



The European Union's Neighbourhood Programme

*Assessment of the Agriculture and Rural  
Development Sectors in the Eastern  
Partnership countries*

**Georgia**



Funded by the European Union



Implemented by FAO





## **FAO Regional Office for Europe and Central Asia (REU)**

Benczur utca 34.

H-1068 Budapest

Hungary

Tel: +36 1 4612000

Fax: +36 1 3517029

E-mail: [FAO-RO-Europe@fao.org](mailto:FAO-RO-Europe@fao.org)

FAO Project No. GCP/RER/041/EC

EU Project No. ENPI 2012/298-262

Start date: 16th July, 2102

End date: 31st December, 2012

This publication has been produced with the assistance of the European Union. The contents of this publication are the sole responsibility of the FAO and can in no way be taken to reflect the views of the European Union.

The designations employed and the presentation of material in this publication do not imply the expression of any opinion whatsoever on the part of the Food and Agriculture Organization of the United Nations (FAO) concerning the legal or development status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. The mention of specific companies or products of manufacturers, whether or not these have been patented, does not imply that these have been endorsed or recommended by FAO in preference to others of a similar nature that are not mentioned.



## List of abbreviations

ARD	Agriculture and Rural Development
BSEC	Black Sea Economic Cooperation
BSP	Budget Support Programme
CNFA	Citizens Network for Foreign Affairs
EaP	Eastern Partnership
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EU	European Union
DCFTA	Deep and Comprehensive Free Trade Area
DCI	Instrument for Development Cooperation
DG Agri	Directorate General for Agriculture and Rural Development
DG DevCo	Directorate General for Development and Cooperation - EuropeAid
DANIDA	Danish International Development Agency
ENPARD	European Neighbourhood Programme for Agriculture and Rural Development
ENPI	European Neighbourhood and Partnership Instrument
ENRTP	Environment and Sustainable Management of Natural Resources
EUD	Delegation of the European Union
FADN	Farm Accountancy Data Network
FAO	Food and Agriculture Organisation of the United Nations
FSP	Food Security Programme
GUAM	Organization for Democracy and Economic Development: GE, UA, AM, MD
IDP	Internally Displaced Person
INOGATE	INterstate Oil and GAs Transportation to Europe
KfW	Kreditanstalt für Wiederaufbau
LEPLs	Legal Entities of Public Law
LOC	Letter of Credit
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goals
MoA	Ministry of Agriculture
MoE	Ministry of Economy and Sustainable Development
MoF	Ministry of Finance
NSA	Non-state actors
PADOR	Potential Applicant Data Online Registration
PFM	Public Financial Management
SDC	Swiss Development Cooperation
SIF	Social Investment Fund
SIGMA	Support for Improvement in Governance and Management
SPS	Sanitary and Phytosanitary
SPSP	Sector Policy Support Programme
TAIEX	Technical Assistance and Information Exchange (DG General Enlargement)
TCP	Technical Cooperation Project
TRACECA	Transport Corridor Europe-Caucasus-Asia
UNDP	United Nations Development Programme
USAID	The United States Agency for International Development
USDA	The United States Department of Agriculture



## Contents

<b>List of abbreviations.....</b>	<b>1</b>
<b>Contents.....</b>	<b>3</b>
<b>1. Introduction .....</b>	<b>5</b>
1.1. Context and objective of the sector analyses.....	5
1.2. Study Team .....	5
1.3. Acknowledgements .....	6
<b>2. Background and key figures.....</b>	<b>7</b>
2.1. General context and economic indicators .....	7
2.2. Agriculture and rural sector.....	9
<b>3. Government policy for the agriculture and rural development sectors.....</b>	<b>17</b>
3.1. Description and assessment of the state of the art in national regulations.....	18
3.2. Description and assessment of the current and planned Governments agriculture and rural development policy interventions and/or strategies .....	19
3.3. Assessment of how Government programmes fit into the ENPARD approach .....	22
3.4. Policy critique .....	23
<b>4. Assessment of institutional capacity .....</b>	<b>25</b>
4.1. Assessment of government institutions for managing, implementing and monitoring an ENPARD approach .....	25
4.2. Assessment of agriculture and rural economy stakeholders for managing, implementing and monitoring an ENPARD approach .....	26
4.3. Assessment of the need for training of the agriculture and rural economy stakeholders, including private sector, to utilize an ENPARD approach.....	26
<b>5. Review of existing ongoing programmes.....</b>	<b>27</b>
5.1. Donor programmes.....	27
<b>6. Bottlenecks and SWOT analysis .....</b>	<b>32</b>
6.1. Sectors specific SWOT analysis .....	32
6.2. List of the most relevant priority areas.....	33
<b>7. Recommendations on actions that could be implemented in a bilateral context .....</b>	<b>34</b>
7.2. Proposals for actions in Georgia and the South Caucasus to address these gaps.....	37
7.3. Producer Organisations in Georgia: formation proposals .....	38
<b>8. Identification of regional gaps and priorities and recommendations for future actions. 40</b>	
8.1. Assessment of regional variations and disparities in agriculture production and rural development, including the livestock sector .....	42
8.2. Recommendations on actions that could/should be implemented in a regional context... 44	
<b>9. Conclusions and lessons learnt.....</b>	<b>46</b>
9.1. Overview .....	46
9.2. Common Regional Agenda Items for the Panel on Agriculture and Rural Development 47	
<b>10. References and sources used .....</b>	<b>48</b>
<b>11. Annexes .....</b>	<b>49</b>
Annex 1: Farm Service Centres (FSC) and Machinery Service Centres (MSC) .....	50
Annex 2: Organisation chart, Agriculture and Rural Development.....	52
Annex 3: Workshop, 18th October 2012 .....	53





## **1. Introduction**

### **1.1. Context and objective of the sector analyses**

Most of the Eastern Partnership (EaP) countries have an agricultural sector that includes a large number of households reliant to some degree on small and fragmented land plot for subsistence with limited links to markets and limited resources and growth potential.

There are donors providing assistance (EU and FAO among them) in addition to the activities of the Governments, but the current global crisis with soaring food prices among other consequences, has demonstrated the vulnerability of the agricultural/rural communities and the need for EaP countries to further enhance the formulation of agriculture policies aimed to support small-scale farmers and farmers' organizations, to support private and public stakeholders in the agricultural sector, to restructure agriculture on sustainable basis, to modernize the agricultural production and to develop rural areas.

A general assessment of the agriculture sector and rural areas is crucial for the development of proper strategies and policies. These studies envisaged under this project will contribute to the assessment of the situation in the sector, will prioritize and target the sub-sectors, the areas of intervention and the beneficiaries, in consultation with the local public and private stakeholders.

The overall scope of the project is in line with the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD), an approach to support agriculture and rural development sectors, built on the EU's best practice experience in developing agriculture and rural areas. Based on the results of this project, ENPARD programmes and activities will be identified, elaborated and implemented in the interested EaP countries.

### **1.2. Study Team**

This report was conducted by the following team:

- EC/FAO Management Committee
- Richard Eberlin, FAO Rural Development and Land Tenure Officer, REUDD
- Magali Herranz, FAO Livestock Officer, REUDD
- Mark Le Seelleur, International consultant
- Adrian Neal, International consultant
- Seamus O' Grady, International consultant
- Dragan Angelovski, International consultant
- Zurab Chekurashvili, National consultant

### 1.3. Acknowledgements

The responsible FAO team would like to thank the EC for the support and guidance provided during the course of this short, but intense, project. In particular:

- The European Commission, with especial thanks to Jesus Laviña, Isabelle Combes, and Dominik Olewinski.
- The EU Delegation to Georgia, with especial thanks to Juan Jose Echanove and Ramon Maria Reigada Granda.

To the public and private institutions and civil society organizations, especially to the Ministry of Agriculture of Georgia, who responded to this process with interest and participated with enthusiasm providing a valuable feedback to the assessments.

Last but not least the FAO team would like to extend its sincere thanks for the assistance and close collaboration in the implementation of the project to:

- The FAO colleagues in Georgia, with special thanks to Mamuka Meskhi.
- The Field Programme Unit in REU, with special thanks to Eszter Bartha, Aghasi Harutyunyan, Raimund Jehle, Javier Sanz and Goran Stavrik.

## 2. Background and key figures

### 2.1. General context and economic indicators

Georgia is a small developing economy, with a population of about 4.5 million people. Georgia is largely mountainous with Great Caucasus Mountains in the north and Lesser Caucasus Mountains in the south. The Kolkhida Lowland opens to the Black Sea to the west; the Mtkvari River Basin in the east. The diverse terrain provides a number of micro-climates and rainfall patterns, the basis for the production of a wide variety of agricultural products.



**Total area:** 6.97m Ha  
**Agricultural lands:** 3.03m Ha  
*Arable land 0.802mHa*  
*Perennial plantations 0.26mHa*  
*Meadows & pastures 1.97mHa*  
**GDP PPP (2011):** \$24.86 billion  
**Agri-share GDP:** 9.3%  
**GINI (2008):** 41.3  
**GNI PPP (2011):** \$5,600 per capita  
**HDI:** 0.743 Rank (2011) 97<sup>th</sup>  
**Population (2011):** 4.5m  
**Population growth (2011):** -0.327%,  
**Fertility rate:** 1.46



**Rural population:** 46.8% (2.1m)  
**Agriculture Land:**  
*Privatised 25%*  
*State owned 75%*

*Georgia is divided into 9 regions, 2 autonomous republics (Abkhazia, Adjara) and the capital city, Tbilisi.*

*The regions are divided into 65 districts with 61 cities (republic 10, autonomous 4; regional 46), villages, 4,488)*

Gross national income (GNI) per capita of \$5,600 was achieved in 2011, though 25% of the population is living below the poverty line, with higher levels of poverty in regions with high rural populations. The GINI coefficient, a measure of inequality was 41.3 in 2011, well below most post-soviet countries.

### Population as for January 1, – 2010-2012 (Thousands)

	2010	2011	2012
<b>Total Population</b>	4436,4 (100%)	4469,2 (100%)	4497,6 (100%)
<b>Urban</b>	2350,5 (53%)	2371,3 (53,1%)	2391,7 (53,2%)
<b>Rural</b>	<b>2085,9 (47%)</b>	<b>2097,9 (46,9%)</b>	<b>2105,9 (46,8%)</b>

The overall unemployment rate was 16.5% in 2011, the highest in the region. In addition a large part of the rural population (including subsistence farmers) is classified as self-employed.

### Gross National Income (GNI)

	2006	2007	2008	2009	2010	2011
GNI (mil. USD)	7,937.6	10,211.8	12,628.2	10,649.4	11,277.2	13,903.6
GNI per/capita (USD)	1,803.5	2,323.7	2,881.8	2,428.4	2,542.0	3,111.0

In 2008-09 the country was affected by the twin crises of a war with Russia in August 2008, followed by the global economic downturn. Economic growth, which had been in excess of 9% in 2006 (GDP – USD 77.62billion), fell sharply to 2.3% in 2008 (GDP – USD 12.8billion) and contracted by 3.8% in 2009 (GDP – USD 10.77billion). Economic recovery took hold in 2010–2011 as a result of the government’s policy reform agenda. The Georgian economy grew strongly by 7% in 2011 and broadly maintained macroeconomic stability. Inflation (7,1% in 2010) reached 8,5% in 2011. The fiscal deficit was reduced from 6,6% of GDP in 2010 to about 3,6% of GDP in 2011. Bilateral trade with the EU increased in 2011, total bilateral trade amounted to € 2.2 billion in 2011, a higher increase of EU exports to Georgia as compared to imports.

