing groups. To accomplish this, a capacity needs assessment will be conducted for each group before engaging in practice-oriented trainings and coaching activities. Training modules should be based on existing ones while providing scope for improvement and adjustment. Emphasis will be placed on communicating knowledge that is directly applicable by group members in their daily

operations. Capacity building assistance will be required in business analysis and planning, administration, accounting, budgeting and financial management, human resource management, capital procurement, food safety and traceability, logistics, machinery/ equipment procurement and maintenance, marketing, and board of director responsibilities and oversight. Training modules will be developed and offered to both staff and board members of interested producer groups. Additionally, newly established and existing targeted groups will receive direct hands-on consulting assistance from project staff in the above areas on an as-needed basis. Additionally, the project will assist in the preparation of initial business plans and budgets, the identification of sources for start-up capital, and the process for securing this capital. Such activities are to be delivered, where possible, by national/local service providers who will be able to provide services beyond the duration of the project. The service providers and subcontractors will as well be subject to training and capacity strengthening through the project (see activity 3.2). Further, the project will provide limited levels of financial assistance to selected producer groups for the purchase of key inputs required for their establishment and strengthening. Finally, in close cooperation with FAO (FAO ENPARD activity 1.4), the project will assist in strengthening the capacities of the Ministry of Agriculture to provide training and hands-on advice to those producer groups requiring assistance. In the event there are private sector entities interested in providing such services, the project would assist them in developing the capacity to do so.

Activity 1.6: Document lessons learned for appropriate legislation for producer groups.

UNDP will document lessons learned from its past and on-going activities related to the establishment and operation of producer groups and through this assist FAO to support the government to develop and adopt legislation to foster producer groups (FAO ENPARD activity 1.1). It will be able to provide information as to the types, numbers, problems, and needs of existing producer groups as well as the problems and challenges affecting the development of such groups. Finally, the project's staff will review draft legislation before its being submitted to any legislative committees as to how well proposed language realistically addresses actual needs. Related to all the preceding would be the provision of input and review as to the establishment of appropriate and effective oversight/coordinating entities to include a possible "Desk of Producer Organization Development".

Activity 1.7: Promote participation and access of women, youth, and other vulnerable groups.

The project will work to ensure that all age groups, genders, ethnic and socio-economic groups have equal access to the assistance provided and benefits generated. A project specialist in the field engaging vulnerable groups will be assigned to work with women, youth, and other potentially disadvantaged groups that are identified. This specialist's primary role will be to (1) create awareness among these groups as to project opportunities and how to access them, (2) insure applications for training, producer group establishment and assistance, and available financial and technical resources are equitably evaluated and awarded, and (3) ensure any charges of discrimination related to project activities are addressed in a timely and objective manner. Additionally, this specialist will work with the Ministry of Agriculture to establish a Desk of Women, Youth, and Vulnerable Populations to continue this work at the conclusion of the project. Special emphasis will be also put on enabling women to participate in the trainings related to Activities 1.3, 1.5, and 1.6, . Some portion of training programmes will be specifically geared to the role of women and gender in food production and processing and how their situation can be improved.

Activity 1.8: Develop models for the further establishment of sustainable producer groups.

While the scope of this ENPARD technical assistance is set for three value chains in at least three marzes, the knowledge gained in the establishment, strengthening, and operation of a range of producer groups may be applicable more broadly across Armenia. Even if this is not the case for producer groups for agricultural and rural non-agricultural value chains as a whole, it may be for the value chains on which the project concentrated. Thus, it is the intent to work closely with

the Ministry of Agriculture and FAO (FAO ENPARD activity 1.5) throughout the project to develop models and supporting materials for establishing, managing and operating producer groups that may be more widely applicable than the marzes (and even value chains) in which the project was involved. As such models are identified and defined, and supporting materials developed, the project will convey this information to the Ministry and FAO for integration into the Ministry's extension and training activities. As appropriate, project staff will act in a consulting capacity to the FAO project as it develops the extension capabilities of the Ministry in producer group development.

Output 2. Value adding processor groups effectively engaged in value addition. This output focuses on the food processing segment of the value chain where it tries to engage entrepreneurial groups that show particular potential for adding value activities. As a result of the activities under this output at least ten (10) new business-oriented farmers groups engaging in value adding activities are officially registered at the Agency for State Registry of the Ministry of Justice, and operational, with approved business plans, covering both agricultural and non-agricultural activities. Of these, at least 40% are women-led. The groups will engage in new and improved ways of value addition and the products that these groups produce will attain at least 10% premium price and there will be a 20% increase in annual turnovers. 90% of the products will comply with food quality standards.

Activity 2.1 Identify business-oriented producer groups that aim to engage in value addition. From the producer groups selected in Activity 1.2, a subset of groups (e.g., cooperatives, associations, entrepreneurial groups) will be identified to receive support in value addition. The selected groups will be assisted in the setting up and strengthening of value addition plants and associated activities (activities 2.2 to 2.10). In fact, activity 2.1 will lead to the establishment of detailed action plans for Output 2. Focus shall be put on existing groups and cooperatives that have the strong aim to engage in processing and other value addition. The goal will be to strengthen existing local value addition initiatives and ensure a business-oriented approach as well as the sustainability of the groups supported. The criteria for the selection of this subset will include a group's motivation, its organizational maturity, quantity of primary products available, existing processing capacities, existing skills and know-how, and the availability of affordable and appropriate technical solutions.

Activity 2.2: Install appropriate technologies/equipment and improve technical performance of producer groups' value addition capacities. The project, based on cost-sharing models and through facilitating access to other means of finance as being developed through overall ENPARD support (According to Condition 2.4 access to capital for farmers and farmers associations and cooperatives is enhanced through the increase of the budget of the subsidies for loan interest rates for agricultural sector), will support producer groups to acquire "most appropriate" technical equipment and machinery and complement existing capacities to enable the production of higher quality and higher value products. The project will further provide expertise in setting up processing and packing units, factory layouts, choice of equipment, and development of production protocols. It will also ensure that, once the equipment is set up, training and coaching is provided to operate the plant efficiently and necessary skills among group members and employees are built. Among these skills are quality control, factory management, reception of primary materials, maintenance of machinery, and operation of machinery. These skills are to be communicated via training courses, on the job demonstration as well as through visits to best practice companies in Armenia and abroad. The project will also ensure that equipment is used for the equitable processing of members' primary production. If the capacities allow, additional volume from non-members and surrounding villages can be processed.

Activity 2.3: Study existing and potential markets and support producer groups to develop new and improved value added products. While still in the inception phase, the project will conduct sophisticated market analysis which looks into the potential for selling producer groups' existing and new products - at primary or value added stage - to various market segments in Armenia, the New Independent States, and other higher value markets such as the Gulf States and Europe. Special emphasis will be placed on studying products that best complement producer group's production capacities. The project will undertake product testing on markets including sending samples to potential buyers. Further the project will bring in a product design specialist who, together with selected members and employees of the targeted producer groups, will identify, develop and test new and improved products that respond to buyer demands and consumer preferences. Here the project may also draw from national experts, marketing consultants, and technological laboratories. This requires feedback from marketing studies as well as a screening of the technical solutions that are available. In the case of newly established processing facilities, the product development will be engaged in developing and adjusting the required protocols for production.

