Assessment of Food Markets in Armenia in the Light of Soaring Food Prices and the Georgian – Russian Conflict

Regional Bureau for the
Middle East,
Central Asia & Eastern Europe (OMC)

Prepared by
Thomas Beuter
October / November 2008

WFP
World Food Programme

Table of Contents

Executive Summary

In Armenia, a considerable part of the population continues to spend a very high proportion of household income on food many of them are still exposed to the risk of food insecurity and poverty, the main objective of this market assessment is to understand recent market trends and to draw conclusions from the analysis for appropriate response. This food market assessment undertakes analysis of national food markets, recent supply and price developments and Government social policies.

Steady GDP growth since several years resulted in a substantial increase in labour wages, also remittances showed a significant growth. Government social transfers are now better targeted and transfer payments were increased year by year, also in real terms. As a result, poverty as well as extreme poverty declined significantly. Despite these positive developments, the situation of the most vulnerable and extreme poor strata of the population remains a problem. Particularly families with three or more children are facing a very high poverty risk. Low incomes and modest agricultural subsistence production on small plots of land can often not fully be compensated by social transfers.

Although international cereal prices decreased significantly since May 2008, prices in Armenia remained high and increased even further as a result of the conflict in Georgia in August 2008. In addition, because of monopolistic import structures, fall in international prices is not immediately passed on to domestic markets in Armenia. Because of continuing price decrease in international food markets, it is expected, however, that prices for basic food commodities will not further increase in the near future or will decrease slightly.

In the view of the mission, despite recent food price hikes, the situation of the vulnerable and poor in Armenia has not deteriorated to such an extent that would justify continuation of WFP activities beyond 2008. Considering the size of the current WFP programme in Armenia, the impact of current WFP assistance on the overall food security situation in the country is small and further funding of food assistance becomes more and more difficult. In a favourable economic environment with strong and sustained growth, the Government has been steadily increasing its social safety net and social transfers, and has emphasized its commitment to care for former WFP beneficiaries after discontinuation of WFP food assistance. The WFP decision of phasing out at the end of 2008 should not be revised.

WFP, however, should remain a partner to the Armenian Government and other development agencies in its role of advocating increased food security of vulnerable populations. The opportunity to hand over existing food-based programmes to the governments with its growing capacity to provide social safety nets for the poor and vulnerable should further be accompanied by continuous WFP advisory support to the Government to ensure that food security elements remain an integral part of social programmes and that Government effectively targets its resources to addressing outstanding food insecurity.

1. Introduction

Armenia is heavily reliant on food and fuel imports and is, therefore, particularly exposed to price fluctuations and prices hikes in international food and fuel markets. In addition, due to its geographical situation and continuing political tensions with neighbouring countries Turkey and Azerbaijan, Armenia is heavily depending on imports through the Georgia corridor. In Armenia, as a result of sharp price increases in international food markets in 2007/08, prices of some food commodities soared by more than 40%. Furthermore, the recent crisis in Georgia in August has demonstrated the high vulnerability of Armenia with regards to imports of food, fuel and other essential commodities, which are mainly shipped through Georgia. The crisis has considerably contributed to price increases of food commodities, as supplies were temporarily interrupted and as transport through Georgia incurred additional costs.

The recent developments in food markets are to be seen in the context of WFP phase-out from Armenia, as WFP is closing down all activities by December 2008. The Government's efforts to combat poverty, the overall economic growth and higher incomes and remittances all resulted in lower levels of poverty – from 56 percent of the population in 2002 to 25 percent in 2007. Extreme poverty fell to 3.8% in 2007. In the light of these positive developments, WFP, on several occasions, discussed with the Government, namely MOLSI, to consider the WFP relief food assistance be gradually be replaced by an increased Family Poverty Benefit Budget.

However, considering recent price increases, the necessity was felt to analyse the food markets in Armenia with a view to

- better understand the impact international price hikes and the war in Georgia had on the economy in general and on food imports and on the food security situation of vulnerable populations in Armenian particular.
- assess if further WFP interventions may be necessary to ease the impact of food price increase.

In June 2008, WFP had commissioned a regional food market study, which was covering all Caucasus countries and was particularly focusing on regional trade in food commodities and on the structure of national food markets. In the light of recent developments in Armenia and the South Caucasus region, particularly with regards to soaring food prices and the Georgian-Russian conflict, it was felt necessary to analyse the impact these developments had on the food security situation of vulnerable populations.
This food market assessment is be based on the findings of the regional market study and undertakes analysis of national food markets, recent supply and price developments and Government social policies.

Since a considerable part of the population continues to spend a very high proportion of household income on food many of them are still exposed to the risk of food insecurity and poverty, the main objective of this market assessment is to understand recent market trends and to draw conclusions from the analysis for appropriate response.

2. Macroeconomic Context

Macro-economic growth in Armenia has been impressive in recent years. During the period of 2001-2007, an average annual GDP growth rate of more than 13 percent was observed. According to latest data released by the National Statistical Service, real GDP grew by 10.3 percent during the first eight months of 2008. Growth is mainly driven by construction and services sectors. Growth in agriculture has declined considerably, to 2 percent during the first five months, down from 9.6 percent in 2007. The industrial sector has continued to perform poorly, with only 2.2 percent annual growth[1]. According to the Central Bank of Armenia, however, 10.5 percent economic growth was recorded in the third quarter of 2008, with 6.9 percent in agriculture and 5.2 percent in the industrial sector. The boom in construction continued during the first five months in 2008, with growth at 15 percent. The sector is currently generating more than 25 percent of Armenia's total output.

The boom in construction is concentrated in the capital of Yerevan [2], whilst in other parts of the country, and particularly in rural areas, investment is relatively low. Accordingly, the World Bank warns that the high level of investment is not necessarily a sign of comfort for medium- and long-term economic performance and raises concern that the bulk of investment is attracted by non-tradable sectors, which will contribute very little to the recovery of tradable sectors. In addition, the contribution of net exports to growth has been negative, a result of decline in export volumes and a widening trade deficit in 2007.