### Gross Domestic Product (GDP)

	2006	2007	2008	2009	2010	2011
GDP real growth, percent	9.4	12.3	2.3	-3.8	6.3	7.0
GDP per capita (at current prices), USD	1763.5	2314.6	2921.1	2455.2	2623.0	3215.4
GDP at current prices, mil. USD	7761.7	10171.9	12800.5	10767.1	11636.5	14370.4
<b>Structure of GDP as a percentage</b>						
Agriculture, Hunting, Forestry and Fishing	12,8	10,7	9,4	9,4	8,4	9,3
Industry	17	16,5	15,5	15,4	16,1	17,3
Construction	7,9	7,8	6,4	6,5	6,1	6,2
Trade	15,6	14,8	16,2	15,1	16,8	17,3
Transport and Communications	13,2	12,1	11	11,2	11,5	10,6
Other	33,5	38,1	41,5	42,4	41,1	39,3

### Total FDI (Million USD) and Share (%) in Agriculture

	2010	2011
<b>Total</b>	814,5 (100%)	1 117,2 (100%)
<b>Agriculture</b>	8,7 (1,1%)	14,9 (1,3%)

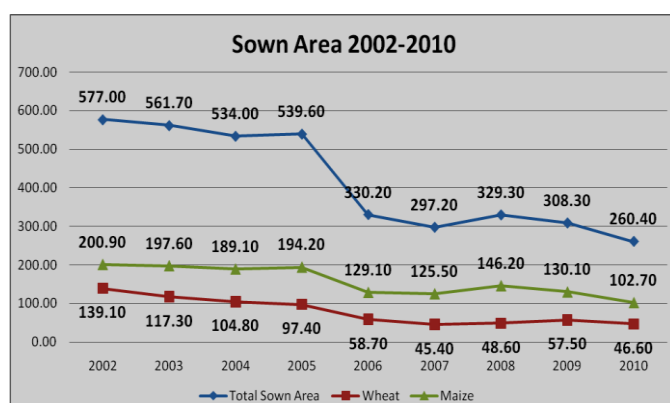
## 2.2. Agriculture and rural sector

Georgia is a traditional agricultural country. Nearly half of the population lives in rural areas, where a low-input, subsistence and semi-subsistence farming is a major source of livelihood. An increasing share of agricultural land is left unused.

This situation in agriculture is a reversal of what prevailed during soviet times, up to 1990, when agriculture year on year growth rates were strong, based on the production of high value products and when agricultural exports exceeded imports by 70%. The many plantations and processing plants provided employment, serving a command driven supply chain. Since 1990 the picture has been one of a continuing decline in agricultural production and declining contribution to GDP with an increasing number classified as self-employed in agriculture.

The land privatization process of the 1990's resulted in a new class of about half a million 'farmers', a subsistence style of agriculture on small land plots, with land owners categorised as self-employed farmers. Agriculture was side-lined as a sector, a means for rural subsistence where the self-employed live in fiscal obscurity. Indeed this obscurity is encouraged as income tax is not payable on turnovers less than 100,000GEL (around € 42,000).

During the last two decades the agriculture sector was the Cinderella of development assistance, not least due to a lack of any defined state policy or strategy for the sector, other than *laissez-faire*, abandoned by Government and declared as strategic priority of economy only verbally. This *laissez faire* approach was accompanied by a continuing decline in agricultural production, evidenced by the decline in the sown area of arable lands and fall in production of primary agriculture products.



The share of agriculture in total GDP declined significantly (from 25% in 1999 to about 9.3% in 2011). Reasons for the reduction in agricultural productivity include: fragmentation of land, lack of knowledge and technology transfer, high costs of agriculture inputs and expensive financial resources, absence of modern machinery services, poor connectivity to markets and a Russian trade embargo, and a generally degraded rural infrastructure.

The percentage of the workforce classified as employed in agriculture has remained fairly constant, 52.1% in 2000, 53.1% in 2011. Agriculture is an important safety net for most of the rural population. Of those classified as employed in the sector 95% are 'small farmers', typically with around 1.2 hectares and 2 cows per family, classified as subsistence or semi-subsistence. Rural incomes have increased mainly due to increased remittances from emigrants leaving and making their living outside of Georgia, which has mitigated the impact of the poor agricultural performance on the rural population.

In Georgia the agriculture sector faces numerous problems and challenges. Output is extremely low. The failure of Georgian agriculture to modernize is one of the root causes for the persistence of high poverty levels in the country. The total area planted has been reduced by 43% and average production per hectare has diminished. Agriculture remains an important, albeit declining sector in terms of GDP contribution, net foreign exchange earnings, employment generation and poverty reduction.

## Agricultural indicators over the years

Year	Sown Area Ha	Sown Area % arable land	Livestock Numbers	Agriculture employment	Agri GDP
1990	701,900	87.5%	4,287,000	25.2%	29.7%
1995	453,100	56.5%	2,104,300	30.6%	41.7%
2000	610,800	76.2%	2,166,000	52.1%	20.2%
2005	539,600	67.3%	2,539,600	54.3%	16.8%
2006	330,200	41.2%	2,243,100	55.6%	12.8%
2007	297,200	37.1%	1,864,900	55.7%	10.7%
2008	329,300	41.1%	1,735,600	55.3%	9.4%
2009	308,300	38.4%	1,535,500	47.3%	8.3%
2010	275,300	34.3%	1,813,000	53.4%	8.4%
2011	281,000	35.0%	1,823,000	53.1%	9.3%

The rural population is highly dependent on subsistence agriculture and public transfers. The rural economy's contribution to total output is low but it supports the majority of the population. The country is highly dependent on imports. In 2010, 85% of consumed wheat was imported. Other key problems of the sector are: major capital disinvestment; the Russian embargo; the world economic recession; limited access to credit (lending to the sector only accounts for 1% of total lending). Absence of a functioning agricultural research-education-extension system; lack of a well-functioning land market; poor condition of irrigation systems and other infrastructures and widespread impact of livestock diseases.

The rural non-farm sector is small and dominated by small and medium trading enterprises. Data does not distinguish between rural and urban enterprises. Registered SMEs in the regions are used as a proxy for the rural non-farm sector. The non-farm sector in the regions is dominated in terms of numbers by private, individually owned enterprises. The majority of non-farm enterprises in the regions are small (89%) or medium (11%) and the majority (77%) are engaged in trade.

## Agriculture Output (million GEL, %)

	2006	2007	2008	2009	2010
<b>Total Agriculture Output</b>	<b>2134,2</b> <b>(100%)</b>	<b>2250,9</b> <b>(100%)</b>	<b>2202,9</b> <b>(100%)</b>	<b>2072,2</b> <b>(100%)</b>	<b>2241,8</b> <b>(100%)</b>
Plant Growing	911,4 (43%)	1051,7 (47%)	918,1 (41%)	868,3 (42%)	932,1 (42%)
Animal Husbandry	1165,3 (55%)	1138,8 (51%)	1227,6 (56%)	1140,5 (55%)	1240,3 (55%)
Agriculture Services	57,6 (2%)	60,4 (2%)	57,2 (3%)	63,4 (3%)	69,4 (3%)

## Agriculture land

Georgia consists of 11 administrative regions and 22 climatic zones. The diverse soil and climatic conditions allows for a wide range of agriculture production. There are approximately 3 million hectares of agriculture land, used as: arable – 27%; perennial crops – 9%; meadows and pastures – 64%.

The land privatization process of the 1990's (household plots, collective and state farm land) resulted in: the freehold allocation of 0.76 million Ha of agriculture land to eligible individuals; 460,000 Ha retained in public ownership, of which 300,000 Ha was leased-out. This resulted in around 1 million Ha of land in use by a new class of 'farmers'. These holdings were split into various plots, according to land type, resulting in high land fragmentation. In addition there are some 1.75 million Ha of grassland held on the balances of local administrations used as communal pastureland. The pastures are available to the residents for a small annual fee. Most of the pastures are degraded and overgrazed.

This land privatisation process resulted in subsistence agriculture, with land owners, in excess of half a million, categorised as self-employed farmers. Agriculture became side-lined as a sector, a means for rural subsistence. The expected dynamic of the land privatization process was that there would be a gradual consolidation of holdings through a lease process and a functioning land market. This dynamic has not come into effect; rather a continuing predominance of small plot cultivation.

Of the total agricultural land area 75% is still State owned, but available for sale. The GoG is conducting the sale through public internet auctions ([www. privatization.ge](http://www.privatization.ge), [www.eauction.ge](http://www.eauction.ge)). In terms of arable land, 55% is already privatized.

#### Agriculture Land (thousand hectares)

	Total	Arable	Perennial	Meadow	Pasture
<b>Total</b>	3025,8	801,8	263,8	143,8	1796,6
<b>Privatized</b>	767,3	438,5	180,5	44	99,8
<b>State Owned</b>	2258,5	363,3	83,3	99,8	1712,1

Agricultural land ('000 ha)	Privatized ('000 Ha)	Share (%)
3 025,8	767,3	25%
Arable land ('000 ha)		
801,8	438,5	55%

According to the agriculture census in 2005, there are more than 700,000 agriculture holdings in Georgia, from which more than 99% are classified as family farms. The farm sector is dominated by small private farms, 93% with less than 2 Ha of land, with an average of 2.3 plots per farm / holding. About 82% of agriculture holdings are subsistence and 18% for semi-subsistence or commercial.

#### Total Number of Holdings and its Structure

All Holdings	Family Farms	Agricultural Enterprises	Other Holdings
729 542 (100%)	728 247 (99,8%)	820 (0,1%)	475 (0,1%)
Holdings by Purpose of Production			
All Holdings	Subsistence	Semi-Subsistence	Not Indicated
729 542 (100%)	594 858 (81,5%)	129 498 (17,8%)	5 186(0,7%)



The government has considerably expanded private ownership of land. At the end of 2008, 32% of all agricultural land or 78% of agricultural land, excluding pastures, was under private ownership and the government plans further land privatization.

The government has established a highly efficient land registration system but there are errors in many early land rights documents which need to be resolved in preparation for a more active secondary land market in future. In addition recent forestry leasing arrangements are not sufficient to ensure good long term forest management. There is an absence of available structured and reliable information about the dynamic, ownership and use of agriculture land.

An increasing share of agricultural land has been left unused. It is apparent from the available statistics, from reports and field visits that a significant amount of the arable land is unsown/unused (130,000 Ha, mainly in the eastern part of Georgia). In addition it is evident that many of the owners in title of these lands have moved away from the area, not using the land nor arranging for its use by others. Land has no cost as land taxes are not payable on holdings less than 5Ha.

The government in the last decade cited fragmented land holdings (which cannot be used for collateral), where 80% of the plots are hand cultivated with a minimal use of inputs, as the main reason for agricultural decline. The government's response to the problem is to focus on encouraging larger farmers which are far better positioned to increase productivity and provide for growth in exports and import substitution.

### *Infrastructure*

The irrigation system in Georgia, which at its peak covered almost 500,000 Ha, and in 1990 around 386,000 hectares, currently covers 73-80,000 hectares, or around 25% of the country's cultivated land. This will increase by 33% if the irrigation expansion planned by the Ministry of Agriculture is successful. In the meantime irrigation suffers from degradation, with donors financing major parts of its reconstruction. At the same time the process of establishment of water-user organisations has been initiated in some parts of the country, but with mixed results.