Activity 2.4: Improve producer groups' technical capacities in storage and packaging of value added products. The project, together with other ENPARD components and through facilitating access to other means of finance, will support producer groups to invest in appropriate packaging solutions and storage facilities and provide the necessary technical expertise and training to ensure its efficient application. This includes technical advice in the choice of equipment, packaging materials and labelling; in the building of storage space; and in the start of operations. Further there will be extensive training and coaching in the continued operation of related machinery. Special emphasis will be put on the application of food safety regulations and compliance with quality standards.

Activity 2.5: Help producer groups develop marketing capacities and link them to buyers of value added products. The project will train selected staff of targeted producer groups to develop marketing capacities. This will include training on development of marketing strategies, guidance to identify buyer lists, and use rosters and internet to contact potential buyers such as traders and super market chains. Furthermore, the project will promote access to potential national and international buyers to better understand desired products and qualities of interest to them. The project will also support the producer groups to develop their own brands, and marketing strategies to expand marketing opportunities and tap into new markets. At the conclusion of the project, effective buyer relationships need to have been developed and maintained to sustain viable business operations of the producer groups.

Activity 2.6: Build value addition producer groups' entrepreneurial and business planning capacities. The project will engage in the communication and delivery of organizational and entrepreneurial skills. This starts with training that is geared to cultivating the entrepreneurial spirit of business-oriented processors. It continues with building capacities in group organization, business planning, administration, accounting, work organization, and human resource management. Furthermore, the project will assist the groups in the implementation of their business plans throughout the project to include regular coaching sessions and mentoring. The activity will draw from the same approach as activity 1.5 with which it will develop synergies but focus on the value adding groups and not on producer groups when not engaged in value addition.

Activity 2.7: Link producer groups to existing finance schemes. The project will apply the UNIDO methodology of project/investment appraisal and feasibility analysis to facilitate financial planning (Computer Model for Feasibility Analysis and Reporting – COMFAR) and secure needed capital. It will help value addition groups develop fundable business plans and access existing government and private banking and micro-finance schemes including SME DNC and others. Furthermore, in close cooperation with the Centre for International Industrial Cooperation Armenia (CIIC), the project will promote access to international investors and

strengthened business linkages through the organization of Business to Business (B2B) meetings. Additionally, the project will work with targeted value adding producer groups to access innovative financing facilities and services.

Activity 2.8: Improve value addition producer groups' capacities to comply with food safety and quality standards. Agricultural products have to comply with food safety standards in Armenia and in the countries to where they are exported (e.g., Russia and the EU). While the country is still building its food safety legislation and compliance infrastructure, there are currently few companies that are actually fully compliant. The project will make an effort to gradually improve the quality and food safety of the targeted producer groups' products starting with complying with national regulations and gradually upgrading to EU and other international standards, including HACCP, when necessary. In addition to setting up quality standards compliant equipment and small quality laboratories, the project will provide training to staff handling products and link producer groups with national and international certification bodies.

Activity 2.9: Support value addition producer groups to engage in cleaner production and energy saving technologies and practices. In order to enhance sustainable entrepreneurship and showcase the benefits of cleaner production and how businesses can reduce costs by being environmentally sustainable, UNIDO will assist processing groups to apply resource efficient and environmentally sustainable techniques, machinery, and equipment in production processes, storage, transportation, energy sourcing, and other relevant activities. Where cooling chain solutions are applicable, compliance with Montreal Protocol will be ensured.

Activity 2.10: Support access of women, youth and other vulnerable groups to participate in value addition. The project will identify entry points and opportunities along the selected value chains for youth, women and other vulnerable groups to engage in value addition. The project will closely cooperate with youth and women's organization and build their capacities to support young entrepreneurs (business plan development, entrepreneurship training, mentoring) and job-seekers (counselling and mentoring). The project will furthermore contribute to the skills matching by facilitating linkages between the value chains and local private and public training institutions. Special emphasis will also put on enabling women to participate in the trainings related to 2.4, 2.5, 2.6 and 2.7. Some portion of training programmes will be specifically geared to the role of women and gender in food production and processing and how their situation can be improved.

Output 3: Strengthened value chains that provide improved access to affordable, better quality food. This output ensures that the organizational and technical support provided to producer and processor groups is accompanied by sufficient development of other crucial elements in the value chain. This requires a solid understanding of the value chain through diagnostics, strengthening of government and other actors in value chain support and the facilitation of access to production and risk management equipment, markets and supplies. As a result of the activities in output 3 it is expected that at least Euro 0.5 million of new investments in the targeted value chains will be secured. Further GAP and disaster risk assessment protocols will be developed and provided to the Ministry of Agriculture accompanied by related training of staff. At least 10 hectares of pilot hail protection systems and at least 20 hectares of pilot drip irrigation systems shall be implemented, evaluated and used for promotion and dissemination purposes.

Activity 3.1: Conduct analysis of selected value chains and develop intervention strategies. An analysis will be undertaken for each targeted value chain following UNIDO's value chain analysis method. This analysis will enable a better understanding of value chain development bottlenecks and opportunities and identify needs for assistance. Furthermore the project will

identify challenges to participation of rural people in the various segments of the targeted value chains. UNDP and FAO will augment elements of this survey in their fields of responsibility, particularly with regard to the analysis of primary production constraints and current participation of youth, women and other vulnerable groups. Based on this analytic work, a detailed action plan for Output 3 will be developed with key intervention points in their areas of responsibility.

Activity 3.2: Support government agencies and value chain actors to better coordinate, support, and link value chain components. The value chain analysis and intervention planning conducted under Activities 3.1 will also provide insights into how government agencies, working with value chain actors, can best assist the development, coordination, and linking of key components of targeted value chains in the selected marzes. Once support points have been determined, the project will coordinate with FAO (FAO ENPARD activity 2.5), the Ministry of Agriculture, its GAMK's, and other relevant entities to utilize, strengthen, or develop value chain development support capacities. This will include a broadening of Ministry of Agriculture initiatives beyond simply assisting selected producer groups to addressing the targeted value chains in their entirety. A related task will be to work closely with public and private business development service providers and improve their capacity to offer targeted, high quality services to producer groups and other actors in the value chain beyond the project's duration. This may include training of trainers in the fields of business plan development, financial appraisal, branding and marketing, as well as business planning and entrepreneurship.