Thus far, the Russian-Georgian conflict doesn't seem to have significantly affected the Armenian economy. 10 percent real growth seems to be within reach this year. According to the Ministry of Finance, losses incurred by the Armenian economy due to the conflict came up to US$ 628 million[3]. In 2008, the GDP is expected to increase by 9.95 percent in real terms, which is, however, 0.45 percent less than estimated before the conflict.

Annual inflation surged to 11.5 percent in August, mainly driven by external shocks such as high food prices. In addition, strong growth in domestic demand, driven by rapid credit growth and large foreign exchange inflows, was contributing to increased inflation. However, tightened economic and fiscal policies and the recent fall in international food and fuel prices are expected to bring down inflation to about 7.5 percent by the end of this year.

The widening current account deficit is a growing concern, as imports surged as a result of high international food and fuel prices as well as high import demand. Exports have been sluggish during the first eight months of 2008, when total exports of goods declined by 4.8 percent compared to the same period of 2007. In contrast to this, imports grew by 36 percent during the same period. Foreign exchange reserves stood at US$ 1.6 billion, in December 2007, covering more than 4 months of imports.

In January – August 2008, a total of US$ 1,035.3 million were transferred to Armenia for individuals by means of Armenia's banking system – an annual increase of US$ 261.9 million or 33.9%. In 2007, a total of US$ 1,319.5 million were transferred to Armenia for individuals, which is more than US$ 400 per capita. Accordingly, remittances are an important contribution to household incomes and to food security.

The following table provides an overview on selected economic and financial indicators.

[1] The World Bank: Armenia – Economic Monitoring Note, June 2008 & IMF: Briefing for Donor Coordination Meeting, September 25, 2008

[2] Almost 89% of house construction is concentrated in Yerevan

[3] Ministry of Finance: Bulletin on Quantitative Assessment of Losses, October 2008. See also Annex 3.

Table-1: Armenia: Selected Economic and Financial Indicators, 2003 - 2009

	2003	2004	2005	2006	2007	2008 proj.	2009 proj.
Real GDP growth (in %)	14.0	10.5	14.0	13.3	13.8	10.0	8.0
GDP (in millions of $)	2,807	3,578	4,909	6,386	9,228	12,069	14,019
GDP per capita	874	1,113	1,523	1,976	2,842	3,698	4,274
Unemployment (in %)	10.1	9.6	8.1	7.2	6.7	…	…
Poverty rate (in %)	42.9	34.6	29.8	26.5	25.0	…	…
Exports (millions of $)	903	1,071	1,416	1,510	1,777	1,896	2,168
Imports (millions. of $)	-1,406	-1,628	-2,124	-2,536	-3,589	-4,671	-5,641
Population (millions.)	3.212	3.214	3.223	3.231	3.280	…	…

Source: IMF, Armenia Office, Briefing Note for Donor Coordination Meeting, 25 September 2008

Wages increased strongly during first months of 2008. The average monthly wage reached AMD 87,000 (280 US$), which is 22 percent higher than a year ago and up by 13 percent in real terms.

3. Transport Sector and Impact of the Georgian-Russian Conflict on Imports

Since Armenia is a landlocked country and highly dependent on imports, a functioning transport system by rail and road is vital. 80-85 percent of all imports are shipped through Georgia, remaining quantities are imported through Iran. The main sea port for international shipments is Poti, followed by Batumi, both in Georgia. The country is linked to the 2 two Black Sea ports by railway and road connections. Road transport takes about 2 days to Armenia, rail transport up to one week. Rail transport is 20-30 percent cheaper compared to transport by truck.

Transport to Armenia through Georgia is often delayed because of lower priority for transport of Armenian cargo. To improve prevailing problems of international transport, there are plans for the construction of a new road from Yerevan to the Black Sea port of Batumi in Georgia, which would reduce the current length from 700 km to about 500km. With the new road, time of transport will be reduced from 10-12 hours to 5-6 hours. To improve transport from Iran, there are plans existing for the construction of a new railway connection. There are also prospects for direct imports from Turkey, if diplomatic relations between the two countries can be re-established, but this is not a short term possibility.

In February 2008, the Armenian Railway was transferred to the South Caucasian Railway, which is belonging to the Group of Russian Railways. There are plans underway to reconstruct Armenia's railroad way, improve the rolling stock both of cargo and passenger railway transport, as well as to speed up railway transport. However, this will result in a rise of transport tariffs.

During the Georgian-Russian conflict, transport to Armenia was particularly hit by the destruction of a railway bridge near Gori, as transport was interrupted for one week and only gradually improved thereafter. Because of a temporary blockade of the port of Poti, transport of many goods, including food commodities, came to a stand-still, and transport as well as storage costs shot up. According to information from transport companies, the cost of transportation of 1 container to Armenia increased from US$ 3,000 up to US$ 6,000. Ministry of Finance estimated the total increase in transport costs caused by the conflict at US$ 18.9 million[4].

The total losses Armenia suffered because of the Georgian - Russian conflict are estimated by the Ministry of Finance to be in the range of US$ 628 million, including losses for failed imports estimated at US$126.6 million and costs of failed investments, estimated at US$ 298.2 million

4. The Agriculture Sector

The agricultural sector has already been analysed by the WFP food market study on the Caucasus countries in April 2008[5]. Therefore, only the main characteristics of the sector are summarized.

Currently, the sector contributes to about 30% to the GDP. During the 1990s, the land was fragmentised into 1.2 million land plots, which are now owned by approximately 340,000 farms. About 33% of arable land is not used. The sector employs 40 – 50 percent of the workforce.

The small size of farms and the use of use of very heterogeneous forms of agricultural activities and techniques inhibit the efficient organization of agricultural production. At present, one farm has 1.4 ha of agricultural land on average, including 1.1 ha of arable land. This does not allow the implementation of efficient agricultural activities and application of modern technologies for proper land management. The sector is characterized by underemployment, as most farms are too small to provide full employment to their owners. However, despite the small size of farms, the agricultural sector is still the backbone of the rural economy, as the vast majority of the rural population is growing a large share of their proper food consumption on family plots, which provides basic food commodities for self-consumption. Only small quantities of locally produced food commodities are sold in the market, as market structures and supply chains form rural areas to urban centres are underdeveloped.