The strategy of the Government includes gradual adoption of more efficient irrigation systems such as drip irrigation, pivots, which could dramatically increase productivity and margins. This would serve to increase land prices and encourage a land-market, creating a virtuous circle of investment and market-led reform.

A problem with this approach was that the current scale of agricultural investments in Georgia is not sufficient, in the short to medium term, to change the overall structure of land-holding significantly. Therefore, while increasing the availability of high cost and quality irrigation systems may help inward investment, it is not likely to impact on the vast majority of small farmers anytime soon. The goal is to move to larger scale more efficient agriculture, moving from the reality, which is peasant agriculture.

### *Agricultural Services*

Today, agricultural support services are provided by a complicated array of cross-cutting service delivery organizations that exist in terms of agricultural inputs: development organisations including CNFA, Mercy Corps, CARE, UNDP, MCC; private companies such as Kartlis Holding and Noblex; and government agencies like the Georgian Agricultural Corporation.

In machinery provision generally, the Millennium Challenge Georgia CNFA/ Agribusiness Development Activity as well as the USAID CNFA/ Access to Mechanization projects have



supported the creation of mechanisation service centres. The Georgian government, which has been providing agricultural equipment under a range of different projects, has also started to rapidly expand the network through which it supplies equipment.

The Ministry of Agriculture and Ministry of Economy and Sustainable Development started the company 'Meqanizatori' in 2009. This organisation now claims to have 30% of the agricultural service provider market, tripling its profits from GEL 1.2 million (USD 673,000) in 2010 to GEL 3.6 million (USD 2.1 million) in 2011 (*Annex 1*). However, the attitude of private sector and donors to the Meqanizatori is mixed, and even though many private service providers do not see direct competition (due to the focus on larger farmers, and the higher service prices offered), they believe that the State should not engage in commercial service provision.

The government machinery programme has helped to establish some major machinery suppliers in Georgia and provided much needed machinery but the programme does not provide a good foundation for the long term development of machinery services. This was further reiterated by the government on several occasions that the state owned service centres should be privatised.

The leasing industry is in early stages of development and not currently an important source of rural finance. Legislative reform in relation to taxation of leasing companies needs to be addressed.

### *Agricultural Inputs*

Agricultural inputs are considered to be problematic despite the availability of reasonably priced seed, fertilizer and pesticides. There seems to be plenty of general availability of these inputs, as most farmers report being able to buy them. But the bigger issue is quality and knowledge. While seed, fertilisers and pesticides are available there have historically been significant problems over quality because cheap and potentially degraded products are the most commonly used and counterfeit products continue to be a problem.

Most farmers are not farming out of choice and have little or no education in farming practices and so may not know the benefits of using one product over another. Even if they know the benefit of high quality products, they may not know how to correctly use the product in order to achieve it. For example, while farmers may know that they need 'fertiliser', they may not know which kind and how to use it. As a result, while the use of high quality products might have considerable benefits, those benefits go unrealised in most cases.

In 2011 the Government started a program for distribution of wheat and maize seeds through a specially established Legal Enterprise under Public Law. In 2011 the distribution of Pioneer hybrid maize seed and Jaeger wheat seed, were sold to farmers at a commercial rate on a consignment basis. The seeds were to be paid after harvest. The results were at best mixed. The programme was not appreciated by the donor and international community in what was seen as undermining the fragile retail supply of inputs. The MoA also distributed fuel and fertilizer (fixed amount of 20 litres of fuel and a bag of fertilizer per household).

### *Livestock and veterinary services*

The provision of veterinary services has, like much of the agricultural sector, been subject to wide-scale privatization. In the current form the role of the state in providing services has been significantly reduced. In an effort to reduce costs, and in line with a broader laissez-faire philosophy for the economy, the 2005 reforms in the veterinary sector shifted a lot of the responsibility for disease prevention, detection and cure onto the private sector. The scale of the privatisation is perhaps best represented by the small size of government involvement in the

area. The government now employs 125 vets nationwide and the budget of the National Food Agency (which is responsible for the vets) allocated to ‘diagnostic of animal and plant diseases’ is GEL 1.2 million (USD 725 000) per year for the entire country.

The reliance on private vets for monitoring, prevention and treatment of animal disease creates different kinds of problems. The problem is that while treatment of individual diseases may be effectively provided by individual vets, national monitoring and national disease treatment plans require a different kind of infrastructure, one that needs to be publically financed. For example, swine fever, brucellosis, foot and mouth disease and many others, require government vets who can identify the diseases and who have powers to quarantine farms and destroy diseased animals, backed by a compensation scheme.

Animal health is also not aided by the fact that as practically the entire livestock populations are held or kept in small numbers, cattle, sheep and pigs, which are left to free range and forage on state and communal lands, more or less guaranteeing that communicable diseases will be quickly communicated, prejudicing control and eradication measures.

The second problem with the current system of veterinary provision is whether it can even provide good private care in a sustainable fashion. With an ageing population of vets, who are not used to working in private practice, and who, since 2011, no longer need accreditation in order to work as vets, the quality of service is hard to judge.

Exacerbating these problems with veterinary service provision is the fact that Georgian farmers generally have a fairly poor understanding of animal health issues. Most have no education in the area and lack reliable information and advice. As a result they are unable to make basic assessments about good husbandry practices, which exacerbates the problems of animal disease in Georgia.

The difficulties in the veterinary sector relate to a numerous of diseases and zoonoses<sup>1</sup> that have debilitated different parts of the livestock sector in recent years, particularly swine fever, FMD, avian influenza, brucellosis, anthrax and rabies further add to the complexity of the problem. Unfortunately the government has not been to undertake measures to control and eradicate these serious diseases. Added to which, the continued uncertainty over animal disease control undermines the likelihood of investment and restocking.

The low productivity in the livestock sector is mainly results from poor breed structure of the animals held by private owners / households, which account for the vast majority of animals (apart from poultry). These unproductive breeds sustained by traditional free ranging feeding practices, unmanaged state and communal grasslands has resulted in over-grazed pastures. The productivity of the overgrazed nearby lands does not provide the nutrition required for fattening or higher milk yield.

<b>Milk</b>	<b>Meat</b>	<b>Grapes</b>	<i>Total</i>
0.58	0.03	0.12	<b>0.73</b> <i>Million Tons</i>
0.18	0.08	0.07	<b>0.33</b> <i>Billion US\$</i>

Milk and meat are the highest value agriculture products overall. Dairy cattle ownership remains highly fragmented, mainly single cow ownership per family with surplus milk being sold off

---

<sup>1</sup> Biosafety Level 3 Diagnostics Laboratory, and South Caucasus Field Epidemiology and Laboratory Training Program is based in Tbilisi at the Georgia National Center for Disease Control and Public Health

when and if available. There is no enclosure, so cattle are herded together on common pasturelands, milked by hand and housed individually within household back yards.

Milk supply is consequently highly seasonal – summer milk, constrained by winter forage and concentrate availability. Livestock keepers provide animals with very little by way of high quality feed, relying on free, or extremely cheap, grazing and hay in the winter. This not only ensures low milk yields, but it makes competitive meat production extremely difficult. This is partially a problem of demand and partially one of supply. Demand for animal feed is low because of lack of financial resources and an extremely risk averse attitude to agricultural investment. This is exacerbated as little high grade animal feed is produced domestically, so farmers have to rely on expensive imports.

### *Tax and regulatory structure*

The tax and regulatory system provides no incentives to change the current pattern of land use and small-scale production. Property tax is payable only on land holdings (Property tax: by region, land type and quality: pasture land from 2 to 5 GEL; agriculture land from 8 to 57GEL) greater than five hectares, whether the land is used or not. In addition individual land owners, classified as self-employed in agriculture, pay no income tax nor need to account for turnovers less than 100,000GEL (around € 42,000) and value added tax on turnovers less than 200,000GEL (around € 84,000). If an individual or group transact beyond these limits the consequence is highly significant, requiring a fiscal identity, a need to report to the fiscal authorities, pay taxes and be subject to official control and surveillance. This situation is a highly constraining factor in the formation of producer groups of sort or another.

This tax threshold relates to physical or juridical entities. A group forming a commercial organization, such as a cooperative or limited company, would be subject to the same tax threshold. This, for agriculture producers would result in a need to account for value added tax at 18% plus a requirement to formally transact within a fiscal identity. In a largely cash and barter based transactional system and in the absence of any incentive, such organizational forms are highly unattractive. It is better to stay below the fiscal threshold and retain the status of self-employed anonymity.

Georgia has pursued a liberal trade policy to encourage greater competitiveness. The agricultural sector is only lightly protected by low import tariffs, on average much lower than many of Georgia's trading partners. This impacts development. A case in point has been the significant support to establish milk collection centres (MCCs) as the means for small producers (the majority) to consolidate raw milk supply and enter into supply contracts with dairies. There are currently estimated to be 104 MCCs (20 established with SIDA project support), of which only about 20 are functioning. This is largely due to the effect of fluctuations in the skim milk powder (SMP) price and its direct influence on the domestic dairy market.

Wholesale demand for milk in Georgia is, given a general free trade policy, without any tariff protection against fluctuating world market prices. When the SMP price is low, domestic demand for raw milk drops, when it is high, the reverse. Given the unstable price environment, combined with a poor payment record of the dairies, practically all MCCs have ceased operations. If raw milk supply to dairies, supplying urban and export markets, from commercial herds development is to be progressed, the drivers are likely to be related to food safety and animal health (traceability and disease control requiring greater professionalism). This would need to be aided by trade and fiscal policy regarding tariffs and taxation in agriculture.

State support for agriculture is starting to shift from short term input provision towards longer term investments, such as in irrigation and drainage, and services infrastructure. However, in contrast to the considerable spending on machinery, which is essentially a private sector function, there is a void in spending on essential public services. The agricultural sector has not responded to macro-economic reforms and an improved business environment. The sector reforms have not improved productivity, which is stagnant. The sector has not been able to respond to the intense competition brought about by trade reforms because of weaknesses in basic agricultural services, infrastructure and the peasant style of production that persists.

### 3. Government policy for the agriculture and rural development sectors

It should be noted at the start of this chapter that the Government in Georgia has changed following to the parliamentary elections held on the 1<sup>st</sup> of October 2012. With the change of power a makeover of the county's policies towards agriculture can be expected. By the time this report was prepared the new Ministers were sworn in, however the only guidance on the new policies available is the programme of the ruling coalition.

In the past two decades the Government policy has paid little direct attention to the agriculture sector particularly since the Rose Revolution of 2003. Priority was given to sectors requiring urgent reform, such as good governance and the promotion of free trade. Agriculture has become a development priority in Georgia since 2010-11. The need for change was highlighted by drought based restrictions of grain exports from traditional supplier countries (2007), spikes in food prices causing an agri-inflation of 27% in food price rises in 2010. This new emphasis on the agriculture sector was emphasised by a number of announcements by the President, and reflected in the '10 Points Plan 2011/2015', which proposes development of a business oriented agriculture in addition to traditional household based agriculture. This approach has been supported by the business sector, NGOs and donors.

The State budget for 2012, submitted by Government and approved by Parliament on December 2011, shows a 60% increase to the budget allocations to the MoA as compared to the 2011 budget. The 2011 budget allocation (GEL 75,16 Mil.) for agriculture itself being 80% higher than that for 2010. These increases are earmarked for support to the Agriculture Strategy implementation, not for MoA general expenses.