Activity 3.3: Improve producer access to primary production knowledge, market price information, and extension services. Management, budgetary, and staff training challenges often jeopardize the effective delivery of production related public research, education, and extension services. Additionally, evolving information technologies and input supply systems have opened non-traditional approaches that may sometimes be more cost and operationally effective. As a consequence, the project will explore a range of alternatives to providing these essential services and information through national research organizations, extension services, private providers and other sources. This could include conveying production and marketing knowledge via partnerships with input suppliers, buyers, processors and others that are in regular contact with farmers. It will likely entail the use of communications technologies employing television, cellular phones, and computers, individually and through community information centres. These may be linked with or use remote interactive teaching on knowledge not readily available in Armenia. However, it is important to ensure the relevance of the teaching content to local situations. Additionally, the existing education system may provide a valuable resource and opportunity for conveying production and marketing information differently than in the past. In fact, the information technology sector in rural areas may represent one of the most promising employment opportunities for rural youth. Within this evolving information milieu, the project will act as a catalyst and facilitator for identifying, promoting, and assisting the development of effective approaches for providing up-to-date, relevant research, education and extension. Advisory information in the Armenian language will be produced and featured on the new web site of the Ministry of Agriculture which came on line in June 2014.

Activity 3.4: Develop Good Agricultural Practices (GAP) and disaster risk management approaches. Major challenges for primary producers engaging in a new and different kind of production using unfamiliar inputs and new technologies is to employ these so as to produce the required quality and maintain safety for the producer, their communities, and the environment. The project will develop appropriate production protocols for the targeted value chains in the selected marzes that minimize such risks. The knowledge and approaches developed will be shared with the FAO and Ministry of Agriculture for possible adaptation to national initiatives for the adoption of Good Agricultural Practices, e.g. Global GAP. Armenia producers also face major challenges with respect to the short and longer term effects of

adverse weather conditions due, in part, to climate change, such as frost, hail, drought, and flooding. As these are unpredictable and irregular, the project will primarily identify key factors over which producers have some reasonable degree of control and then develop risk management tools to be applied in the targeted value chains. To the degree these are immediately actionable by and beneficial to producers, training courses will be developed and offered. Additionally, the project will undertake – based on cost sharing principles – small pilot projects in areas of special interest or need, e.g., drip irrigation, hail protection, and frost protection. If any of the preceding suggests an immediate more broad-based need or opportunity for adoption of an important technology, the project will coordinate with international donors, the private sector, and the Government of Armenia to secure additional financial and technical support.

Activity 3.5: Improve producer access to better quality production inputs and related services. Within the targeted value chains and marzes, the project will identify the input supply challenges of greatest importance and work to find solutions that meet the needs of local producers. Further, the project will assist both producer groups and individual producers to access inputs through a range of measures including (1) improved purchasing, (2) appropriate regulations, monitoring, and testing as to stated representations of product quality and characteristics, (3) production credit, (4) innovative approaches for machinery and equipment to include machinery service companies, parts and repair, and leasing, (5) effective and efficient international sourcing, and (6) technical support in the introduction and use of new or unfamiliar inputs and equipment such as hail nets and drip irrigation.

Activity 3.6: Support producers to improve harvesting techniques, post-harvest handling, and storage. The project will work with producers, individually or those associated with value addition groups, to promote the use of appropriate harvest, post-harvest handling, and storage technologies and approaches which enhance product safety, quality, value, and marketability. This activity will first identify and then match appropriate technical solutions to consumer/market preferences and regulatory requirements. It will then provide technical expertise in (1) advising on needed harvesting requirements, (2) establishing post-harvest and storage systems, and (3) training and coaching for optimal operation.

Activity 3.7: Build producer groups' capacities to source quality products and set up effective supplier networks. This includes the management of both horizontal and vertical alliances as well as the creation and strengthening of supplier networks. Based on identified bottlenecks, the project will work with primary producers, packers, and processors on customer relationship management and working relationships to enhance communication along the value chain. Furthermore the project will assist in the establishment and improvement of supply relationships. To achieve this, producers will be given the tools necessary to provide their suppliers with clear product requirements. Inefficient administrative procedures existing between primary producers and value adding producers that are detrimental to the relationship are thus eliminated. Finally, the suppliers are taught how to provide better products, while improving their management so as to reduce costs, shorten delivery times and guarantee the quality of their products.

Activity 3.8: Support traders, transporters and marketers to better service targeted value chains. Many producers in the targeted value chains will likely continue to rely on external transporters, traders, and marketers to move and sell their output rather than doing themselves individually or cooperatively. As a consequence, the project will address the following: (1) transportation capacity (quantity, timeliness, quality, modes), (2) pricing (fair to the producer while providing reasonable return to the service provider), (3) market information access (where there are potentially competing interests between the producer and trader/marketer), (4) dispute resolution (when there is alleged short weights, damage or spoilage), and (5) payments and finance. While actors involved in moving product from farm to end markets may choose to remain legally and organizationally separate from one another, the project will work

to develop effective relationships between producers, producer groups, transporters, and traders/marketers. This can be done through loose affiliations, contractual arrangements, and even joint financing of trucks, storage facilities, and/or sales representatives and offices.

Activity 3.9: Develop innovative financing facilities and services, and improve access to capital. Access to operating and investment capital at reasonable terms and rates is often an obstacle to a more rapid and substantive development of the food and agriculture sector. The project will therefore enhance modern value chain finance mechanisms facilitating relationships between producer and processors groups, finance institutions, buyers and suppliers. Financing needs along the value chain will be identified and opportunities will be presented to the different actors of the value chains. Furthermore, the project will identify potential innovative finance arrangements that address gaps, needs, and sources. For those that are feasible, approaches will be developed for their implementation and they will be linked to the existing financing mechanisms as being developed in the overall ENPARD (According to Condition 2.4 access to capital for farmers and farmers associations and cooperatives is enhanced through the increase of the budget of the subsidies for loan interest rates for agricultural sector). The concepts will be presented to donors, financial institutions, and others who have the capacity to fund and/or implement such initiatives. To the degree that producer insurance programs become available in Armenia during the course of the project, they will be integrated into the credit expansion approaches recommended and promoted by the project.

Project Activity Plan (Summary)

Output 1: Strengthened and newly established primary producer groups.		
Activities	Responsibilities	Partners
1.1: <i>Identify value chains in selected marzes</i>	UNDP, UNIDO	GoA, FAO, stakeholders
1.2 <i>Identify existing and the potential for new business-oriented producer groups</i>	UNDP, UNIDO	
1.3 <i>Educate producers as to producer group types and characteristics</i>	UNDP,	LSP
1.4 <i>Establish new producers groups</i>	UNDP	
1.5 <i>Develop managerial, administrative, and operational capacities of producer groups.</i>	UNDP,	GoA, FAO, LSP
1.6 <i>Document lessons learned for appropriate legislation for producer groups</i>	UNDP	GoA, FAO
1.7 <i>Promote participation and access of women, youth, and other vulnerable groups</i>	UNDP	MOA
1.8 <i>Develop models for the further establishment of sustainable producer groups.</i>	UNDP	GoA, FAO