Crop yields are low because of the use of poor technologies, poor availability of chemicals and fertilizers, and high costs of agricultural inputs. In addition, agricultural knowledge and expertise is often insufficient at farm level. There are serious problems in agricultural machinery supply as more than 95 percent of agricultural machinery is worn out. Despite efforts of the Government to rehabilitate existing irrigation systems, out of 233,000 ha of irrigated land, only about 150,000 ha are currently irrigated.

Animal production seriously suffered during the transition period. The number of livestock sharply decreased, mainly because of the reduction in private production of fodder and the decrease in the volume of imported fodder. Compared to 1990, only 25 percent of the area under fodder is still cultivated.

A large number of farms are mainly producing for their subsistence, as purchasing power particularly of people in rural areas is low and agricultural marketing structures are poor. The share of agricultural products in exports is only about 12.4 percent. Out of that, 65 percent account for export of brandy. Agricultural credit is not accessible for the majority of farmers because of rigid credit conditions, deadlines and high interest rates.

[4] Ministry of Finance, Bulletin on the Quantitative Assessment of Losses, October 2008
[5] WFP Regional Bureau Cairo (W. Ian Robinson): Market Survey for the Caucasus Sub-Region, March/April 2008

The national food balance shows that self-sufficiency in basic food commodities is low at national level. In 2002-2004, the average self-sufficiency rate for wheat was 42.5 percent, for lentils 56.8 percent, for vegetable oil 7.1 percent, for sugar almost 0 percent and for chicken meat 25.9 percent[6].

During recent years, the Government has increased efforts to develop the sector and has presented an "Agricultural Sustainable Development Strategy" in 2008.

The main directions of the strategy are as follows:

- Market orientation and production with high competitiveness, based on family farms and trade agricultural organisations;
- Development of agro-processing industries particularly in rural areas; sustainable supply of the population with food, linking the food security interests of the country with the advantages of increased exports of agro-food products;
- Increase in agricultural gross production through increased productivity, decrease in number of the employed in the agricultural sector, and significant employment in agricultural supplying and non-agricultural activities in the rural areas;
- Significant improvement in use of agricultural inputs, in particular land resources;
- Increased food security, sufficient supplies of basic food of local production to satisfy increasing demand, and poverty reduction particularly in the rural population.

Government is supporting the agricultural sector by the provision of subsidies to farmers and increased credit availability at affordable interest rates.

The major challenge of agricultural sector reform will be the increase of productivity. However, this can only be achieved with the introduction of modern technologies, increased mechanization, larger farm entities, the commercialization of agricultural production and increased export orientation. As a result of such reforms, there will be a substantial reduction in land holdings and lay offs in the agricultural labour force, which has to find employment in other sectors. Employment in the non-farm sector will be crucial for poverty reduction in rural areas. Empirical evidence from Europe and Central Asia country case studies shows, that this is, on average, far more rewarding than any type of farm employment and therefore a major correlate of income growth for the rural poor.

5. Poverty in Armenia

The high and robust economic growth during recent years, accompanied by a stabilisation of labor markets, steadily growing wages, increased pensions and other social transfers as well as the growth in remittances have become the driving forces behind significant poverty reduction, as poverty has become more shallow and less severe. According to survey results of 2007[7], however, poverty is still on the agenda in Armenia: 25 percent of the population (or more than 800,000 people) are poor, of whom 120,000 (or 3.8 percent of the population) are extremely poor. Poverty is still higher in urban areas, except Yerevan (see table below).

[6] Ministry of Agriculture: Agricultural Sustainable Development Strategy, 2008
[7] National Statistical Service: Social Snapshot and Poverty of Armenia, 2008

Table-2: Main Poverty Indicators 2004 & 2007

	2004		2007		Comparison in % 2004/2007	
	Very poor	Poor	Very poor	Poor	Very poor	Poor
Urban areas	**7.5**	**36.4**	**4.6**	**24.7**	**-38.8**	**-32.2**
Yerevan	**6.1**	**29.2**	**3.2**	**20.0**	**-47.4**	**-31.6**
Other towns	**9.2**	**43.9**	**6.1**	**29.8**	**-33.9**	**-32.1**
Rural areas	**4.4**	**31.7**	**2.3**	**25.5**	**-47.0**	**-19.7**
Total	**6.4**	**34.6**	**3.8**	**25.0**	**-40.9**	**-27.9**

Source` 2004-2007 Integrated Survey of Household Living Standards

In 2007, rural areas had the smallest incidence of very poor populations (2.3 percent), whilst non-Yerevan urban areas had the highest (6.1 percent). This indicates that subsistence agriculture plays an important role in protecting people from falling into extreme poverty.

The capital of Yerevan, where most economic opportunities are concentrated, has benefited most from growth, and has experienced the highest reduction of the very poor (- 47.4 percent); however, in rural areas, the number of very poor decreased almost by the same degree (- 47.0 percent).

Poverty incidence declined with the increased age of the population. Children under five are more affected by poverty than other age groups. Poverty is lowest amongst the elderly, which can be explained by increased pensions, elimination of pension arrears, and transfers and other assistance received from their children. Households with three or more children are experiencing a significantly higher poverty risk than the national average and those with one or two children.

The labor productivity, especially in non-agriculture sectors, in recent years has been one of the major sources of employment income increase and poverty reduction. The labor productivity growth in Armenia during the period of 2002-2006 has been around 60 percent[8].

The unemployment level, irrespective of its substantial decrease, still remains very high according to any international comparisons. Whilst the official (registered) unemployment level in 2006 was 7 percent, the level of real unemployment, according to labor force alternative surveys, was 27 percent, having been reduced by 7% as compared with 2002. Unofficial unemployment is high as most of the unemployed do not register because of very low or no compensation for unemployment.