The budget for the MoA, 2012, GEL 119,998 million at 1.5 % of the total state budget is a modest amount as compared to the agriculture sector contribution to the economy accounting for 8-9% in the national GDP, and in terms of employment, 54% of labour force is involved. Out of 119,998 Mil, 88,8% (GEL 106,575 Mil.) is oriented to the Rural Development Programme, 4,7% (GEL 5,674 Mil.) on Food Safety, Plant Protection and Epizootic Reliability and 6,5% (GEL7,750 Mil.) on Viticulture and Winemaking Development. The budget for 2012 does not include any donor financed projects, which accounted for 16% of the 2011 budget.

The government recognizes the importance of SPS control as an important aspect of preparation for the EU DCFTA. The Agency for Food Safety, Veterinary and Plant Protection (MoA) and the Division of Veterinary, Sanitary and Phytosanitary Control Organisation of the Department of Custom Control of the Revenue Service (MoF) appear to be poorly equipped to implement SPS control and further reform is required to align Georgian legislation with international standards.

<b>Agriculture Sector Budget (2011 – 2012)</b>	<b>2011 (Mil. GEL)</b>	<b>2012 (Mil. GEL)</b>	<b>Difference</b>	<b>%</b>
<b>Ministry of Agriculture</b>	<b>75,160</b>	<b>119,998</b>	<b>44,838,2</b>	<b>60</b>
Rural Development Programme	43,748,3	106,575	62,826,4	144
Food Safety, Plant Protection and Animal health	7,359,0	5,674	-1,685,5	-23
Viticulture – Winemaking Development	10,040,1	7,750	-2,290,1	-23
Laboratory of MoA	1,726,1	0	-1,726,1	-100
Donor Financed Projects	12,286,6	0	-12,286,6	-100
<b>MoA Budget Breakdown (2012)</b>	<b>Mil. GEL</b>	<b>Mil. EUR</b>	<b>% Total Budget</b>	<b>% MoA Budget</b>
<b>Total State Budget</b>	<b>7,940,430</b>	<b>3,573,194</b>		

<b>Ministry of Agriculture</b>	<b>119,998</b>	<b>53,999</b>	<b>1,51</b>	<b>100</b>
<b>Rural Development Programme</b>	<b>106,575</b>	<b>47,959</b>	<b>1,34</b>	<b>88,8</b>
Rural Development Policy Elaboration and Management	6,200	2,790		5,2
Agriculture Equipment Upgrade	15,400	6,930		12,8
Agriculture Production Intensification	41,500	18,675		34,6
Melioration Systems Modernization	10,000	4,500		8,3
Georgian Agrarian Food Products, Wine and Cuisine Promotion	0,830	0,374		0,7
Modern Technology Promotion	2,045	0,920		1,7
Support to Utilization of Agriculture Land in the Regions	20,000	9,000		16,7
Development/Promotion of the Agrarian Sector	10,600	4,770		8,8
<b>Food Safety, Plant Protection and Epizootic Reliability</b>	<b>5,674</b>	<b>2,553</b>	<b>0,07</b>	<b>4,7</b>
Food Safety, Plant Protection and Epizootic Reliability Program Management and Administration	2,662	1,198		2,2
State Control of Food Safety	0,200	0,09		0,2
Epizootic Reliability	0,392	0,176		0,3
Plant Protection and Phytosanitary Reliability	1,200	0,540		1,0
Food, Animal and Plant Diseases Diagnostics	1,220	0,549		1,0
<b>Viticulture – Winemaking Development</b>	<b>7,750</b>	<b>3,448</b>	<b>0,10</b>	<b>6,5</b>

### 3.1. Description and assessment of the state of the art in national regulations

The ENP Country Progress Report 2011 – Georgia, May 2012 states that "in 2011 the EU and Georgia made progress in deepening and broadening EU Georgia relations within the Eastern Partnership framework. Negotiations for a Deep and Comprehensive Free Trade Area (DCFTA), an integral part of the future Association Agreement, were launched in December. Georgia made good progress in implementing the Visa Facilitation and Readmission agreements, which entered into force in March 2011". The memo further states that "After progress made by Georgia towards implementing the remaining "key recommendations" was considered sufficient, the EU decided to launch negotiations for a DCFTA in December".

The following legislative documents are in place:

- The Food Safety Law, Law on Veterinary,
- Law on Licensing and Permissions, Law on Pesticides and Agrochemicals,
- Law on Water,
- Law and Wine and Viticulture,
- Code on Production Safety and Free Movement.

A Food Safety Strategy was approved by Prime Minister's office in 2011 and the structuring and capacity building is conducted with strong support from the EU and SIDA. The Law of Georgia on Food Safety was adopted back in 2006; however it did not go into force. The duties of the inspection service duties are defined under this law, which will be enforced from 2013, when around 800 enterprises are scheduled for inspection in the first year.



### 3.2. Description and assessment of the current and planned Governments agriculture and rural development policy interventions and/or strategies

Once agriculture became more dominant on the Georgian political agenda, support was provided by the business sector, civil society sectors, NGOs and the Orthodox Church (a substantial land and property owner in Georgia). This stimulated the preparation of the Agriculture Sector Development Strategy, 2012 – 2022. Support to the Ministry of Agriculture for the development of the strategy has also been a priority of the EU, a specific condition in the EU-FSP 2007 programme and more recently of the 2012 ENPARD Programme. USAID had also committed significant resources to produce a comprehensive strategy in 2003, which was not adopted as power and priorities changed at that time, an indication of the changes in policy and direction that follow elections.

EU support actions have continued to support the strategy development process, coming through such mechanisms and agencies as TAIEX and by the FAO, backed up by interaction between the Ministry of Agriculture and the EUD. The Ministry of Agriculture developed its *Agriculture Sector Strategy* through a Working Group, commencing August 2010. The preparation of the strategy was driven, controlled and owned by the Ministry of Agriculture. The strategy covers the period 2012 to 2022. In February 2012 the Government of Georgia adopted the Agriculture Sector Strategy. Donors were also involved in the process and a donor coordination committee was formed, however only few of the recommendations were adopted.

In order to implement the strategy, the Ministry of Agriculture, in collaboration with the EU, FAO and other partner organizations, is developing a 3 to 4 year *Action Plan*, which will describe the specific results, activities, projects, budgets, timeframe and evaluation criteria. A primary objective of the Agriculture Strategy is the development of agriculture through strengthening of the small households and forming of profitable production chains.

An adopted Agriculture Sector strategy has been a pre-requisite, for the Georgia Sector Budget Support Programme. This SPSP will support the implementation of the agriculture sector strategy. It aims to increase food production and reduce rural poverty. The specific objective of the SPSP is to improve the agriculture sector in Georgia by supporting the implementation of the sector strategy and to strengthen small farmers' organisations.

The defined development directions of the Agriculture Strategy:

**Vision:** Effective, competitive and sustainable agro-food sector  
**Mission:** Development of agriculture through improving value chain

#### The main goals of the Agriculture Sector Strategy:

- i. Enhancing competitiveness of entrepreneurs and farmers**
  - Establishment of research labs and extension centres in the regions
  - Creation of a Register of Farmers
  - Development of the land market by privatization of the government-owned lands and creation of a Land Bank
  - Development of loan, leasing and insurance system within agriculture sector
  - Determination of the priority directions in the primary production and processing

**ii. Institutional development of the sector**

Capacity building for the staff of the Ministry of Agriculture and structural development  
Improvement of the qualification of those employed in the agriculture sector  
Qualitative improvement of higher education concerning agriculture  
Development of business/technical skills for farmers and those employed in agro-business  
Better communication and coordination between institutions in the agriculture sector

**iii. Development of the value chain**

Introduction of new crops and species  
Elaboration of the National Marketing Program in the field of Agriculture  
Encouragement of private investment in wholesale centres

**iv. Development of the regional and agriculture infrastructure**

Registration of existing irrigation infrastructure and creation of information system  
Development of the agriculture machinery service centres in order to raise accessibility for the farmers  
Development of the agriculture infrastructure through public and private partnership  
Development of the rural infrastructure (electricity, water and gas supply, etc) through cooperation with local and international institutions

**v. Ensuing food security**

Elaboration of the action plan in order to ensure food security  
Determination of the food security ensuring indicators by analysis of the basket of goods

Within the context of the strategy, priorities for 2012 include:

- VAT exemption for primary production
- Establishment of 6 extension/research centres
- Creation of demonstrative plots with modern technologies
- Renewal of mechanization and creation of 12 service centres throughout the regions
- Creation of an Agro-geographical info system (e-agriculture)
- Establishment of Regional offices and divisions
- Rehabilitation of existing irrigation infrastructure and introduction of new technologies
- Facilitation of events aimed at popularization of Georgian production
- Expansion of wine export market
- Registration of geographical indications of products
- Prevention of animal diseases/improvement of food safety system
- Development of logistic centres and cold storage infrastructure

**Inclusion of land into agricultural activities**

All land reserves are to be identified in order to increase the volume of economically active agricultural land. In this respect, there are several opportunities: underutilised pastures and areas within the forest fund, active continuation of land privatisation of land in the state ownership and the rehabilitation of degraded lands. By 2015, areas cultivated for agricultural purposes should be increased by 50%.

**Grain, wine and cattle**

One of the priorities is to support grain-production and increase the rate of self-sufficiency, which will be based on increasing the quantity (bigger area) as well as in efficiency. The target for 2015 is to satisfy 50% of domestic demand for wheat by local production, and to be self



sufficient in maize and to become a maize exporter to neighbouring countries to a volume of up to 200,000 tons.

This process will be aided by supporting development of seed and plant supply, demonstration / education centres in all regions will be set-up where high-yield and high-efficiency varieties will be tested and modern technologies used. The number of agricultural machinery service-centres will also be increased to widen accessibility.

Increased exports, the diversification of markets, creation and promotion of the “Kvevri” wine brand, and development of wine tourism to promote increased Georgian wine and culture are also objectives. By 2015, the value of wine exports are expected to double, while production will increase by 50%. In the field of cattle-breeding, the aim is to support growth in productivity and to increase export potential by means of developing breeding farms, feed production and AI centres.

### **Logistics centre**

A network of logistics centres is planned to be established, in order to increase the level of export diversification, to decrease the dependence on seasonality and on railway transportation, and to create added value by improved product marketing. In those centres, producers, exporters, importers and distributors will have the opportunity to use services such as storage facilities, primary processing, sorting, packaging, retail and whole-sale outlets, container warehouses and laboratories. As a result more marketable products will be available and the income of farmers will increase, imports will decrease, resulting in reduced volatility of domestic prices for food-stuffs.

### **Irrigation systems**

The rehabilitation and development of irrigation systems should support the growth in productive areas and the efficiency of those parcels. Arrangement of new irrigation systems (drip, overhead irrigation etc) with modern technology will be funded by the Georgia Agriculture Corporation, operations based on the *private-public partnerships*.

### **Strategy implementation**

The Government established the Agriculture Policy Commission in 2011, led by the Ministry of Agriculture together with relevant line ministries and agencies including the Ministry of Regional Development and the Ministry of Environment. This Commission will have a significant role in monitoring the implementation of the sector strategy.

Following the election in September 2012 a new government has been formed<sup>2</sup>. Agriculture is a top priority for the new government. The Ministry of Agriculture will in due course amend the strategy. A particular issue is the provision of services, including machinery centres. Once revisions to the strategic priorities of the new government have been established, an action plan will be finalised for implementation, which itself will be the basis for the finalisation of a financing agreement in respect to the Georgia-ENPARD. As the current strategy does not include any provisions in regards to *Rural Development*, this is one area where more exhaustive changes are to be expected.