Output 2. Value adding producer groups effectively engaged in value addition.		
Activities	Responsibilities	Partners
2.1 <i>Identify business-oriented producers groups that aim to engage in value addition.</i>	UNIDO, UNDP	GoA
2.2 <i>Install appropriate technologies/equipment and improve technical performance of producer groups' value addition capacities.</i>	UNIDO	civil works contractors
2.3 <i>Study existing and potential markets and support producer groups to develop new and improved value added products.</i>	UNIDO	LSP
2.4 <i>Improve producer groups' technical capacities in storage and packaging of value added products.</i>	UNIDO	LSP
2.5 <i>Help producer groups develop marketing capacities and link them to buyers of value added products.</i>	UNIDO	LSP
2.6 <i>Build value addition producer groups' entrepreneurial and business planning capacities.</i>	UNIDO	LSP
2.7 <i>Link producer groups to existing finance schemes.</i>	UNIDO	
2.8 <i>Improve value addition producer groups' capacities to comply with food safety and quality standards.</i>	UNIDO,	LSP
2.9 <i>Support value addition producer groups to engage in cleaner production and energy saving technologies and practices</i>	UNIDO	
2.10 <i>Support access of women, youth and other vulnerable groups to participate in value addition</i>	UNIDO	GoA

Output 3: Strengthened value chains that provide improved access to affordable, better quality food.		
Activities	Responsibilities	Partners
3.1 Conduct analysis of selected value chains and develop intervention strategies.	UNIDO, UNDP	FAO
3.2 Support government agencies and value chain actors to better coordinate, support, and link value chain components.	UNDP, UNIDO	GoA,
3.3 Improve producer access to primary production knowledge, market information, and extension services.	UNDP	GoA, FAO, LSP
3.4 Develop Good Agricultural Practices (GAP) and disaster risk management approaches.	UNDP	GoA, FAO
3.5 Improve producer access to better quality production inputs and related services.	UNDP	GOA
3.6 Support producers to improve harvesting techniques, post-harvest handling, and storage	UNDP, UNIDO	LSP
3.7 Build producer groups' capacities to source quality products and set up effective supplier networks	UNDP, UNIDO	LSP
3.8 Support traders, transporters and marketers to better service targeted value chains.	UNDP	GoA, FAO, LSP
3.9 Develop innovative financing facilities and services, and improve access to capital	UNDP	UNDP

GoA = Government of Armenia, LSP = Local Service Providers

C.2: The Approach

In the implementation of the above described output related activities, the project will pursue the following logic sequence:

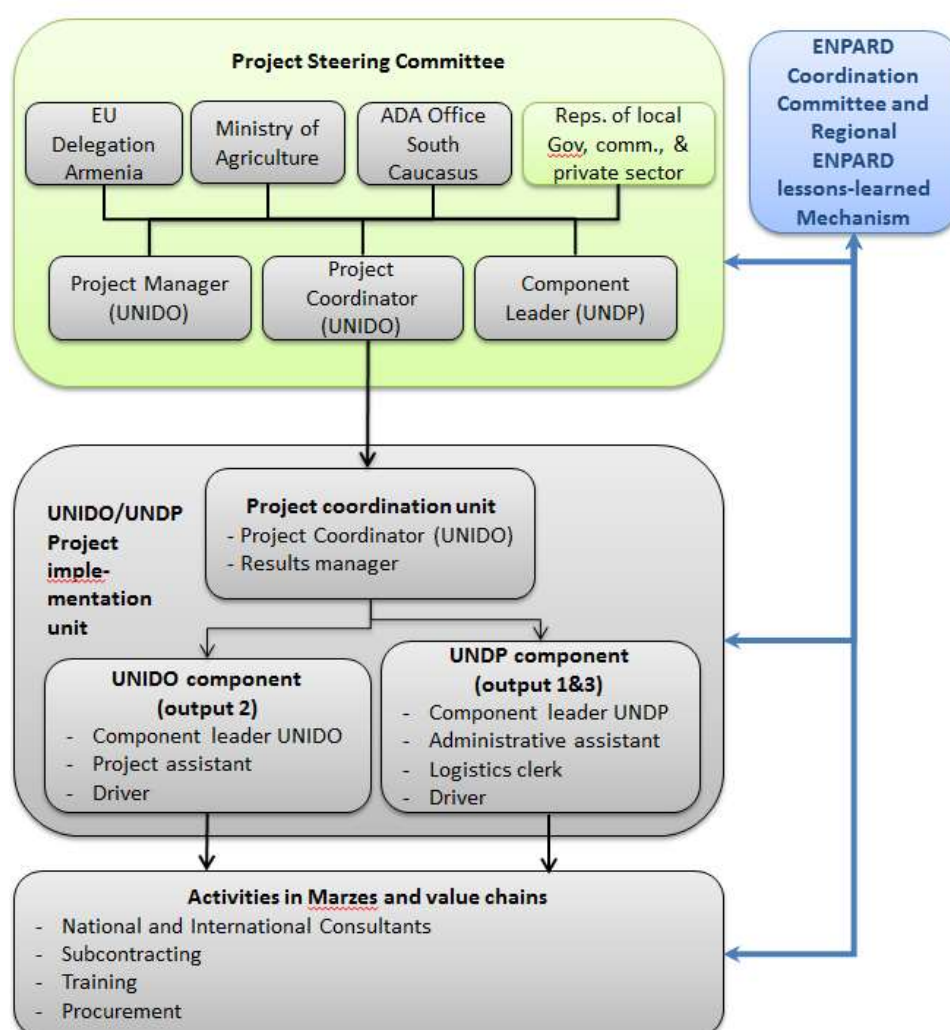
- First, value chains will be chosen in order to define the focus and scope of interventions. UNIDO, UNDP, and FAO will work together to make these determinations.
- Second, opportunities for new producer groups will be identified for support in their establishment and registration along with identifying existing producer groups who would also receive assistance in their organizational strengthening to respond to Output 1. UNDP will lead these activities in collaboration with FAO and UNIDO in areas where their responsibilities overlap.
- Third, value-adding producer groups will be identified (as a subset of the preceding) that will receive support with regard to agro-processing and other value addition to respond to Output 2. UNIDO will lead these activities.
- Fourth, other value chain actors will be identified that will receive support to respond to Output 3. UNDP will lead these activities in collaboration with FAO and UNIDO. The detailed activities will be defined after full value chain analyses.
- Fifth, opportunities to provide modules, materials, training, and other assistance to public and private entities will be identified so as to contribute to the sustainability of interventions beyond project completion as well as expanding successful models and tools to other regions or value chains. UNIDO and UNDP will work with FAO to strengthen the Ministry of Agriculture, other governmental entities, and private sector service providers.

In essence UNIDO will be responsible for capacity strengthening, coaching, and the provision of machinery, equipment, and other inputs as part of pilot projects when producer groups are

value addition related, and UNDP when the groups are commodity production and marketing related. In order to provide the best assistance and avoid duplication of effort, a given producer group will work only with UNDP or UNIDO but not with both. The activities of the two agencies lead to optimal synergies as they will target various segments and development bottlenecks along selected value chains (drawing particularly from a joint value chain analysis). Both organizations will coordinate and exchange relevant information and expertise with FAO as reflected in the output-related activities described under C1.