In 1999-2005, the incomes of poor and very poor populations grew essentially faster than incomes of non-poor populations, mainly because of a reduction of income inequality between non-poor, poor and very poor. Labor incomes of poor and very poor as well as of non-poor have grown faster than overall incomes, which has considerably reduced the general population’s dependence from social and unofficial payments, as well as from other incomes. In fact, there was a substantial increase of the direct impact of economic growth on poverty reduction due to

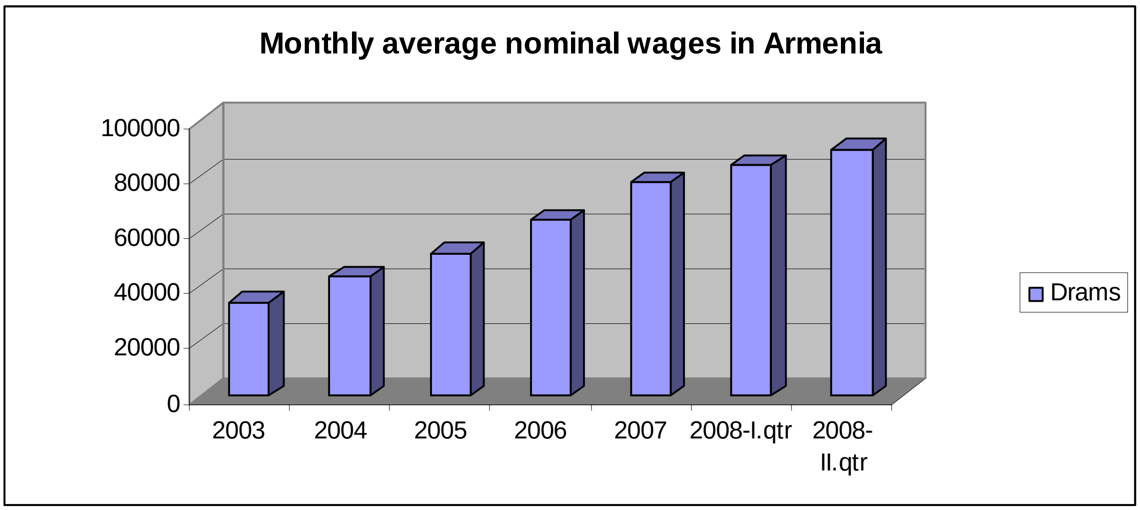
[8] Poverty Reduction Strategy Paper, December 2007

progressive growth of labor incomes and increased involvement of poor and very poor populations into economic activities.

In 2006, for rural households, income from wage employment amounted to only 20 percent of total income. Income from farm activities (sale of agricultural goods and livestock) made up only for another 20 percent. Income in kind, particularly income of food products received from their own farm and their own production f food, is the most important component of income of rural households (29 percent). These figures demonstrate the low level of rural employment opportunities as well as the low commercialization of agricultural production.

The graph below shows the significant growth of nominal wages during the period of 2003 to 2008.

Figure-1



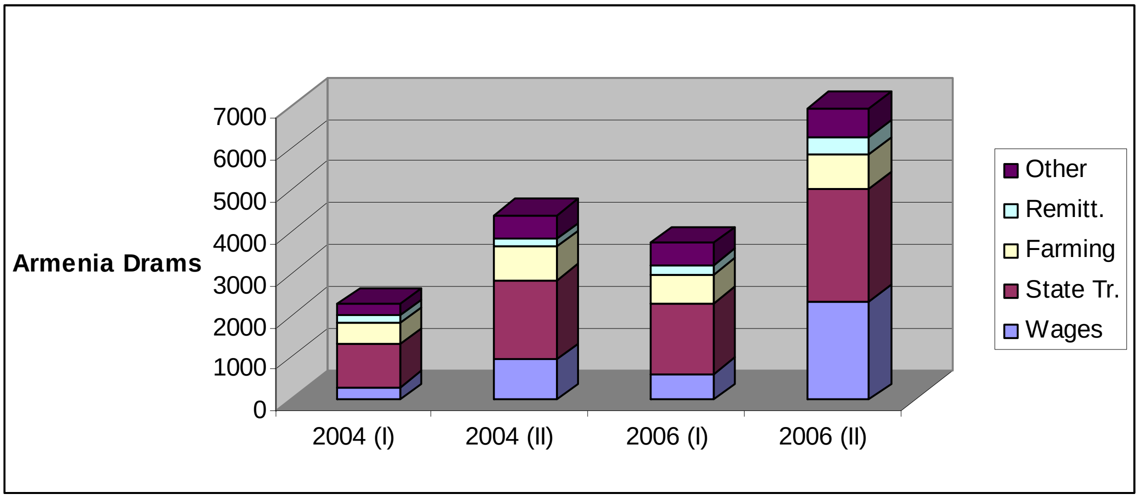
Source: National Statistical Service, Bulletin on Food Security and Poverty (2nd Quarter 2008)

During the period of 2003 – 2008, nominal wages increased much faster than the CPI. This trend of increasing average monthly nominal wages has been continuing in the second quarter of 2008, reaching impressive 21.6 percent, whilst recorded inflation was 10.1 percent.

Figure-2 shows the dynamics of monetary income developments of the two lowest decile groups of households. It can be seen, that income particularly from wage labour and state transfers has significantly increased during the period of 2004-2006.

The recent 2007 Integrated Survey of Household Living Standards reveals that in 2007 the real average consumption by the entire population has increased by 33.6 percent compared with 2004. Growth has been registered in all population groups.

Figure-2: Dynamics of monetary income by the two lowest decile groups (average monthly income per capita)



Source: National Statistical Service, Social Snapshot and Poverty in Armenia" - 2007

6. The Government Social Safety Net System

The two major social transfer programmes of the Government are consisting of pensions and monetary social assistance (System of Family Benefits). They play an important role in poverty reduction.

The Family Benefit Programme is operating on the basis of a household means testing system. The level of assistance is depending on the level of vulnerability/poverty. Accordingly, the average monthly benefit of the most vulnerable families, i.e. households with many children and residents of remote areas, is higher compared to families with equal conditions, but with less children and living in more favourable regions. Registration in the system is voluntarily.