The aim of social-economic policy of the Government of Georgia is to create preconditions for successful, prosperous and united Georgia where every citizen will enjoy decent living

---

<sup>2</sup> October 2012, the Georgian Dream coalition, led by Bidzina Ivanishvili, won the majority of votes in the national elections, ousting the United National Movement Party, led by the President, Mikhail Saakashvili

environment and will be provided with the opportunities to become a successful and prosperous member of the global community.

The Government of Georgia planned to achieve those goals through job-creation and reduction of unemployment, while at the same time providing for persons with limited abilities and pensioners with an improved social assistance system. Accordingly the “*10-Point Plan*” for Modernisation and Employment 2011 – 2015, targets these two goals: how to create more and higher-paid jobs, and; how to improve the social status of citizens. The ten points are:

1. Macroeconomic Stability
2. Improvement of the Current Account Balance
3. Creation/Maintenance of a Favourable Investment and Business Environment
4. Formation as a Regional and Logistical Hub
5. Improvement of the Infrastructure
6. Development of Agriculture
7. Improvement of the Education System
8. Fine-Tuning Social Policy
9. Establishment of an Affordable, High-Quality Healthcare System
10. Urban and Regional Development

The chapter on Development of Agriculture in the Strategic “*10-Point Plan*” for Modernisation and Employment 2011 – 2015 states that the main aim of the Government of Georgia is to facilitate, in parallel with a traditional and self-sufficient type of agriculture, modern primary production and processing enterprises based on the principles of entrepreneurship, to create agricultural logistical centres with the potential to create jobs, and consequently to improve the quality of life in rural areas.

Incentives are also being offered to investors as part of an initiative “*100 New Enterprises in Rural Areas*” to acquire state-owned agricultural land (75% of total agricultural land) at 20% of the market price for agricultural processing projects; 0% tax burden for primary agricultural processing, and; 100% depreciation allowance on investments.

In parallel to the Ministry of Agriculture, the Ministry of Infrastructure has been in charge of most large scale investments projects in rural areas, apart from irrigation. In an effort to more closely address the priorities of rural communities the Village Development Fund was established. The fund operates on the principle of applications from communities as well as investment support with matching funds rather than grants. The areas of intervention were also very open ended, setting almost no limitation to the possible interventions. Due to the limited funds available in the local communities (for matching funds), as well as the low maximum amounts for fund participation in projects, it has not yet supported any initiatives on irrigation, focusing on other community social priorities such as social buildings renovation.

### **3.3. Assessment of how Government programmes fit into the ENPARD approach**

The Agriculture Strategy is to a significant extent aligned with ENPARD Objectives, which seek to:

- Improve rural livelihoods by facilitating inclusive economic growth and sustainable development of rural areas
- Contribute to food security by ensuring more sustainable provision of affordable food, while at the same time contributing to increasing food safety and raising quality standards to better benefit from export markets

- Improve administration of agriculture and rural areas by developing institutional and stakeholders' capacities, including design and management of agricultural strategy

The European Commission announced new support for agriculture and food safety in Georgia, 28 August 2012. In the framework of the Eastern partnership, new funding will be provided to modernise Georgia's agriculture, as well as build up the institutions responsible for preparing its political association and economic integration with the EU.

The first part of the programme will provide support to Georgia's agriculture sector, with a particular focus on small farmer associations (producer organisations). It will help prepare government institutions to respond more effectively to the needs of the rural economy. It will also support private farmer associations, strengthen cooperation among farmers, and increase food safety through training and technical advice.

The second part of the programme will promote institutional reform in Georgia and strengthen the state institutions which have the job of preparing and implementing the EU-Georgia Association Agreements and the Deep and Comprehensive Free Trade Area (a partnership to help liberalise trade in the area and provide substantially improved access to the EU market, as well as improved investment opportunities). This includes sharing advice and providing support to institutions which coordinate the negotiations, as well as equipping institutions, such as the National Food Agency, with specialised laboratories to fulfil future obligations under the Agreements; in particular to respect European norms and standards.

The EU Annual Action Programme for 2012, provides € 60 million of bilateral allocation to Georgia. This assistance comes through the European Neighbourhood and Partnership Instrument (ENPI). The Annual Action Programme is composed of two components:

- The ENPARD Georgia (€ 40 million): a programme designed to enhance agricultural production and rural development. It supports the implementation of the national agriculture strategy and strengthens small farmers' associations. It is also important in terms of helping to improve food safety systems within the country, especially in view of a Deep and Comprehensive Free Trade Area.
- Support for EU-Georgia Agreements (€ 20 million): to enhance the overall technical and coordination capacity of a number of core institutions preparing and later implementing the Association Agreement and the Deep and Comprehensive Free Trade Area. This is part of the Eastern Partnership Comprehensive Institution Building.

The programme reinforces existing activities (i.e. twinning, TAIEX - Technical Assistance and Information Exchange instrument and SIGMA, as well as technical assistance).

### 3.4. Policy critique

After a prolonged period of *laissez-faire*, the agriculture and rural development sector has become a priority area, given the importance and contribution of the agriculture and rural areas in the national population, employment and GDP. This is evidenced by the significant increases in budget allocations to the sector, linked to the agriculture development strategy. The lack of a rural development policy, or support framework has also been recognised and will be addressed by the new administration.

The long-term lack of appropriate policies and funding has resulted in limited attention towards agriculture and rural development support. A lack of incentives for farmer / producer

organization development has resulted in the exclusion of the farmer and rural population from the decision making process. The development of groups / producer organisations (POs) is the primary focus of the Georgia ENPARD, together with legal and regulatory changes that will support and promote the formation of POs.

The new Government plans a radical makeover of the support to the agricultural sector. In this endeavour support to improve capacity and rise to the challenges ahead will also be provided through the EU SPSP Georgia-ENPARD. The technical support element is of special relevance, as it will assist in the build-up of the legislative and institutional framework for implementation of ENPARD type measures. The implementation of this first ENPARD is of special significance on a regional basis, the Georgian government has always recognised the country's importance as a hub for approaches and initiatives in the South Caucasus.

## 4. Assessment of institutional capacity

### 4.1. Assessment of government institutions for managing, implementing and monitoring an ENPARD approach

The Ministry of Agriculture is constrained in its ability to contribute significantly to the development of the sector, not least due to restricted financial and human resources, especially following staff reductions of 70% during 2005 to 2010. This was the result of several reorganisations, when various functions were transferred to the private sector, or elsewhere in government.

There are also severe constraints regarding a lack of expertise and need for internal training. The Ministry is therefore currently restricted in its ability to contribute to strategy implementation. The Ministry of Agriculture is aware of these problems. A primary objective of the strategy is the strengthening of capacity, in a significant manner: the employment of agronomists to be placed in the regions (reversing the abolition of Ministry of Agriculture representation in the regions several years ago), and; the establishment of State-owned agriculture service centres in various locations of the country (Annex 1). These service centres were created under the umbrella of the Agriculture Development Fund. The fund is a founder of 12 different state-owned organisations<sup>3</sup>.

Besides the Ministry of Agriculture, other state bodies with responsibilities for agriculture are:

1. Ministry of Regional Development and Infrastructure (e.g. rehabilitation of rural roads, small-scale agriculture-related infrastructures at village level);
2. Ministry Economy and Sustainable Development (e.g. co-ordination of the land privatisation process);
3. Ministry of Energy (responsibility over forests);
4. Ministry of Education (runs the Vocational Education and Training schools, where agriculture is a predominant part of the curricula);
5. Ministry of Environment (e.g. land degradation and biodiversity conservation issues);
6. Ministry of Refugees and Accommodation which oversees livelihoods/agriculture programmes in support of the internally displaced people;
7. National Food Safety Agency - (sanitary and phyto-sanitary standards supervision, monitoring and control);
8. Revenue Service of the Ministry of Finance (sanitary and phyto-sanitary border controls),
9. Department of Tourism (agro/rural tourism);
10. GEOSTAT, the Georgian statistic agency conducting the agriculture census, regular surveys and producing agriculture-related statistics;
11. Georgia Agriculture Fund is a state owned entity created in 2012 to implement sector priority governmental projects;
12. Agrarian Committee of the Parliament is responsible for reviewing and passing legislation in the agriculture sector. The EU is providing technical assistance to the Committee in preparation of the agriculture co-operatives legislation;

---

<sup>3</sup> Including Mechanizatori LTD, owner of the mentioned service centres. Other companies include Georgian Greenhouse Company LTD, Grain Logistics Company LTD, Gori Greenhouse LTD, Grain Storage Centre LTD, GruzVinProm LTD, Akura LTD, Feed Production Company LTD, Land Rehabilitation Agency LTD, Georgia-Belarus Economic and Trade Agency LTD, JSC Georgian Agriculture Corporation and Georgian Vegetable LTD.

13. The only region of Georgia with devolved responsibilities on agriculture is the Autonomous Region of Adjara, which has its own Ministry for Agriculture and its own sector strategy (aligned with the national strategy).
14. The National Food Safety Agency, which is in the process of structuring under the MoA.

#### **4.2. Assessment of agriculture and rural economy stakeholders for managing, implementing and monitoring an ENPARD approach**

The capacity of agriculture and rural economy stakeholders is weak. Apart from some 100 small co-operatives and associations, created by foreign-assisted projects, most small farmers, 95%, are not organized in any form. Furthermore, except for very few sector-wide national organizations, there are no entities in Georgia representing the interests of farmers as a whole, thus diminishing the ability of farmers to advocate for common priorities. In contrast, providers for agricultural services, where some 50 private service centres have been established by the Millennium Development Fund and USAID, are organized within a national association (ASA).

This lack of Farmers' organizations constrains development. The development of POs will be demanding, to ensure that POs are not formed only as an entity for a once off capital grant, but formed as dynamic groups to address the real issue of fragmentation, lack of resources and lack of investment coupled with measures to improve access to training, advice, extension and essential services, including veterinary and zootechnical, machinery and inputs.

There are few functional agricultural research, education, or extension public institutions within Georgia. Agriculture-related studies attract very few students in Georgia. The Agrarian University, which was recently privatised, is under-equipped. Local authorities (elected and appointed) are in general positive and participate in development initiatives.

#### **4.3. Assessment of the need for training of the agriculture and rural economy stakeholders, including private sector, to utilize an ENPARD approach**

Numerous training sessions are being conducted by different international organisations (EU, SIDA, UNFAO, USAID funded AMP, EPI, NEO, SDC, Mercy Corps, CNFA Georgia, USDA, UNDP etc.) and local NGOs (ACA, ABCO Georgia, GIPA, Caucasus Genetics etc.). Training areas include: primary production technical; agricultural managers; service providers; dairy and livestock, veterinary, plant protection, food safety and other issues.

## 5. Review of existing ongoing programmes

### 5.1. Donor programmes

#### European Union

The general objective of the proposed SPSP is to increase food production in Georgia and reduce rural poverty. The specific objective is to support the implementation of the national sector strategy and strengthening small farmers' organizations.

