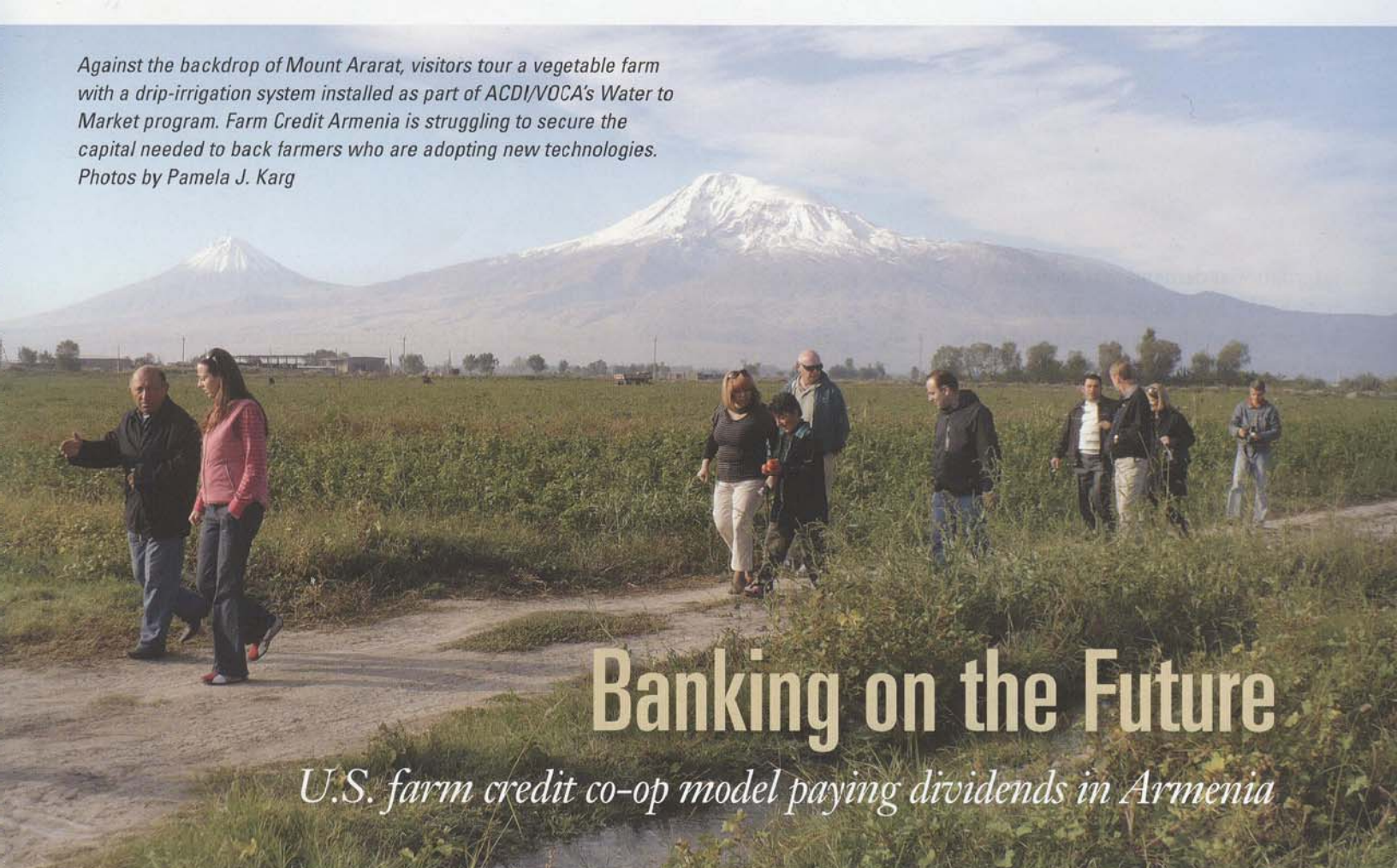


Against the backdrop of Mount Ararat, visitors tour a vegetable farm with a drip-irrigation system installed as part of ACDI/VOCA's Water to Market program. Farm Credit Armenia is struggling to secure the capital needed to back farmers who are adopting new technologies. Photos by Pamela J. Karg