Although the coverage of the Family Benefit Programme is limited (it is covering about one third of the poor), it seems to be well targeted as 72.3 percent of families are coming from the two bottom consumption quintiles, receiving 76.4 percent of total resources.[9] In 2006, total spending on social transfers amounted to AMD 111.3 billion, representing 4.2 percent of GDP. The allocation for the Family Benefit Programme came to AMD 24.3. billion. Country wide, 48 percent of households received pension benefits, and 15.2 percent of households received family benefits.

In recent years, the number of beneficiary families enrolled in Family Benefit Programme decreased from 179,332 in 2003 to 136,917 in 2007. The number of pensioners receiving social transfers, on the other hand, decreased only slightly during the same period, from 543,710 in 2003 to 522,662 in 2007.

In monetary terms, social transfers increased considerably in recent years as shown in the following table:

[9] Social Snapshot and Poverty in Armenia, Statistical Analytical Report, 2007

Table-3: Monthly Social Transfer Payments 2003 – 2007 (in AMD)

	2003	2004	2005	2006	2007
Amount of average monthly pension	7,452	8.842	9,805	10,912	12,746
Amount of average monthly benefit/family	6,319	7,829	13,328	15,200	17,500

Source: National Statistical Service, Bulletin on Food Security and Poverty (2nd Quarter 2008)

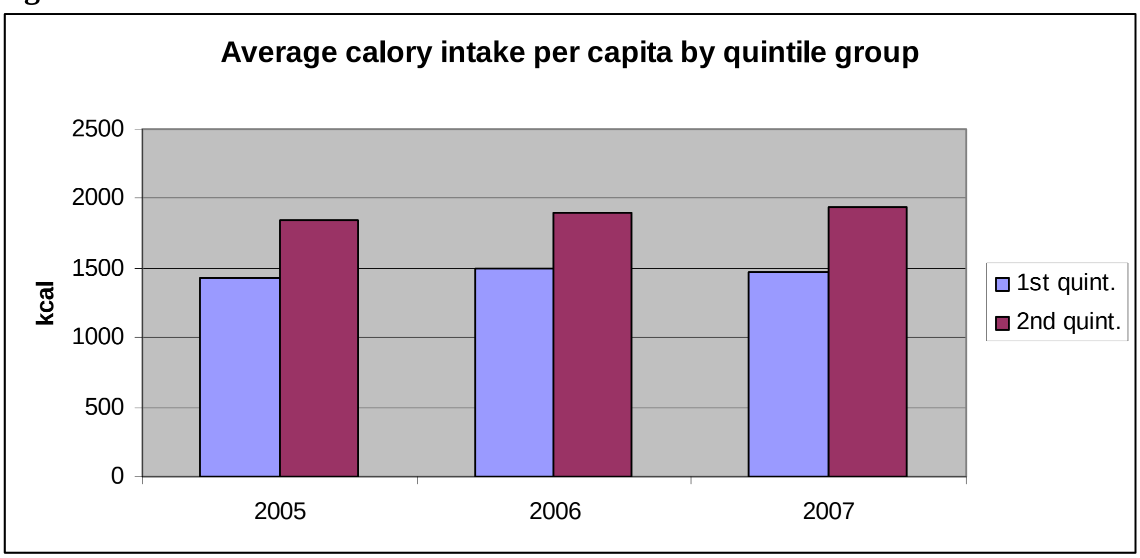
According to the Ministry of Labour and Social Issues, the monthly family allowance is currently (in 2008) AMD 21,000 on average. In 2009, the Government will increase pensions by 20 percent and the family benefits by 15 percent, which will bring the latter to AMD 24,150.

In conclusion it can be said, that the poverty situation in Armenia generally has improved, not at least as a result of high and sustained economic growth, along with increase in labour wages, in remittances and social transfer payments. However, there is still a considerable number of people living below the poverty line and not benefiting from the Government social safety net system.[10]

The situation of the lowest quintile of the population seems still precarious as per capita consumer expenditure per month in 2007 was just AMD 9957 (about US$ 33)[11]. Low purchasing power is somehow compensated by a high proportion of self-consumption of own agricultural production.

For the same population group, dietary energy intake per capita is still below requirements, and has not significantly increased during recent years as demonstrated by the following graph.

Figure-3



Source: National Statistical Service: Food Security & Poverty, Bulletin for the 2nd Quarter 2008

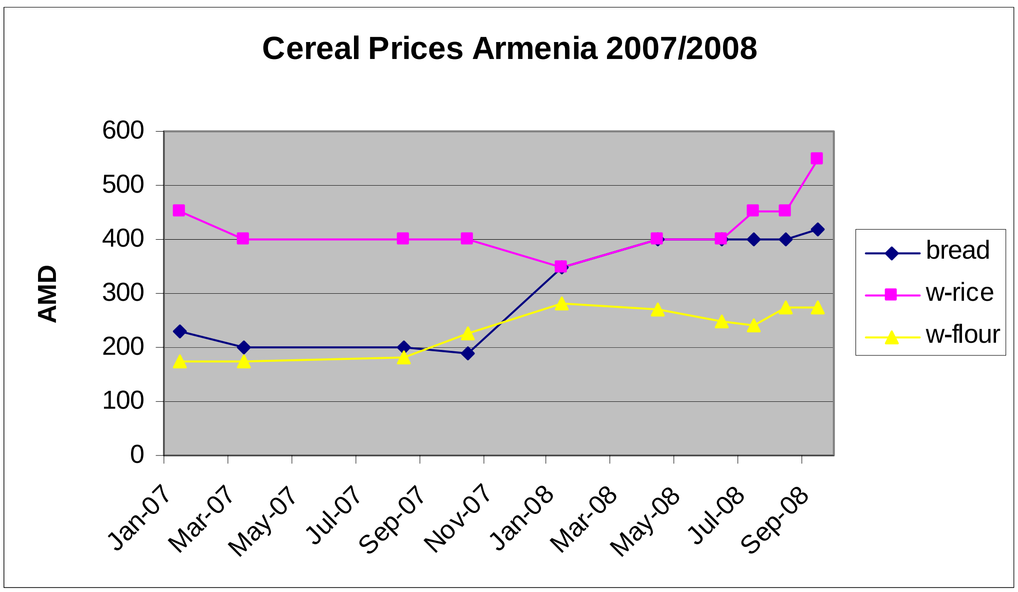
[10] According to AVAG Solutions, a consultancy company, which was involved in the drafting of the PRSP, about 50,000 families may fall into this category.
[11] National Statistical Service: Food Security & Poverty, Bulletin for the 2nd Quarter 2008