Based on the above, the SPSP will focus on 4 main results, all of which are integral part of the Georgian agriculture strategy:

- **R1.** Strengthened co-operation amongst small farmers, including preparation and adoption of legislation on farmers' economic co-operation groups; awareness campaign to promote small farmers' co-operation and the implementation of activities in support of newly created small farmers' organizations. This is including technical assistance and provision of inputs, equipment and/or small infrastructure for the farmers to increase production, gain economies of scale and to better access the markets (e.g. improved seeds, machinery, storage facilities, etc). Activities will target a limited number of three to four regions with a view to replicate this pilot experience in other regions with Government's financial assistance. In line with the ENPARD approach, European experiences such as the LEADER approach (EU initiative to assist rural communities in the EU in improving quality of life and economic prosperity by enhancing capacities of local rural actors) and other support to farmers in the EU and in the EU pre-accession countries will be taken into account for defining the key features of this action.
- **R2.** Access to extension services by farmers is improved, via the establishment of a network of extension services and the provision of capacity building to the farmers' organizations.
- **R.3.** Geographical Indications regulated and developed, via the establishment of geographical indications' self-regulatory bodies and licensing requirements
- **R4.** Better performance of the institutions engaged in agriculture, including, among others, the establishment of a capacity building/training Academy under the Ministry of Agriculture; production of a new Agriculture Census; improvement of the methodology and sampling of the agriculture surveys and capacity building activities to assist the agriculture-related academic institutions.

Taking account of these institutional restrictions the Georgia-ENPARD planned results will be achieved through a roughly 50:50 split of resources between sector budget support and through a set of grant contracts to be awarded to implementing organizations following a call for proposals, each grantee taking responsibility for supporting the establishment of a certain number of business-oriented organizations in certain region(s).

In addition, decentralised management will use EU delegated bodies, UNDP in the Adjara region and the FAO providing capacity building to the Ministry of Agriculture.

- FAO will provide capacity building to the Ministry of Agriculture in implementing the sector strategy and Action Plan. The selection of FAO for implementing this component of

the programme is justified with its capacity to provide specialised expertise across a whole range of policy themes. Finally, the Ministry of Agriculture has requested that the FAO be responsible for this action.

- UNDP will implement a sub programme in support to agriculture in the Autonomous Region of Adjara, which shall mirror the overall-programme but specifically target this region. The selection of UNDP is based on its background working on agriculture in Adjara

The tranche disbursement of budget support funds, 2012-2015. Fixed tranche disbursement will be subject to conditions relating to macroeconomic stability and PFM; satisfactory progress in the implementation of the sector policy as evidenced by the adoption of a relevant and credible Sector Action Plan; the establishment of the SPSP Co-ordination Body and; by augmentation in the percentage of government funding allocated to the Ministry of Agriculture.

For the variable tranches, the SPSP will be subject to a number of conditions and benchmarks focusing on the following criteria

- (1) Adoption of legislation on farmers cooperatives, which removes the current disincentives (tax or otherwise) for small farmers to join co-operation groups;
- (2) New State-owned agriculture service centres constructed and ready to provide services to farmers, and;
- (3) At least 50 agriculture services and/or marketing co-operatives established and operating. Disbursements will depend on the degree of compliance with the conditions stipulated in the Financing Agreement. Oversight of the SPSP will be entrusted to the **SPSP Co-ordination Body** to be established as a general pre-condition for the budget support. This Body will organize sector coordination meetings three times a year involving the EU Delegation, the Ministry of Agriculture and other Georgian line ministries and agencies to assess progress in the implementation of the Agriculture Sector Strategy. Other development partners, Non State Actors and local government representatives will be invited if needed.

Day-to-day technical and financial monitoring will be a continuous process as part of the Ministry of Agriculture. To this aim, the Ministry of Agriculture shall establish a permanent internal, technical and financial monitoring system to the project, which will be used to elaborate the progress reports. The Budget Support will also be subject to internal audit and PFM controls of the Chamber of Control of Georgia. External Review missions will verify compliance with relevant Policy Reform Matrix conditions prior to the release of each instalment (i.e. joint annual appraisal).

Each grant under the Small Farmers Co-operation Component will perform its own internal monitoring system, which shall include regular reporting and surveys to assess the results. Each grant will also be subject of expenditure verification, according to the general conditions ruling EU external actions grant contracts.

Mid-term and final evaluations, as well as a final audit will also be conducted for the Project Approach. In case of joint management, and where applicable, the provisions included in the relevant Framework Agreements, signed with the International Organizations, will apply. Communication and visibility will be organized in coordination with the Ministry of Agriculture and other institutions involved in the implementation of the Programme, in accordance with the orientation of the Communication and Visibility Manual for EU External Actions. The European Commission will, together with these institutions, organize appropriate public events so as to keep the general public informed of the Programme's developments and achievements.



Given that other donors are already providing or planning to provide assistance to certain priority themes of the strategy the EU's SPSP will focus on specific aspects of the sector strategy, which are not financed by the Government (as is the case for rural infrastructure), where other donors are not active and where the EU has an added value and/or background experience.

There is a high degree of synergy between the proposed ENPARD and other on-going EU assistance in Georgia. Food safety, sanitary and phyto-sanitary standards are key elements in the EU-Georgia DCFTA negotiations and under subsequent AAPs (€ 2.3 million is earmarked under the AAP 2011 for capacity building for the National Food Agency and further support is foreseen under the AAP 2012).

The EU is also providing substantial livelihood support to Internally Displaced People (IDP) from the post 2008 war context, mainly through the FAO, to upgrade living conditions of rural IDPs. Various successful pilot EU projects with Non State Actors have assisted in creating farmer associations on a limited scale. The grant component of the Georgia-ENPARD will substantially scale-up successful experiences/results learned in these projects. The EU is also providing grant support (NSA<sup>4</sup> and ENRTP<sup>5</sup>) in the civil society including for the environment and disaster risk management. Lessons learned are to be taken into account in the implementation of the Georgia ENPARD SPSP.

The EU approach, incorporated in the Georgia-ENPARD Programme, is a focus on the support to development of Small Farmer Co-operation. The component will support the establishment of small farmer groups in targeted regions and selected districts in: Mtskheta-Mitianeti, Shida Kartli, Racha-Lechkhumi, Imereti, Samengrelo/Zemo Svaneti and Guria regions. A separate arrangement will be utilised in the Adjara region.

## FAO

The Government of Georgia and FAO cooperate on seven priority areas set out in the Country Programming Framework, CPF 2010–2015:

- i. Policies and instruments to support rural development and regional economic integration;
- ii. Animal health and production;
- iii. Crop production and plant protection;
- iv. Food safety and consumer protection;
- v. Management of land resources and land tenure ;
- vi. Forestry;
- vii. Development of Fisheries and Aquaculture.

The EC/FAO Programme on Information Systems to Improve Food Security Decision-Making in the European Neighbourhood Policy East Area - DCI FOOD 2009/233-068. The MoA recognizes the importance of quality information to support food security decision-making processes. The programme has promoted and facilitated permanent discussion with the

---

<sup>4</sup> The primary aim of this new programme is to strengthen the abilities of Non-State Actors (NSA) and Local Authorities to provide help. It also serves to co-finance actions in areas as diverse as rural development, health, environmental protection and education, as well as long-term partnerships between civil society and local authorities.

<sup>5</sup> The programme for Environment and Sustainable Management of Natural Resources (ENRTP) including Energy helps developing countries and partner organizations to address environmental and natural resource management issues, and to meet obligations under multilateral environmental agreements

institutions producing information, especially GEOSTAT and the Marketing Research and Strategic Development Department, to provide reliable analyses to MoA decision-makers.

### UN Country Programming

The UN Development Assistance Framework (UNDAF) (2011-2015) is the result of a consultative process and describes the United Nations' areas of collaboration with the Government of Georgia (GoG) for the period 2011-2015. It is aligned with the GoG's national development priorities of the "United Georgia without Poverty" programme, the National Millennium Development Goals (MDGs) and other key documents. It outlines the three interrelated thematic areas in which the UN system can most effectively respond to the priorities and needs of Georgia:

- *Poverty Reduction* aims to advance inclusive development, employment creation and access to health, education and essential social services, especially for vulnerable groups.
- *Democratic Development* aims to promote balanced, independent, fair and participatory governance systems and processes at all levels, based on the Rule of Law, human rights and equality principles.
- *Disaster Risk Reduction*, aims to build up Georgia's resilience to disasters through prevention and minimizing damage and loss in case of emergencies.

### Other

USAID, the USDA, EBRD, KfW, SDC, DANIDA are the main donors providing assistance to Georgia with the following portfolio of current projects:

Donor	Project	€ million	Type	Duration
USAID	Agriculture mechanization project	4	Grant	2009/2012
USAID	New Economic Opportunities	15	Grant	2011/2015
USAID	Economic Prosperity Initiative	10	Grant	2010/2014
USDA	Animal Health Programme	1	Grant	2008/2012
SDC	Market Alliances' Against Poverty	7	Grant	2008/2014
World Bank	Kakheti Regional Development	45	Loan	2012/2015
EBRD	Agriculture Loan Facility- banks	40	Loan	2011/2013
KfW	Agriculture Loan Facility- MFIs	9	Loan	2011/2013
DANIDA	Support to selected value chains	9	Grant	2012/2015

However, of these, only the World Bank Kakheti Regional Development Project and USAID funded NEO project have a focus on rural development, whereas most of the other projects mainly focus on agricultural value chain development. The table below summarizes donors addressing the five priorities of the government's strategy on agriculture.

Strategy priority	Main donor(s)
Competiveness improvement through private sector development	EU, EBRD, KfW, SDC, USAID
Better performance of the institutions engaged in agriculture	EU, UNDP, FAO
Food security	EU, FAO
Support to food value chains	USAID, SDC, DANIDA
Rural infrastructure	Government, WB, USAID

## 5.2. Collection and comparison of results

One observation regarding EU aid to the agriculture sector is that if agriculture and food security are primary objectives, then the comparative advantage of agriculture in a region or district should be of a higher rank in targeting criteria. The rural populations in Georgia are all relatively poor, the danger is that poverty driven programmes tend toward the poorest and marginal (mountainous) areas, away from primary production areas. The Georgia Poverty Assessment (World Bank, April 2009) concluded that focused initiatives for rural poverty reduction were needed, to:

- Expand Targeted Social Assistance and ensure that people in rural mountain areas are able to apply – the highest concentration of extreme poverty in rural areas is present in the mountainous regions of Shida Kartli, Kakheti and Mtskheta Mtianeti.
- Increase agricultural production in the regions with a higher agricultural potential – where agro-climatic conditions are favourable to agriculture and have considerable scope to raise productivity and output.

Taking a Rural Community Empowerment and Livelihoods Enhancement approach, with the involvement of agricultural local action groups, (LAGs) and to benchmark a process, this would relate to a structure featured by:

- Empowerment of rural communities by strengthening the capacity of the local administration and facilitating the participation of the local communities in rural development activities.
- Support in the identification and implementation of demand-driven agricultural production and post-harvest projects by producer organizations: adding value to village level production and diversifying rural activities and employment opportunities and market access.
- Increasing the levels of understanding of opportunities to respond to climate change and reduce the level of risk associated with extreme weather conditions by the development of specific regional and community programmes that focus upon appropriate and good practices.