C.3 Governance and project management structure

As stipulated in the Action Fiche of the ENPARD, UNIDO is the lead agency for the implementation of the present project. The project team will work in one office space. The UNIDO/UNDP project implementation unit (the project team) will be composed of project management, project coordination and component leadership. The below diagram illustrates the governance structure of the project.



The roles and functions of the various organizational units of the project are subsumed below:

- **Project management:** The project manager within UNIDO's Agribusiness Development Branch has the single technical and financial responsibility vis-à-vis the implementation of the project. He or she will also ensure technical inputs to the implementation from UNIDO's Business, Investment and Technology Services Branch.

- **Project coordination:** The project coordinator will be nominated by UNIDO in consultation with UNDP and lead the project on the ground under guidance of the UNIDO project manager. Project coordination includes the coordination of implementation activities and continuous interaction with the Government and stakeholders in the marzes and the value chains. It also includes the collection of information for monitoring activities and technical and financial reporting. Finally, the project coordination function includes the organization of missions, field trips and expert consultations in interaction with stakeholders and beneficiaries. The project coordinator will be supported by a results manager. He or she will also coordinate with the UNIDO Desk in Armenia and the UNDP country office. For the coordinator position, international recruitment will be considered for the first 1.5 years of the project after which the coordination function shall be handed over to a national who has been leading the UNIDO component up to this stage.
- **Component leadership.** There will be a coordinator for Component (Output) 2 of the project and one for Components (Outputs) 1 and 3. The coordinators will each work with a logistic clerk and a driver, with one additional administrative assistant covering Components 1 and 3. Component leadership includes preparation for short-term recruitments (national and international consultants), subcontracting, training and procurement under the overall guidance of the coordinator. It also includes the day-to-day interaction with the identified beneficiary groups.
- **Coordination and quality monitoring mechanism:** This mechanism through regular meetings supports the project board by carrying out objective and independent project monitoring functions, verifying the products' and outputs' quality, and ensuring appropriate programme management milestones are managed and completed. Moreover, the committee ensures harmonization of UN agencies' joint work and a concerted approach to the achievement of the programme's results. The Coordination and Quality Monitoring Mechanism is composed of UNDP Armenia Socio-economic Governance Programme Unit, UNIDO Armenia Office, FAO Armenia Office and the UN Coordination Office in Armenia.
- **Steering Committee:** Regular meetings of the component steering committee will enhance synchronization of activities as well as the coordination with the FAO component, government and local stakeholders. Core members of the steering committee should be the EU Delegation, Government including Ministry of Agriculture, communities and private sector as well as representatives of UNIDO, UNDP and FAO. Ad hoc sub committees may be established also, following selection of the marzes and value chains, to ensure effective cooperation with local institutions and coordination with actors engaged in the selected value chains.
- **Regional ENPARD lessons-learned mechanisms:** To enhance learning and exchange, it is envisaged that FAO will organize annual meetings of stakeholder and agencies involved in the implementation of ENPARD projects in the Caucasus. This ENPARD lessons-learned mechanism will offer the opportunity to exchange best practices with projects and partners engaged in the implementation of ENPARD in other countries (e.g., UNDP in Georgia and FAO in a number of ENPARD countries).

C.4 International development goals

The proposed project will contribute towards MDG 1: Eradicate extreme poverty and hunger; particularly to 1A: Halve the proportion of people living on less than \$1 a day, and 1B: Achieve Decent Employment for Women, Men, and Young People. It will also contribute to MDG 3: Promote gender equality and empower women as well as to MDG 7: Ensure environmental sustainability.

C.5 Timeline of activities

Phase 1. Inception, Analysis and Design (3 months): The Inception, Analysis and Design Phase will be overseen by a management team with designated representatives from the EU, UNIDO, UNDP, and the Ministry of Agriculture until such time as the international and the national project coordinator and component leaders are in place. This group will trigger the works required to select the value chains in target marzes and launch the value chain and producer group identification studies. All the identification process will be driven by stakeholders in the respective marzes and value chains, to include farmers and government officials responsible for agriculture and rural development. This phase will also ensure collection of background knowledge and data needed to provide an information and evaluation baseline for the project, identify potential value-chain resources (e.g., farmers, producer groups, funding), and develop detailed project implementation plans, both overall and for the first year. Finally the inception phase will serve to identify and agree in writing responsibilities of each component for linked activities. This will be reviewed on an on-going basis to ensure synergies and avoid duplication/non-completion of essential activities.

Phase 2. Project Implementation (30 months): The Implementation Phase is the core component of the project and will generate virtually all of the outputs and success indicator products if the project evolves as planned. Nonetheless, project management and its steering committee advisory boards must be open to alterations in focus and operational activities if changing conditions or new information suggests that modifications to implementation plans will better achieve project objectives and desired results.

Phase 3. Project Completion (3 months): The Project Completion Phase will ensure promotion of the project approach to other development agents and insure effective transition to those business-oriented groups developed during the project as well as to strengthened local support institutions. The project will also strengthen its efforts to publicize lessons learned and diffuse the models and materials for further producer group and value-chain development recommending, among others, future producer group/value-chain work.

Table: Timeline of Activities (Gant Chart)

	Year Quarter	1 st year				2 nd year				3 rd year			
		1q	2q	3q	4q	1q	2q	3q	4q	1q	2q	3q	4q
Output 1: Strengthened and newly established primary producer groups													
1.1 Identify value chains in target marzes.													
1.2 Identify existing and the potential for new business-oriented producer groups													
1.3 Educate producers as to producer group types and characteristics													
1.4 Establish new producers groups													
1.5 Develop managerial, administrative, and operational capacities of producer groups													
1.6: Document lessons learned for appropriate legislation for producer groups													
1.7: Promote participation and access of women, youth, and other vulnerable groups													
1.8: Develop models for the further establishment of sustainable producer groups.													
Output 2. Value-adding processor groups effectively engaged in value addition.													
2.1 Identify business-oriented producers groups that aim to engage in value addition.													
2.2 Install appropriate technologies/equipment and improve technical performance of producer groups' value addition capacities.													
2.3 Study existing and potential markets and support producer groups to develop new and improved value added products.													
2.4 Improve producer groups' technical capacities in storage and packaging of value added products.													
2.5 Help producer groups develop marketing capacities and link them to buyers of value added products.													
2.6 Build value addition producer groups' entrepreneurial and business planning capacities.													
2.7 Link producer groups to existing finance schemes.													
2.8 Improve value addition producer groups' capacities to comply with food safety and quality standards.													
2.9 Support value addition producer groups to engage in cleaner production and energy saving technologies and practices													
2.10 Support access of women, youth and other vulnerable groups to participate in value addition.													
Output 3: Strengthened value chains that provide improved access to affordable, better quality food.													
3.1 Conduct analysis of selected value chains and develop intervention strategies.													
3.2 Support government agencies and value chain actors to better coordinate, support, and link value chain components.													
3.3 Improve producer access to primary production knowledge, market information, and extension services.													
3.4 Develop Good Agricultural Practices (GAP) and disaster risk management approaches.													
3.5 Improve producer access to better quality production inputs and related services													
3.6 Support producers to improve harvesting techniques, post-harvest handling, and storage													
3.7 Build producer groups' capacities to source quality products and set up effective supplier networks													
3.8 Support traders, transporters and marketers to better service targeted value chains.													
3.9 Develop innovative financing facilities and services, and improve access to capital													