7. Price Developments in Food Markets

In Armenia, under normal conditions, food markets are functioning and food supplies to markets are steady. However, because of the high dependence on food imports from abroad, Armenian food supplies are at risk in times of conflict. Existing tensions in the whole South Caucasus region can easily escalate and may result in the sudden interruption of food flows from abroad. The recent conflict between Georgia and Russian has clearly demonstrated this vulnerability.

Food markets seem to be less integrated, particularly regarding fresh products, as exchange of food commodities between different regions of the country is limited.
Because of the high dependence on food imports, recent price hikes in international food markets were also felt in Armenia, where particularly prices for cereals and vegetable oil increased sharply. The following figure-4, based on WFP price surveys, shows the price increases of cereals and cereal products for the period of January 2007 to September 2008. Bread prices increased by 82 percent, prices of wheat flour by 57 percent and rice prices by 22 percent.

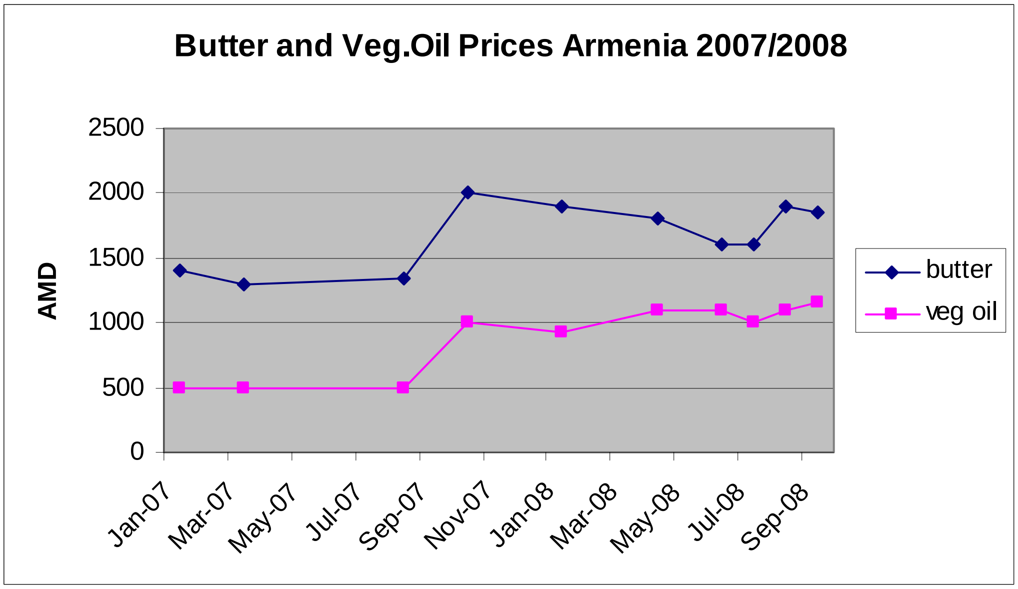
Figure-4



Source: WFP, Country Office Armenia, Price Survey

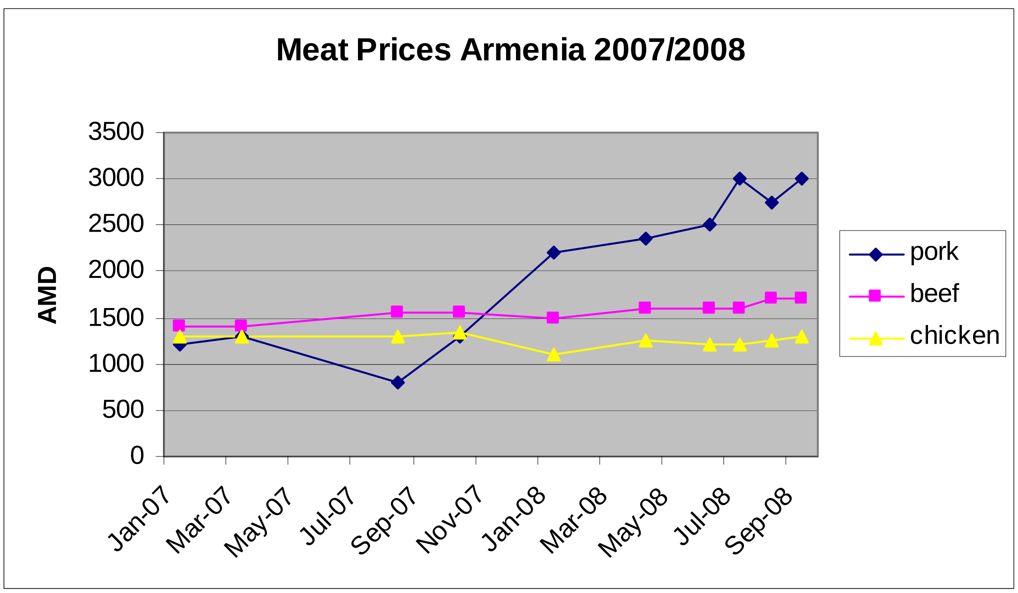
Although international cereal prices decreased significantly since May 2008, prices in Armenia remained high and increased even further as a result of the conflict in Georgia in August 2008. In addition, because of monopolistic import structures it can be assumed that fall in international prices is not immediately passed on to domestic markets in Armenia. The same price developments have been observed for prices of vegetable oil, which increased by more than 100 percent since January 2008 (see figure-5). Since there is a sustained fall in international cereal prices since April 2008, and imports are back to normal after the recent Caucasus conflict, it can be expected that cereal prices in Armenia will slowly decrease during coming months.