## 6. Bottlenecks and SWOT analysis

### 6.1. Sectors specific SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• A policy, strategy and action plan for development is in place</li> <li>• Rural Development and Agriculture are high priority issues for the new government;</li> <li>• General policies on Agriculture exist but are yet to be implemented;</li> <li>• There is already established and developed mechanisms of service provision (mechanization);</li> <li>• EU is highly engaged in leading the policy reform and improving responsiveness by the Government;</li> <li>• Georgians in general are tightly linked to the rural environment and many invest in rural areas.</li> </ul>	<ul style="list-style-type: none"> <li>• There is no policy framework for Rural Development</li> <li>• There are no significant State programmes functioning aimed at achieving agricultural development, apart from ad-hoc distribution of small amounts of agricultural inputs;</li> <li>• Hints of rural development programmes, but without a consolidated approach or policy framework;</li> <li>• The sectors have been neglected, agriculture and rural development were not prioritised for decades;</li> <li>• Overlapping competencies of various government institutions without a clear mandate for rural development;</li> <li>• There is no unit that the Ministries are focused on rural development;</li> <li>• Government led and managed rural development services are profit oriented, independent of any specific rural development process;</li> <li>• No support mechanisms for the development of local level entrepreneurship and local initiatives exist;</li> <li>• Low capacity for agricultural and rural economy stakeholders, including the non-governmental, private sector and the local authorities;</li> <li>• Limited capacity of the Government institutions to design and implement ENPARD type approaches;</li> <li>• Limited local level initiatives or documents identifying priorities, opportunities and gaps for development;</li> <li>• No institutional memory in the MOA due to frequent staffing reforms and little or no inspection capacity;</li> <li>• Farmer organizations are weak and with limited role in the society, currently in an relatively unfriendly policy environment;</li> </ul>

Threats	Opportunities
<ul style="list-style-type: none"> <li>• Lack of commitment to agriculture and rural development as a priority;</li> <li>• Inadequate response by the Government will lead to limited results from the Georgia-ENPARD;</li> <li>• Depopulation and migration trends resulting in significant rural depopulation</li> <li>• Reliable food supply of main commodities at risk due to collapsed national production and supplies from traditional suppliers in times of climate related shortages;</li> <li>• Domestic supplies of milk and meat products at risk from an endemic disease situation;</li> <li>• Lack of political will to take appropriate measures in land reform - fragmented holdings and unused land.</li> </ul>	<ul style="list-style-type: none"> <li>• The main sectors of rural economy, such as agriculture and tourism, have great potential for development;</li> <li>• Different international organizations are interested in agriculture and rural development issues and provide significant support to the government in the preparation of strategies, program and projects in rural areas;</li> <li>• Donor support can increase with improved responsiveness for reforms;</li> <li>• MOA Legal Entities of Public Law (LEPLs) could be redefined to assist implementation;</li> <li>• The new leadership is very motivated and focused upon agriculture, considering the sector a top priority;</li> <li>• The new Law on Farmers Organisations is already drafted and the new Government will participate in adoption of the final draft</li> <li>• Reopening of Russian markets</li> </ul>

## 6.2. List of the most relevant priority areas

The lack of a Rural Development policy and strategy is a recognised priority. The existing Agriculture Strategy only mentions rural development in outline terms, concentrating mostly on agriculture. It is not even clear at this stage, which state institution will be responsible for overseeing the development and implementation of a rural development strategy. It is expected that it will be included in the Ministry of Agriculture mandate. However, this will require substantial structural and legislative changes within the Government and capacity building within the Ministry.

## 7. Recommendations on actions that could be implemented in a bilateral context

An ENPARD programme for Georgia has been formulated, the first programme within the EaP. A financing agreement will follow completion of the Agriculture Strategy Action Plan. The execution period of the Agreement will be 84 months. It is a Sector Policy Support Programme, Agricultural development, for € 40 million that will be made up of two elements:

- General budget support (centralised management): € 18 million
- Project mode (centralised /joint management): € 22 million

In addition the Government will provide € 54 million of budget funds to support the implementation of the Agriculture Strategy Action Plan

Other contributions of € 3 million

The specific objective of the SPSP is to improve the agriculture sector in Georgia by supporting the implementation of the national sector's strategy and strengthening small farmers' organizations. The five main results/priorities are outlined in the Government's Sector Strategy. Given that other donors are already providing or planning to provide assistance to certain priority themes of the strategy, e.g. USAID on value chains, the SPSP would focus on specific aspects of the Strategy, where (1) other donors are not active and (2) where the EU has an added value and/or background/experience.

Based on the above, the SPSP will focus on four main Results, all of which are integral part of the 2012/2022 Georgian agriculture strategy:

- R1. Strengthened co-operation amongst small farmers;
- R2. Access to capacity building by small farmers improved ;
- R.3. Geographical Indications regulated and developed;
- R.4. Efficiency of the institutions involved in agriculture improved.

The technical support element within the Georgia ENPARD programme is of special relevance as it will assist in the build-up of the legislative and institutional frame of the country for implementation of ENPARD type approaches.

In parallel other donors should align their activities to further support this positive momentum and to send appropriate signals to the new Government. In this regard a donor coordination group has been established, under the auspices of the Delegation of the EU to Georgia. This group will be promoted by FAO through the EU funded project “Capacity Building/Support to the Ministry of Agriculture of Georgia”. This coordination also has a regional dimension, given Georgia's role as a hub for initiatives in the South Caucasus.

## 7.1. Identified gaps for development of agricultural and rural sector in the framework of future actions

### Lack of a rural development policy

Identified as an important regional gap in the development of an ENPARD. The consideration of this gap is of primary importance in respect to:

- A common rural development policy and supporting mechanism;
- Local Action Groups - their role and formation;
- Development of a package of good agricultural practices together with enforcement and monitoring procedures.

### Producer Organisations

A pressing issue and major constraint is related to land fragmentation and the instruments that could be used to develop the enlargement of holdings through cooperation and association. In this respect a regional position is needed on the formation of cooperatives / producer organisations. To define the products and services, and to set out the requirements to be eligible for support, where the basic features would be that they be voluntary; contribute to the general aims of the regime, and; prove its utility by the scope and efficiency of the services offered to members.

### Modernisation of the infrastructure

There are a number of value chains that are of relevance in the sector. The main constraints identified during the assessment, being:

- Low level of professionalism and training in rural communities
- Gaps in standards, regulations, legislation and comparative information
- Under-developed food safety system: sanitary-veterinary

### Milk and milk products

In the EaP as a whole the most valuable commodity groups are milk and meat, for both domestic supply and international trade. In the milk sector, in most countries in the region, production is currently undertaken by households, utilising free access pasture and range lands. The milk and milk product supply chain is a primary candidate for consideration on a national basis, and regional basis, in dealing with the needs for modernisation, enterprise development and supporting reforms and legislative development. Issues include:

- Common and harmonised standards for dairy and dairy products in the region;
- Measures for the commercialisation of dairy (milk) production in the region;
- Measures to achieve accreditation status of farms (brucellosis free) for enterprises and communities in the region through the implementation of animal diseases prevention and control programmes, specially for brucellosis and tuberculosis, which can easily spread among animals and humans through milk and milk products

- Measures to achieve a higher quality and added value of milk products (e.g. geographical indications of milk products could be promoted following the successful GI on Georgian wines)

#### **High Value Agriculture (HVA)**

The plant based value chain of especial importance to private household land users is HVA, in particular fresh fruits and vegetables. These products form important elements of family incomes and land use, domestic supply and international trade. Land use for HVA production includes nearby lands (kitchen gardens and yards) and arable lands in irrigated areas.



## 7.2. Proposals for actions in Georgia and the South Caucasus to address these gaps

The major issues in the South Caucasus are land fragmentation, a lack of cooperation, a lack of training and education in the sector. A reliable food supply, especially of the main commodity crops, especially wheat, ranks highest in agriculture subsidy measures financed through state programmes. Milk and meat are the most significant from a rural family livelihoods perspective. The means of ownership and control, and the reliance on free-ranging of upland pastures results in sanitary-veterinary issues being of importance in Georgia and the South Caucasus countries as a whole.

- Transboundary Animal Diseases (TAD's) and zoonoses. The emergence and progressive spread of animal diseases in the region poses a serious economic, social and environmental problem, and a high risk for neighbouring countries, including EU countries. The portfolio of disease, and zoonoses, includes, among others: brucellosis, tuberculosis, Foot and Mouth Disease, African swine fever, anthrax and rabies. .
- A lack of access to animal health services. The animal health support policies of these countries, still centralised, have not been improved in order to adapt them to a market economy, which also results on a weak technical capacity of public and private professionals.
- A lack of knowledge and awareness of farmers concerning livestock and human diseases (i.e. brucellosis, tuberculosis, etc.)
- Even though livestock products - milk and meat, are the most valuable product group in all EaP countries, and a major element of rural livelihoods, the sector is dominated by small, subsistence and semi-subsistence small holders, with little resources and growth potential, not commercialised or market orientated.

The animal health issue is important not only for the trading and trans-boundary movement of animals, but also in establishing a safe food supply as an essential element of the Georgian population and tourism. The cuisine and diets in the region are based upon dairy and meat which eventually can transmit animal diseases if contaminated.

The importance of this issue is also evidenced by the establishment in Tbilisi of the South Caucasus Field Epidemiology and Laboratory Training Program, at the Georgia National Centre for Disease Control and Public Health, established in Georgia as the focal point in the South Caucasus Region.

To consider these issues, especially regarding animal health and disease control, a South Caucasus Animal Health Forum, a development network, would provide means to focus on measures to improve the animal health (and therefore public health) situation in the region, and to provide guidance in terms of livestock and livestock trade. This forum would concentrate on measures to improve disease prevention and control activities. The agenda for this regional forum would include:

1. Capacity building of public and private professionals;
2. Awareness campaigns for stakeholders directly involved in the animal and food industries;
3. Support to the establishment of prevention, control and surveillance animal health programmes, and Early Warning and Rapid Response Systems according to the international standards;
4. Harmonisation of protocols for regional and national veterinary diagnostic laboratories according to international standards.

### 7.3. Producer Organisations in Georgia: formation proposals

The forthcoming **Georgia-ENPARD** Budget Support Programme (BSP) will support the formation of Producer Organisations (POs) as a main outcome, combined with fiscal and legislative changes and a strengthened MoA. This is the first ENPARD, of significant size and value. Fifty POs are to be formed.

The Georgia ENPARD would provide the opportunity to establish and define, taking into account EU experience and practice, general rules, requirements, procedures and methodologies for PO formation. The formation of POs in Georgia provides a front line opportunity for applied research and development in the various instruments to bring POs into action as a mechanism for efficiency and growth in agriculture and rural development.

A portfolio of POs could be considered in the Georgia-ENPARD to include key value chains, important for rural household income and job creation through value adding activities. The Georgia ENPARD would also be a source of information and feedback, an applied R&D demonstration site for PO formation in the EaP, relevant to the three main priorities identified under the EaP assessment:

- (1) Rural Policy Development;
- (2) Formation of Producer Organisations,
- (3) Enterprise modernisation, including in the: milk and milk product supply; commodity crops (arable); HVA, and; Service Provision value chains.

#### 1) Milk and Meat supply chains

As milk and meat are the primary value chains in the region, support to a number of POs based upon milk and milk products could be provided, within the portfolio of POs formed, or already developed, for example by the SIDA project Support to the Milk and Dairy Sector in Georgia. Key issues regarding the formation of POs in the milk and milk product supply chain would be:

- Definition of standards for dairy and dairy products;
- Measures for the commercialisation of dairy (milk) production - formation of managed herds, use of modern technology for nutrition, milking, storage and distribution;
- Communal pasture land management and enclosure measures / ranging limits, for both disease control and grassland conservation;
- Means to enable herd / community accreditation status (brucellosis free) - guide and information package. Issues would include enclosure, testing and disease and vector control, slaughter policy and compensation on test positive cases;
- Local veterinary services for disease monitoring, testing and traceability;
- GAP - establishing a set of practices as both a guide and a requirement for PO members;
- Training and education of animal keepers in husbandry, good practices and management.