# Banking on the Future

*U.S. farm credit co-op model paying dividends in Armenia*

**By Pamela J. Karg**

*Editor's note: Karg is a freelance writer from Baraboo, Wis., with extensive experience working with cooperatives. She currently lives in Armenia, where she is a volunteer with the United Methodist Committee on Relief/Armenia. She also is an agricultural cooperatives instructor at the Agribusiness Teaching Center, a university department funded by USDA through Texas A&M University.*



top Farm Credit Administration official recently saw first-hand how the co-op lending structure is working to extend much-needed capital infusion to farmers in a former Soviet republic.

Leland "Lee" Strom, chairman of the board and CEO of the Farm Credit Administration, spent the first days of

October — National Co-op Month — witnessing the successes and challenges faced by Farm Credit Armenia (FC Armenia). From small-scale vegetable farmers to owners of newly constructed wineries, sometimes in broken English and other times through a translator, FC Armenia member-borrowers repeatedly told Strom that the U.S. farm credit cooperative model is working well here as a partner that helps them finance their dreams.

"It's one thing to read about it, and I've read a lot about Farm Credit Armenia. It's a whole different thing to see it first-hand and to hear the stories of what Farm Credit Armenia means to the agriculture industry, the farmers and the businesses associated with them," says Strom, who was appointed to a 6-year term on the FCA board in 2006 and was designated chairman and CEO in May 2008. He also serves as a

board member of the Farm Credit System Insurance Corporation (FCSIC).

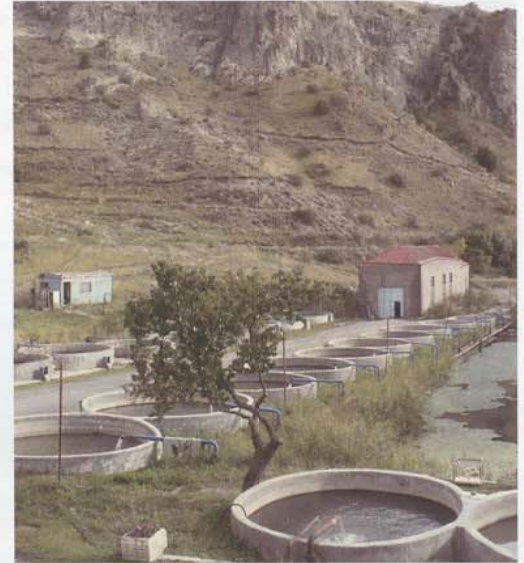
## **Bridging the cultural chasm**

As part of his agricultural tour of a country about the size of Maryland bordered by Iran, Georgia, Turkey and Azerbaijan, Strom learned more about the challenges land-locked Armenia has faced in its past 100 years. He realized the cultural chasm farmers and agribusiness owners had to cross from the former Soviet collective ideals to the internationally recognized, free enterprise cooperative model.

"I better understand the basic challenges they're facing here, and they are complex. But I also see that a cooperative farm lending institution is the right structure, and it's working," say Strom, owner of a third-generation corn and soybean farm near Elgin, Ill.



*Farm Credit Armenia has been working to extend credit to agricultural operations in the fertile Ararat Valley, such as this fruit-drying operation near Artashat. Below: Trout in Lake Sevan have been over-fished, so this aquaculture operation near the resort town of Jermuk has been developed to help meet the demand for fish in Armenia and Russia.*



component in the development of sustainable enterprises of all sizes. Credit allows farmers and processors to take advantage of the technical training that they have or are receiving. It's an essential element in the recipe for success of rural enterprises in any country."

Organizations such as USDA and non-governmental organizations (NGOs), such as the United Methodist Committee on Relief and ACDI/VOCA (which promotes economic development in emerging democracies), set up farm programs soon after Armenia declared its independence from the Soviet Union in 1991. Since then, farmers and processors have learned more efficient production techniques, basic business skills, how to organize cooperatives and have started youth education programs, such as 4-H.