Figure-5



Source: WFP, Country Office Armenia, Price Survey

Figure-6



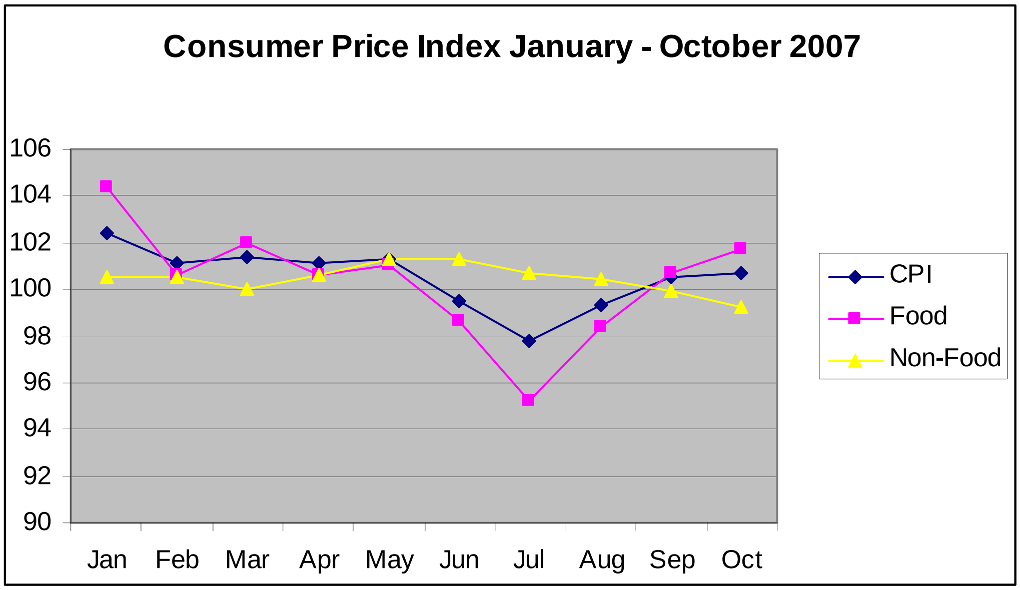
Source: WFP, Country Office Armenia, Price Survey

For other food products such as beef and chicken, milk and sugar, price increases were only moderate, whilst prices for pork meat increased more significantly as a result of swine fever outbreak in 2007. At the same time, it can be said that price increases slowed down during 2008.

The Food Security Bulletin of the National Statistical Service for the second quarter of 2008 emphasis that during the reporting period (April – June) for 9 out of 13 food product groups 0.9 – 40.6 percent inflation was recorded compared to the same period of the previous year. The highest price increase was observed in bread and bakery products (40.6 percent), followed by vegetable oil (40.5 percent), meat (5.7 percent) and milk (3.6 percent). During the same period, deflation was observed in vegetables, potatoes, sugar, fruit and eggs.

The figure below, which shows the consumer price index for the period of January – October, 2008, confirms a slowdown of price increases in food commodities since April 2008, and slight increases since September.

Figure-7



Source: National Statistical Service

In conclusion, it can be said that prices for a number of food items, particularly for cereal products, increased sharply, whilst for other food commodities only a moderate increase was observed in 2007/2008. According to the National Statistical Service, the CPI for food commodities was 112.5 for the January-October 2008 period (compared to the same period of 2007), 2.4 points higher than the general CPI (110.1).

The government introduced a number of measures to contain price hikes in food commodities. Besides increasing social transfers significantly, efforts were undertaken to control prices. The latter was to a certain extent successful in urban environments, whereas in rural settings price controls were more difficult to put through. In addition, Millers have to build up a three months grain reserve stock to increase availability of wheat flour in crisis situations.

8. WFP activities during phase-out in 2008 and Government Commitment

WFP initiated discussions with the Government and cooperating partners in 2006 to prepare a smooth phasing out of activities. A support mission in early 2007 identified a growing government technical and financial capacity in addressing poverty alleviation and the creation of social safety net systems along with the presence of other assistance programmes initiated by development partners such as the World Bank. On several occasions, it was discussed with the Government that WFP food assistance would be gradually phased down and ideally be replaced by an increased Government budget for its Family Benefit Programme.

For a smooth transition, in 2008 WFP was not only implementing an assistance programme for 45,000 beneficiaries in FFW/FFT activities and 25,000 children under FFE[12], but was also involved, together with UNICEF, in the launching of an initiative for wheat fortification in Armenia, which would have a wider and sustainable impact on the food security and nutrition situation of the population.

Also other donors, which have implemented food security programmes in the past, have phased out food security/aid assistance in the meantime. Donors are increasingly reluctant to provide food assistance to Armenia as the country is considered to be on a path of development, only Russia and Greece remain as stable donors. The European Commission, for example, has stopped provision of direct food security assistance since several years and is currently funding its support to Armenia through the European Neighbourhood Programme.

The current PRRO in Armenia is mainly financed by the Russian Federation. However, the operation suffered considerable delays in recent months because of delayed deliveries from the Russian Federation and the repercussions of the Russian Georgian conflict. The following table provides an overview on recent WFP food distribution for the period of July – September 2008.

Table-4: WFP Distribution Figures, July – September 2008

	Jul-08	Aug-08	Sep-08
Beneficiaries			
Targeted	41,047	46,312	49,000
Reached	1,788	0	51,500
% of target	4%	0%	105%
Tonnage (Compas)			
Targeted	1,422	1,978	2,000
Reached	88	0	2,116
% of target	6%	0%	106%

Source: WFP, Executive Brief: Armenia, 27 October 2008

The table shows the irregular food distribution in recent months and the relatively small amount of food commodities distributed. Accordingly the impact on vulnerable populations has been modest. Unfortunately, this pipeline situation was common in Armenia for the last two years, leading WFP to reconsider the real impact of such irregular and unreliable support to the most vulnerable and discuss with authorities a more sustainable and durable solution.