C7. Risks

Major risks associated with the implementation of this project are presented in the following risk management framework:

Risk	Mitigating Measures (included in the various activities of the project)	Likelihood of Occurrence	Impact, if Risk occurs
Production risks: Attacks from pests, diseases, natural disasters and management failures may cause drops in primary production.	<ul style="list-style-type: none"> • Monitor the status of production and quality of product • Experts from national research and private sector provide production recommendations and solutions to production failure and pest infestation • Producers apply disaster risk reduction tool developed by the project 	Medium	Medium
Quality risk: Producers and processors do not attain adequate product quality and product cannot be sold on the market	<ul style="list-style-type: none"> • Choice of production and processing equipment • Quality control system • Training and coaching on quality • Development of protocols that ensure quality 	Medium	medium
Policy and policy support risks: The agricultural and rural development strategies may not be implemented by the GoA, associated programs such as ENPARD to not meet the interest of the GoA	<ul style="list-style-type: none"> • Effective collaboration with the GoA in the development of policies and strategies (lead by FAO) • Continuous discourse and engagement with national and local policy makers and lobby groups • Adequate reporting of progress and results to policy makers 	Low	medium
Risks from geopolitical tensions: Groups of the society may object to policies and project interventions, conflict with neighboring countries may arise	<ul style="list-style-type: none"> • Continues demonstration of relevance of the project on income generation and employment as well as business making 	Low	high
Market risk: Prices and demand for products of the selected value chains dwindle. Dependence on international market price fluctuation. Russian market subject to political decisions restricting imports eventually. Higher-quality and higher-value products may only be marketable to a smaller portion of more wealthy consumers.	<ul style="list-style-type: none"> • Introduction of cost effective production and processing operations, increasing efficiency in value chain organization and overall • Marketing study and market testing • Marketing campaign • Segmentation between NIS (few price increase) and European market (higher price increase) 	Medium	medium
External intervention risk: Other development projects and government initiatives interfere with	<ul style="list-style-type: none"> • Continuous discourse with government and development community • Adequate reporting of progress and results to policy makers 	Low	low
Producer risks: Producers fail to see producer group alternatives as providing sufficient incentive for participation	<ul style="list-style-type: none"> • Careful choice of producer groups • Continuous demonstration of advantages of producer groups 	Low	medium
Value Chain Cooperation Risk: Value chain actors unable to perceive or unwilling to pursue mutually beneficial relationships due to lack of trust, flexibility, and other similar reasons.	<ul style="list-style-type: none"> • Demonstrate the advantage of value chain cooperation to the different actors engaged • Training and coaching on the economic benefits of functioning value chains 	Medium	medium
Capital Risk: Insufficient capital available to undertake the value addition processes required to meet output objectives. Financial institutions, donors, and other potential investment sources resistant to expanded exposure in the food and agriculture sector.	<ul style="list-style-type: none"> • Careful financial planning in inception phase • Study of the financial market and existing financing schemes • Adequate reporting of results achieved in the selected value chains / marzes • Continues demonstration of high potential of the food and agriculture sector 	Low	medium

With regard to **disaster risk management** the project in particular deals with the effects of hail, frost damage as well as water saving systems to moderate impact of climate change in most vulnerable communities. With regard to hail protection the project will provide pilot hail net

systems to protect flowers and fruits from hailstorms in spring that in this part of the Caucasus Mountains can cause particular severe damages to fruit development. The loss, in some cultivation, depending on duration and severity of the storm, can damage up to 70% of the harvest. However, hail nets can only be applied to modern plantations that use dwarf trees and advanced crafting and pruning methods. The investments in such plantations are quite substantial and most farmers still remain with extensively managed orchards, partly irrigated, that have come to age and whose productivity is low. The introduction of hail nets through the project therefore only will have pilot character and it will be avoided to hand them to some privileged farmers while the rest of the community will be left to nothing. If hailstorms come during the period of fruit development the fruits get spots and deformations that make them unfit for selling as fresh fruits which in presence of no option for processing will constitute a big damage to the income. The remaining use usually lies in traditional home-alcohol production. The setting up of processing facilities for 2nd and 3rd grade fruits, including hail-damaged fruits, will certainly contribute to mitigate the risk of hail storms stabilizing the incomes of farmers. Ironically, hail-damaged fruits are even better fit for pulping and jam-making as their sugar content increases due to a biological reaction of the plant to the damage. The project's approach to disaster risk management will be complemented through lessons learned of other ADA projects in Armenia: For example the ADA funded South Caucasus Building Safe and Resilient Communities project implemented by the Austrian Red Cross builds capacities among rural communities in Lori marz to anticipate, respond and recover from disasters, establishing community based disaster risk reduction committees, conducting vulnerability and capacity assessments, developing community-based disaster preparedness and mitigation plans, conducting simulation exercises, raising awareness and implementing small scale mitigation projects in cooperation with local authorities.

D. Implementation Arrangements

The project will be implemented in close cooperation with the Ministry of Agriculture (MOA) as the Government Coordinating Agency. The Ministry of Agriculture as the lead agency to implement the main ENPARD project has requested UNIDO support via this support facility project. Therefore main role of the project is to support the implementation of the main MOA project through providing expertise, training and lessons learned from experience. The project will work with local consulting companies, individual consultants, subcontractors and government development and research/extension agencies to ensure the implementation of planned activities.

D.1. Counterpart Inputs:

Through the Ministry of Agriculture, the Government of Armenia will:

- Guarantee timely and effective full support throughout the implementation of the various project phases
- Contribute to the collection and analysis of available related national data and material with its own professional field capacity
- Provide all necessary national and/or regional government authorizations to carry out field activities, taking into consideration that the absence of these authorizations could prevent or delay field project activities
- Make available, when possible, office space with telephone facilities for use by the experts during the missions and provide meeting rooms for official meetings and workshops
- Cover the travel costs and daily allowances of Ministry staff working with the project and of national institutions participating in national and international workshops.
- Support the process of exemption of taxes and import duties for products to be procured internationally which will follow the Standard Basic Assistance Agreement signed between UNDP and the Government of Armenia
- Facilitate visa and working permissions for project-associated international staff.