They've also learned about micro-

credit and how to jump-start the country's Cooperative Extension-like information and training system. Other NGOs, such as the Center for Agribusiness and Germany's GTZ, followed with more help. While this work is ongoing, improving farm credit became the next logical step.

Access to credit is essential for the nation's farm sector to advance, says Fred Johnston, agricultural project coordinator for USDA's Foreign Agricultural Service (FAS) in Armenia. "As we've learned from the micro-credit experience, credit is a crucial

### **The co-op commitment**

In Armenia, there are institutions that claim to serve agriculture, but they have neither a real mandate nor any incentive to do so, Strom says. "Regular banks may abandon agriculture should the rural economy falter or more lucrative opportunities arise. A cooperative organization such as Farm Credit Armenia is owned by its members and, through its bylaws, is required to serve only rural clients."

If credit is the next logical step, the issue of sustainability looms large over

FC Armenia and its members. It received an initial infusion of capital from Millennium Challenge Account-Armenia (MCA) and continues to get technical support from the Farm Credit Administration, the Farm Credit System and the USDA. Strom says he hopes the Armenian government “will see how this structure can and will work, is working, and will help in its sustainability.”

He sees parallels between the 1916 start of the American Farm Credit System, funded through legislation signed by President Woodrow Wilson, and the struggles Armenia faces today. “The U.S. Farm Credit System started small and has grown to serve over 40 percent of U.S. farmers. I can see the same thing happening in Armenia,” Strom says.

Johnston explains that USDA has been working to foster farm credit in Armenia for many years, beginning with a Credit Clubs project. When FAS assumed management of the project from USDA’s Cooperative State Research, Education, and Extension Service (CSREES) in April 2005, FAS began to look for ways to make the



*Twyla and Lee Strom (left) of the U.S. Farm Credit Administration and Armen Gabrielyan (center), CEO of Farm Credit Armenia, learn how this farmer and his grandson are using a line of credit to upgrade their greenhouse.*

project sustainable. While there were several organizations involved with micro-credit and others that claimed to serve agriculture, the needs of agricultural lenders were not being met.

“With that in mind, FAS engaged the U.S. Farm Credit Administration to review the state of agricultural lending in Armenia and make recommendations,” Johnston explains. “One of their recommendations was to set up a farm credit organization that was legally mandated to serve rural Armenia in good times and in bad. Based on that recommendation, we worked with the Farm Credit System and the Farm Credit Administration to set up Farm Credit Armenia.”

### **Key questions**

As Strom sat through an FC Armenia board meeting during his week in Armenia, he reflected on more parallels. Where should a new office be constructed to more conveniently serve existing and new rural members? Who should be selected from the 170 applicants to fill 11 new loan officer positions? When starting from scratch, what are the available sources of capital the cooperative needs to remain a viable partner for farmers and agribusinesses?

“These are some of the same issues Farm Credit started with in 1916 in America. Boards of directors deal with some of the same issues every

*continued on page 39*

## **Banking on the Future** *continued from page 16*

month or every quarter they meet,” notes Strom. “But then you realize this is just the beginning for Farm Credit Armenia’s five directors, outside director and staff — at a time when there are global financial challenges.”

Strom says one solution he has offered is to speak favorably about FC Armenia and how its members have embraced the cooperative structure and principles as a means to rebuilding the agricultural sector in their country’s emerging free-market economy.

“I do agree with Lee’s assessment,” says Johnston. “But I would add that I think Farm Credit Armenia offers an opportunity for other donors and investors to fund a great organization that is built on sound cooperative and credit principles.” As potential donors and funders look into FC Armenia, he thinks they will recognize the same opportunity to serve rural Armenia as MCA did when it provided it with lending capital.

“Farm credit in Armenia today is where the U.S. system was 50 years ago,” Strom says. “Look what has been accomplished in the United States. The same can be done here.” ■