

SDA: Spare parts the missing link in Armenian agricultural chain

Small-scale farmers in Armenia grow their own hay, but lack the machinery to harvest it. Machinery operators use old soviet-age combine harvesters, which often break down. In rural areas, a lack of spare parts has been a major issue leading to long down-times and poor yields for farmers that harvest late. SDA Armenia is helping build stronger distribution networks for key spare parts, by supporting local entrepreneurs and their relationships with wholesalers. As a result, more farmers are harvesting on time, improving the quality of fodder and leading to increased milk production and incomes.

Breaking the cycle

Agriculture in Armenia has struggled since the country's independence and land privatisation. Infrastructure, formal market channels and essential services previously delivered through collective farms have dissolved. The previous centrally controlled system focused solely on production targets with no consideration of costs, meaning farmers have had to learn to manage their farm budgets from scratch.

The Strategic Development Agency (SDA), with funding from SDC, is taking a market systems approach to the livestock sector in the Syunik region of Armenia. SDA's market analysis found that farmers lacked access to support services and agricultural inputs including mechanised farm equipment, especially during crucial times of the season.

Available machines were out of date and unreliable requiring frequent and intensive maintenance. A lack of spare parts often led to machinery downtime. These delays hurt the quantity and quality of the fodder harvest, leading to losses for farmers and higher costs for both dairy and meat producers.

Wholesale suppliers of spare parts were not spending any time or energy finding markets for their parts in rural areas. Rural machine operators became accustomed to having to travel long distances to get the parts they needed, and so the spotty service and long down times became the norm.

Smaller scale farmers were especially disadvantaged, as when harvesting machinery was up and running, the priority usually went to larger, wealthier farmers who could easily pay for services in cash. Smaller farmers would often receive harvesting on credit, and have to repay the loan, with interest, after selling some of their hay. Economists would call this a coordination failure.

Creating a better supply chain

SDA's vision for a functioning market was better supply chain relationships between wholesale part suppliers and rural retail outlets. This would lead to better access to parts for rural machine operators, better services for farmers and increased fodder productivity. Increased competition between machine operators would increase choice for farmers, and the extra milk and meat produced would lead to increased farmer incomes.

Supporting local entrepreneurs

SDA's strategy was to prove the business case for rural parts supply retailers by supporting a few local entrepreneurs to open shops to sell to machine operators and larger farmers who owned the machinery. It sought out Hayk Arakelyan, a local entrepreneur from Brnakot, a village in the south of the country, willing to invest in a local shop. SDA introduced Hayk to a specialised spare parts wholesaler in the capital that was looking for reliable supply relationships with a retailer. The reason for working with a single rural entrepreneur was to send a signal both to competitor entrepreneurs (who might copy the business model) as well as to wholesale part suppliers, who might consider expanding their own reach.

To overcome the up-front costs of launching a business, SDA agreed to cost share the initial investment. SDA and Hayk each invested 1 million AMD (USD 2,112) to ensure enough working capital for the initial phase of the business. Hayk used the starting capital to purchase spare parts and machinery from the wholesale supplier at a reduced price negotiated with support from SDA. He also negotiated to receive 2 million AMD worth of spare parts on credit from the wholesaler to ensure a much

better stock of product. Hayk's offer of a better quality and variety of spare parts led to reduced cost for mechanisation services in the area.

Other businesses grab the opportunity

Hayk Arakelyan has managed to repay all of the credit without any delays, a strong sign that his business is not reliant on further grants. In its first phase, the business made 137 sales to 35 agro-machine operators who offer services to over 600 farmers. Two other entrepreneurs in the area have also open similar businesses with even less support from SDA. Both are operating with no external financial support.

SDA's focus has shifted to communicating this business model to other prospective entrepreneurs, and to continue to build relationships between wholesalers and these retail outlets. The programme is also promoting uptake of the business model through a government SME development agency that reaches many regions of the country through trainings and mass media.

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