D.2 UNIDO/UNDP Inputs:

International Staff (BL 11-00)

The project will make access to the unique expertise of a very limited number of international experts in areas where local expertise can be blended and enhanced with knowledge from abroad. Overall Euro 303,000 shall be spent for this. This includes an international project coordinator who will work full time with the project in the first year and part time in the following two years. Main tasks of international experts will include support to the following:

National Staff (BL 17-00)

The project will employ a national project coordinator for half of the project period. Further the project will follow the rule to hire national staff wherever possible. Only in case that the required expertise is not available locally, the recruitment of international consultants will be considered. The recruitment of all national professional project staff and national experts will be in the order of Euro 601,500.

Subcontracts (BL 21-00)

A total allocation of Euro 386,000 is earmarked for subcontracting including the development of business plans and ongoing support to the management of the producer groups, the rehabilitation of existing facilities, the setting up of risk management relevant pilot equipment, the development of production protocols, and organization of a marketing and awareness raising campaign. Specific Terms of Reference (ToRs) for these subcontracts will be prepared throughout the course of the project as such support and involvement is required.

Training (BL 30-00)

Most of the training with members of the identified producer groups is actually conducted during individual sessions of local and international consultants as well by subcontracted service providers. A total allocation of Euro 150,000 has been earmarked for the organization of training workshops.

Equipment (BL 45-00)

A total allocation of Euro 571,500 has been allocated for equipment. Of this Euro 260,000 will be used by UNDP for purchase of risk-mitigation demonstration hail nets and drip irrigation systems as well as other demonstration equipment. UNIDO will use Euro 240.000 for providing demonstration processing equipment to a limited number of producer groups (e.g. 4 or 5). For all procurement international competitive bidding is envisaged.

Local support staff and travel (BL 15-00)

A total allocation of Euro 45,000 has been allocated for local support staff and travel.

HQ Travels (16-00)

Euro 15,000 has been allocated for travelling of headquarter staff to ensure their engagement in backstopping and monitoring.

Miscellaneous (BL 51-00)

A total allocation of Euro 171.000 has been allocated for fuel, operation and maintenance of the three vehicles, communications and visibility, stationary and printing for the 36 month of project operations.

E. M&E and Reporting

In general, monitoring and evaluation of all ENPARD activities will be the responsibility of the European Union, and a dedicated budget line is foreseen for these activities. However, given UNIDO's mandatory evaluation function per decision of its member countries the EU may consult with the UNIDO Evaluation Division during the mid-term and final evaluations e.g. via commenting on draft Terms of Reference and final draft report.

Internal monitoring and quality control remains the responsibility of each implementing agency. Such activities, according to EU rules, must be conducted without additional budget provision. The project will apply a system of results measurement following partly the DCED standards for results measurement. This includes development of results chains and capacity development of all project staff with respect to results measurement. A results manager will be appointed reporting to the project coordinator. Monitoring and quality control will be done with the use of the key performance indicators on the level of project outcomes and outputs respectively. The indicators and their means of verification are included in the logframe. The below table illustrates how the various indicators inform on the results of value chain development.

<i>Intervention logic</i>	<i>Indicators</i>	<i>Sources of verification</i>	<i>Evaluation exercise</i>
Outcome: Rural household incomes from production and value addition in the targeted value chains increased	<ul style="list-style-type: none"> Output from targeted producers and producer groups increased by 15% 	<ul style="list-style-type: none"> Project records on assisted producer groups 	<ul style="list-style-type: none"> End of project evaluation
Output 1: Strengthened and newly established primary producer groups.	<ul style="list-style-type: none"> At least twenty (20) new business-oriented farmers groups engaging in primary production are officially registered at the Agency for State Registry of the Ministry of Justice, and operational, with approved business plans, covering both agricultural and non-agricultural activities. Of these, at least 40% are women-led and employ at least 30% youth. Training conducted for staff of at least 30 producer groups in a) business planning, administration and organization, b) budgeting and financial management c) commodity marketing, d) food safety and traceability at production level, and e) policy advice for agricultural and rural development decision-making At least 1,000 farmers trained in the targeted marzes as to possible structures and benefits of group organization, of which min 40% women and min 30% young Manual for establishing/operating producer groups developed 	<ul style="list-style-type: none"> Project progress reports Project records on assisted producer groups 	<ul style="list-style-type: none"> Semestrial reporting
Output 2: Value-adding producer groups effectively engaged in value addition.	<ul style="list-style-type: none"> At least ten (10) producer groups engaging in new and improved ways of value addition are officially registered at the Agency for State Registry of the Ministry of Justice, and operational, with approved business plans, covering both agricultural and non-agricultural activities. Of these, at least 40% are women-led and employ at least 30% youth. Products from assisted producer groups attain at least 10% premium price and 20% increase in annual turnover 90% of the products from targeted producer groups comply with food quality standards 	<ul style="list-style-type: none"> Project progress reports Project records on sales Value chain survey Project records on producer groups Value chain survey Consumer survey 	<ul style="list-style-type: none"> Baseline study Semestrial reporting End of project evaluation

Intervention logic	Indicators	Sources of verification	Evaluation exercise
Output 3: Strengthened value chains that provide improved access to affordable, better quality food	<ul style="list-style-type: none"> • Euro 0.5 million in new financing secured for targeted value chains in the selected marzes • GAP and disaster risk assessment protocols developed and provided to the MOA with related training of staff • Targeted value chain actors employ 5% more workers on average 	<ul style="list-style-type: none"> • Project progress reports • Project records on targeted value chain actors 	<ul style="list-style-type: none"> • Final project reporting

The key performance indicators as well as contextual qualitative information will be collected according to the following indicative Monitoring & Evaluation Work plan. The costs for M&E are covered under UNIDO/UNDP staff time and travel expenses as well as Project Management Costs.

Type of M&E activity	Responsible Parties	Time frame
Inception workshop	UNIDO Project Manager; UNDP Component Leader, UNIDO Project Coordinator, Steering Committee	Within first two months of project start up
M&E design and tools to collect and record data (performance indicators)	UNIDO Project Manager, UNIDO Project Coordinator, Results Manager	Start of project
Brief monthly reports, that summarise activities of the last month, planned activities for the next month, and identifying current and potential logjams that require immediate attention.	UNIDO project coordinator, Results Manager, UNDP component leader, PIU	Monthly, to feed into project management
Inception report	UNIDO Project Manager, UNIDO Project Coordinator, UNDP Component Leader, Results Manager	Three month after start of project, to be submitted within 1 month.
Annual narrative progress and financial reports as end of each 12month period		To be submitted first to the Steering Committee meeting followed by submission to EU for review and approval no later than five months after the end of each 12 month period.
Final consolidated narrative report		to be provided no later than six month of the year following the financial closing of the action and/or end of implementation period whichever comes first, with draft final report prepared for discussion and review at least three months before end of implementation"
Visits to field sites	UNIDO Project Coordinator, UNDP Component Leader, Results Manager	Every 6 months

PIU = Project Implementation Unit

There will be project progress reports every 12 month that inform about progress in planned activities which may lead to adjustments in project work plans. Additionally, participatory monitoring workshops will be conducted with the marzes affected.