It is planned that during the remaining months WFP will cover the needs of 36,000 beneficiaries for general relief food distribution, complete its support for asset-creation activities and work with the Government counterpart on a final handing-over[13].

The commitment of the Government to care for WFP beneficiaries in the future through the Family Benefit Programme was confirmed to the mission in a meeting with the Deputy Minister of Labour and Social Issues. In addition, it is assumed that former FFW and FFE beneficiaries,

[12] WFP Protracted Relief and Recovery Operation for Armenia (PRRO 10053.2)
[13] WFP - Executive Brief: Armenia, 27 October 2008

who were involved in capacity-building measures supported by WFP, are now organized in functioning communities and groups who would be able to continue actively in poverty reduction activities, assisted by the Government and other development partners. Follow-up training will take place with the regional and community groups.

9. Conclusions and Recommendations

In Armenia, the situation of the vulnerable and extreme poor remains a problem. Particularly families with three or more children are facing a very high poverty risk. Low incomes and modest agricultural subsistence production on small plots of land can often not fully be compensated by social transfers. WFP food assistance, which has been targeting these groups in particular, was a welcomed relief and supplement to the income of vulnerable households. For beneficiaries WFP assistance was "quick, flexible, efficient and showed immediate results"[14].

On the other hand, impressive GDP growth resulted in a substantial increase in labour wages, and also remittances showed a significant growth. Government social transfers are now better targeted and transfer payments were increased year by year, also in real terms. As a result, poverty as well as extreme poverty declined. With the expected continuing, though slightly lower GDP growth, it is expected that further gains will be made in poverty reduction in the near future.

Recent food price increases had certainly a negative impact on the purchasing power of vulnerable households, however, the shock was cushioned by increased household incomes. Against the background of a normalization of imports after the Georgian conflict, and in conjunction with the recent decline in international petrol and food prices, particularly for cereals and vegetable oil, it can be expected that food prices will also come down in Armenia, though with a certain delay.

In the view of the mission, despite recent food price hikes, the situation of the vulnerable and poor in Armenia has not deteriorated to such an extent that would justify continuation of WFP activities beyond 2008. Considering the size of the current WFP programme in Armenia, the impact of current WFP assistance on the overall food security situation in the country is small and further funding of food assistance becomes more and more difficult. In a favourable economic environment with strong and sustained growth, the Government has been steadily increasing its social safety net and social transfers, and has emphasized its commitment to care for former WFP beneficiaries after discontinuation of WFP food assistance. The WFP decision of phasing out at the end of 2008 should not be revised.

WFP, however, should remain a partner to the Armenian Government and other development agencies in its role of advocating increased food security of vulnerable populations. The opportunity to hand over existing food-based programmes to the governments with its growing capacity to provide social safety nets for the poor and vulnerable should be further accompanied by continuous WFP advisory support to the Government to ensure that food security elements remain an integral part of social programmes and that Government effectively targets its resources to addressing outstanding food insecurity.

It is recommended, that the wheat flour fortification initiative should be pursued as this will provide the entire Armenian population with an increased and adequate intake of micronutrients. This will have a much bigger and more sustainable impact on overall food security than ad hoc

[14] Information gained from discussions with representatives of beneficiary groups in Dilijan

food distributions, which are currently the base of the WFP country programme in Armenia. In the recent past, these distributions had a rather limited impact on food security as they were restricted with regards to quantities and duration.

Furthermore, given Armenia's geographic situation with its high dependency on imports through conflict prone areas combined with high volatility of prices for imported commodities, WFP should continue to carefully monitor the food security situation of the poor and vulnerable populations, particularly with regards to household incomes, social safety nets, and price developments in national and international food markets. Data is available from the National Statistical Service, as well as from the FAO GIEWS Work Station in Armenia, which both provide up to date price information.

ANNEX

1. List of People met

Lola Castro, Country Director, WFP Armenia

Liana Kharatian, Programme Officer, WFP Armenia

Vahan Amirkhanyan, Agronomist, FAO Armenia

Armen Sedrakyan, National Programme Officer, FAO Armenia

Laylee Moshiri Gilani, Representative, UNICEF Armenia

Armen Baibourtian, Senior Advisor to the UN Resident Coordinator

Dirk Boberg, Deputy Resident Representative, UNDP Armenia

Artem Asatryan, Deputy Minister of Labour and Social Issues

Davit Melkonyan, Dep.Head of Transport Department, Ministry of Transport and Communications

Mushegh Tumasyan, Deputy Minister of Economy

Valeri Arzoyan, Div. of Food Security & Social Development of Rural Areas, Ministry of Agriculture

Gurgen Martyrosian, Head of Price Statistics, National Statistical Services

Artavazd Hakobyan, Operations Analyst, World Bank

Melik Gasparyan, Deputy CEO, Mr. Avanesyan, AVAG Solutions Ltd.

Customs Committee

Jean-Francois Moret, Attache, Delegation of the European Commission to Armenia

Gurgen Nikoghosyan, President, Manana Grain Ltd.

Ashot Khurshudyan, International Center for Human Development

Representatives of Beneficiary Groups in Dilijan

Shopkeepers & Traders

2. List of References

National Statistical Service, Press Release, October 15, 2008

Ministry of Finance, Bulletin on Quantitative Assessment of Losses

WFP Armenia, Executive Brief, October 2008

WFP Regional Bureau, Cairo, (W.Ian Robinson) Market Survey for the Caucasus Sub-Region, March/April 2008

WFP Armenia Project Document, PRRO 10053.2

Poverty Reduction Strategy Paper, December 2007

IMF, Armenia Office, Briefing Note for Donor Coordination Meeting, 25 September 2008

Ministry of Agriculture, Agricultural Sustainable Development Strategy, 2006

National Statistical Service, Social Snapshot and Poverty of Armenia, 2008

National Statistical Service, Social Snapshot and Poverty of Armenia, Statistical Analytical Report 2007

National Statistical Service: Food Security & Poverty, Bulletin for the 2nd Quarter 2008

World Bank: Armenia – Economic Monitoring Note, June 2008