F. Communication and Visibility

All visibility and communication activities of the project will be in line with the Joint Visibility Guidelines for EU-UN actions in the field and comply with Article 11 of the FAFA (Financial and Administrative Framework Agreement). The project will also carry out all communication and visibility activities in close cooperation with the EU Delegation in Armenia, in particular the

Press and Information Officer. Particular reference is also made to the “Communication and Visibility Manual for EU External Actions”¹⁷.

In the inception phase of the project, a communication and visibility plan will be drafted for approval by the EU delegation in Armenia. Elements which will be considered are inter alia press releases, press conferences, press visits, brochures and newsletters, web site activities, photographs and other suitable measures as listed in the Joint Visibility Guidelines of the EU. The communication and visibility plan will be drafted according to the EU template and will include overall objectives, the target groups within Armenia as well as the EU and specify detailed activities and indicators of achievement.

During the whole duration of the project, UNIDO/UNDP will report on the implementation of the communication and visibility plan as well as milestones and outputs achieved as agreed to in the plan. The budget to carry out the agreed upon activities is included under “Visibility Actions” in the attached project budget.

Furthermore, the EU flag will be included in all project communication as well as the reference that *“This project is funded by the European Union”*. Additionally, the disclaimer annexed to the Joint Visibility Guidelines for EU-UN actions in the field will be included in all publications.

G. LEGAL CONTEXT

The Government of Armenia agrees to apply to the present project, mutatis mutandis, the provisions of the Standard Basic Assistance Agreement between the United Nations Development Programme and the Government signed on 8 March 1995 and effective 8 June 2000.

¹⁷ http://ec.europa.eu/europeaid/work/visibility/index_en.htm

H: LOGFRAME

Project Hierarchy	Objectively Verifiable Indicators	Sources of Verification	Risks
Goal: Support the Government of Armenia in ensuring an efficient and sustainable agriculture, contributing to better conditions in rural areas of Armenia			
Outcome: Rural household incomes from production and value addition in the targeted value chains increased	<ul style="list-style-type: none"> Output from targeted producers and producer groups increased by 15% 	Project records on assisted producer groups	<ul style="list-style-type: none"> External intervention risk: Other development projects and government initiatives interfere with project Risks from geopolitical tensions: Society groups may object policies or project interventions, conflict with neighbouring countries arises Policy and policy support risks: Agricultural and rural development strategies may not be implemented by the GoA.
Output 1: Strengthened and newly established primary producer groups.	<ul style="list-style-type: none"> At least twenty (20) new business-oriented farmers groups engaging in primary production are officially registered at the Agency for State Registry of the Ministry of Justice, and operational, with approved business plans, covering both agricultural and non-agricultural activities. Of these, at least 40% are women-led and employ at least 30% youth. Training conducted for staff of at least 30 producer groups in a) business planning, administration and organization, b) budgeting and financial management c) commodity marketing, d) food safety and traceability at production level, and e) policy advice for agricultural and rural development decision-making At least 1,000 farmers trained in the targeted marzes as to possible structures and benefits of group organization, of which min 40% women and min 30% young Manual for establishing/operating producer groups developed 	<ul style="list-style-type: none"> Project progress reports Project records on assisted producer groups 	<ul style="list-style-type: none"> Capital risk: Insufficient capital available for producer groups establishment or expansion Production risks: Attacks from pests, diseases, natural disasters and management failures may cause drops in primary production.
Output 2: Value-adding producer groups effectively engaged in value addition.	<ul style="list-style-type: none"> At least ten (10) producer groups engaging in new and improved ways of value addition are officially registered at the Agency for State Registry of the Ministry of Justice, and operational, with approved business plans, covering both agricultural and non-agricultural activities. Of these, at least 40% are women-led and employ at least 30% youth. Products from assisted producer groups attain at least 10% premium price and 20% increase in annual turnover 90% of the products from targeted producer groups comply with food quality standards 	<ul style="list-style-type: none"> Project progress reports Project records on sales Value chain survey Project records on producer groups Value chain survey Consumer survey 	<ul style="list-style-type: none"> Market risk: Dependence on international market prices. Prices and demand for products may dwindle while higher-quality and higher-value products may only be marketable to a small portion of more wealthy consumers. Capital risk: Insufficient capital available to invest in value addition processes Quality risk: Demand for quality and standards compliance among buyers changes unpredictably
Output 3: Strengthened value chains that provide improved access to affordable, better quality food	<ul style="list-style-type: none"> Euro 0.5 million in new financing secured for targeted value chains in the selected marzes. GAP and disaster risk assessment protocols developed and provided to the MOA with related training of staff. Actors in the targeted regional value chains employ 5% more workers than in the beginning of the project. At least 10 pilot hail protection systems and 20 (at least 1 ha) pilot drip irrigation systems shall be implemented, evaluated and used for promotion and dissemination purposes. 	<ul style="list-style-type: none"> Project progress reports Project records on targeted value chain actors 	<ul style="list-style-type: none"> Capital risk: Financial institutions, donors, and other potential investment sources resistant to expanded exposure in the value chain. Value chain organization risk: Other value chain actors do not engage adequately in the value chain hampering its organization and functioning.

Annex 3: Project Budget

	year 1	year 2	year 3	Total
Output 1: Strengthened and newly established producer groups	139,500	138,590	85,800	363,890
International consultancies	0	0	0	0
Local support staff and travel	3,500	3,500	3,500	10,500
Headquarters travel	0	0	0	0
National consultants	73,000	56,000	32,000	161,000
Subcontracts	28,000	47,000	25,000	100,000
Training workshops	23,000	18,000	5,000	46,000
Equipment	0	0	0	0
Sundries	12,000	14,090	20,300	46,390
Output 2: Producer groups effectively engaged in value addition	573,405	417,905	178,401	1,169,711
International consultancies	173,000	90,000	25,000	288,000
Local support staff and travel	9,000	8,000	7,000	24,000
Headquarters travel	6,000	5,000	4,000	15,000
National consultants	106,000	91,500	63,500	261,000
Subcontracts	94,000	71,000	49,000	214,000
Training workshops	15,500	4,500	3,000	23,000
Equipment	141,500	120,000	0	261,500
Sundries	28,405	27,905	26,901	83,211
Output 3: Access to affordable food and value chain organization is improved	234,500	319,090	155,800	709,390
International consultancies	15,000	0	0	15,000
Local support staff and travel	3,500	3,500	3,500	10,500
Headquarters travel	0	0	0	0
National consultants	69,500	65,500	44,500	179,500
Subcontracts	32,000	20,000	20,000	72,000
Training workshops	17,500	41,000	22,500	81,000
Equipment	85,000	175,000	50,000	310,000
Sundries	12,000	14,090	15,300	41,390
Total Net	947,405	875,585	420,001	2,242,991
Indirect Costs UNIDO	40,138	29,253	12,488	81,880
Indirect Costs UNDP	26,180	32,038	16,912	75,130
Total	1,013,723	936,876	449,401	2,400,000