#### 2) Commodity crop supply chain - wheat and maize

Wheat production in Georgia has collapsed, annual output currently producing, in quantity terms, less than 10% of national consumption, probably less in quality terms (milling grade). A similar situation exists regarding maize production. PO formation would need to be targeted in areas with high amounts of suitable arable lands in the valleys of East and West Georgia, where there are also large areas of unused land, especially in Kakheti. It would be consistent with the strategy that POs organised around consolidating land holdings into a viable size for the

production of arable crops, grains and oilseeds. A PO package could take account of the Georgia Agriculture Corporation consolidation and financing instruments:

- Financing: Letters of Credit at low rates of interest secured on consignment terms to fit the agriculture production calendar;
- Identification of land holdings and consolidation into blocks;
- Services for operations and high yield input packages;
- Management incorporating GAP.

Supporting services

- Variety and Plant Protection Products testing
- Land holdings register
- Input companies: elite and hybrid seed set the groups apart

### **3) HVA supply chain - fruit, vegetables and potatoes**

Many of the POs that have been formed to date have, because of the targeting criteria (primarily poverty, gender, ethnicity with agriculture as the livelihoods tool), have been formed in marginal mountainous areas. Criteria could be broadened to include lowland producers of fruits and vegetables) on irrigated lands. Support measures could focus on specific market supply and systems to consolidate production and the handling, grading, packing, storage and distribution elements that are needed to access a given market to increase value and availability periods. Member involvement with co-financing and management should be a core requirement.

### **4) Services Organisations**

The low level of professionalism in the sector has been identified as a major issue in countries with a highly fragmented land holding pattern. In order to allow for the functioning of these POs in the various sectors, service organisations are required for the provision of advice and consulting especially in the veterinary, zootechnical, agronomy, logistics and planning, handling and marketing areas.

The development of such services, perhaps linked to the evolving network of machinery and logistics centres under development in Georgia, would be an essential element for the growth and prosperity of PO's. Services could be linked to input supply packages whereby suppliers provide advice linked to supply to commercialise the operation and secure revenues so as not to rely exclusively on state and/or donor support. The viability of service centres must be established, identifying revenue streams from state, donor and market based transactions. State based revenues could be based on developing Public Private Partnership.

## 8. Identification of regional gaps and priorities and recommendations for future actions

Cooperation between the EU and its Eastern European partners - the Republic of Armenia, the Republic of Azerbaijan, the Republic of Belarus, Georgia, the Republic of Moldova and Ukraine – is a crucial part of the Union's external relations. The EaP countries form two discrete geographic blocks: the South Caucasian countries of Georgia, Armenia and Azerbaijan, and the Central European countries of Moldova, Ukraine and Belarus.

### Eastern Partnership

#### Eastern Europe (EE)

##### Belarus, Moldova and Ukraine

*Eurasian steppe lands and black soils of Moldova and Ukraine, the marshes, forests and loamy soils of Belarus*



#### South Caucasus (SC)

##### Armenia, Azerbaijan and Georgia

*Trans-Caucasus, the borderlands of Eastern Europe and South-West Asia, defined by the Kura-Aras River Basin, between the Black and Caspian Seas*



Platforms are the main tool of the Eastern Partnership (EaP) multilateral track. They reflect the four main areas of cooperation between the Eastern Partner countries and the EU, namely:

- Democracy, good governance and stability (platform 1);
- ✓ **Economic integration and convergence with EU policies (platform 2);**
- Energy security (platform 3) and
- Contacts between people (platform 4).

In accordance with the General Guidelines and Rules of Procedure of the Eastern Partnership Multilateral Platforms (5 June 2009), an Eastern Partnership Panel on Agriculture and Rural Development has been established. The Directorate General for Agriculture and Rural Development chairs the Agriculture and Rural Development Panel and Directorate General for Development and Cooperation assure consistency of the Panel's proposals with the EU development policies and guidelines.

The Panel objectives shall be the following, confirmed by the participants of a regional technical workshop on Agriculture and Rural development in the Eastern Partnership Countries, November 2012:

- facilitate the exchange of experiences and best practices on sustainable development of agriculture and rural areas in the EU and in the Partner Countries, including on sector-specific strategies, policies and institutional capacities,
- serve to support further development and implementation of the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) – by identifying sector challenges common to the Partner Countries and supporting the Partners in designing common solutions to be applied at national and regional level,

- improve consistency and avoid duplication of measures taken by Partner Countries at national and regional level.

Activities of the Panel shall include:

- Sharing of information and best practices between the Participants (in the form of presentations and exchange of views), including on policy approaches, procedural requirements (incl. stakeholder involvement), administrative and organisational requirements, etc.,
- Identification of areas of intervention that could be considered while identifying programmes to be co-financed by the EU and/or the international financial institutions (IFIs).

## 8.1. Assessment of regional variations and disparities in agriculture production and rural development, including the livestock sector

In general there are distinct differences between the South Caucasian and Eastern European countries that make up the Eastern Partnership. In the South Caucasian countries the 'self employed' smallholders make up 97.33% of all holdings and account for practically all production of plant and animal products. The 'self-employed' have, in common with the same categories in the Eastern European countries, no fiscal or statistical identity, paying no taxes other than levies or land taxes at local level. Statistics are very broadly based, practically anecdotal, with no data available on market participation, economic size, and actual working units.

The small land holdings held by the rural population following land distribution (except in Belarus) are subdivided into separate land plots, by type, including kitchen gardens. This, combined with little association or cooperation, results in a peasant based agriculture. A lack of any packing, storage, handling and distribution infrastructure and market networks constrains value adding through quality and longer season availability with high wastage.

<b>A. Land Use: the EaP6 (SC3 &amp; EE3) compared to the EU27 (million Ha)</b>				
	<b>SC3</b>	<b>EE3</b>	<b>EU27</b>	<b>TOTAL</b>
<b>Land area Total</b>	18.63	84.51	400.42	<b>503.56</b>
Agriculture area Ha	9.91	53.92	170	<b>233.8</b>
Agriculture Area %	53.2%	63.8%	42.5%	<b>46%</b>
Arable	3.25	<b>42.62</b>	97.3	<b>143.2</b>
Permanent	0.57	1.33	10.9	<b>12.8</b>
Other	<b>5.60</b>	9.97	61.8	<b>77.37</b>
<b>B. Land Tenure: the EaP6 (SC3 &amp; EE3) compared to the EU27 (million)</b>				
<b>Population Total</b>	16.7	58.82	502.5	<b>578.02</b>
Rural %	45%	31.55%	23%	<b>24.5%</b>
Rural total	7.51	18.56	115.57	<b>141.64</b>
In agriculture %	44.3%	9.2%	5.2%	<b>6.7%</b>
In agriculture	7.4	5.35	26	<b>38.75</b>
Number holdings	<b>2.7</b>	<b>7.8</b>	14	<b>24.5</b>
Average size HH	1.48 Ha	1.4H a	14 Ha	
Private / HH	<b>97.33%</b>	<b>45.9%</b>	47% <sup>6)</sup>	<b>63.41%</b>
Agri-Enterprises	<b>2.67%</b>	<b>54.1%</b>	53%	

A common feature of the South Caucasian countries, especially following the 2007 drought and restrictions on imports from traditional suppliers of grains, is a push to develop a reliable supply

<sup>6</sup> Defined as less than 1 ESU = € 1200

of foodstuffs, especially of wheat. This objective is being supported by area payments and input subsidies provided through treasury arrangements.

This push for grain production is itself forcing land block consolidation initiatives - both formal and through legislative arrangements for producer and agriculture cooperatives, combined with fiscal arrangements to lift barriers, including turnover and VAT thresholds. There are also significant problems in these countries regarding a requirement for irrigation and the consequent problems due to inappropriate practices with salinity, causing land losses to production as well as significant areas of unused land, simply left idle by the owners - many hundreds of thousands of hectares.

In contrast are the very large enterprises in Eastern Europe, in particular Belarus and the Ukraine. However, in the Ukraine and Moldova, there are also very large numbers of title holders of small agriculture land plots, including kitchen gardens, demonstrating the same problems and constraints to development as in the South Caucasian countries, just with better soils and climatic conditions.

The South Caucasian countries contain very large areas of state owned and communal pasturelands, which are used as the only source of grazing of animals, owned on an individual basis. The herding of animals on a large scale on these pasturelands, summer pastures on the highlands that also form borderlands, results in problems of both a lack of range / grassland management and animal disease control, in-country and trans-boundary. The list of zoonoses present and endemic in the area is extensive. In the Ukraine and Moldova livestock tend to be held by small-holders and grazed on nearby communal lands, thereby constraining production and putting great pressure on (unmanaged) pastures and on ground waters as the animals are housed on household yards.

Trade and enterprise development is a complex issue in all the countries, including negotiation of quotas and tariffs within the trading blocks, including the EU, the Customs Union and in the wider WTO context.

At national level the issues are more pragmatic, not least the incorporation of common rules and standards, information on performance and cost structures, and technical barriers, most significantly SPS.

## 8.2. Recommendations on actions that could/should be implemented in a regional context

### Framework for multilateral cooperation

It is expected that ENPARD will help partner countries to operate more effectively in foreign markets, to benefit fully from the future DCFTAs, to stimulate farming domestically and to promote long-term agricultural and rural development strategies.

The main regional similarities that feature to a greater or lesser degree in each of the EaP countries' ARD sectors can be clustered in two distinct groups, namely (a) Agri-food supply chain constraints and inefficiencies and (b) Institutional and policy constraints and inefficiencies:

#### A. Agri-food supply chain constraints and inefficiencies:

- A.1 Fragmented land holdings and lack of producer cooperation and integration
- A.2 Low level of professionalism and training in rural communities
- A.3 Gaps in standards, regulations, legislation and comparative information
- A.4 Lack of food security in strategic cereal and animal origin products
- A.5 Outdated technology and lack of appropriate infrastructure in rural areas
- A.6 No codex or incentives for good agriculture practices

#### B. Institutional and policy constraints and inefficiencies:

- B.1 Under-developed food safety system: sanitary-veterinary
- B.2 No rural development policy, assigned competence or budget resources
- B.3 A concentration on production subsidies with no cross compliance mechanism
- B.4 A need to prioritise the many priorities & include within budget frameworks

All of the above challenges can be differentiated by scale in each country, approaches to sector support, policy priorities and objectives, and the extent of involvement in trade but the commonality of the challenges and some of the ways in which these might be overcome provide a platform for further consideration of regional activities that could provide support and benefits for all countries of the region. These support areas/ needs can be considered to fall within three broad thematic areas, as follows:

#### *Agriculture and Rural Development policy, institutional and regulatory framework development*

The rural populations in all EaP countries have long been taken for granted and often ignored in the policy and programming process. One of the consequences of this policy vacuum has been the gradual depopulation of rural areas as the economically active migrate to cities or abroad. These negative demographic trends, combined with a need for a vibrant working population to support agri-industry requires a more robust policy and institutional commitment to be developed in response.



## **1.1 Rural development policy, competence and budget resources**

- 1.1.1 Need for clear rural development policies, assigned competence and strategic priorities, supported by a defined budget framework
- 1.1.2 Need for policies and programmes to promote food security in strategic cereal and animal origin products and realignment of production subsidies and support payments to ensure cross compliance / improvement in farming practices and standards

## **1.2 Standards and regulations**

- 1.2.1 Need to fill gaps in agri-food product standards, regulations, legislation and comparative information on production (gross margins)
- 1.2.2 Need to develop systems to ensure food safety and animal health standards

## *Agriculture and livestock sector competitiveness and sustainable productivity enhancement*

### **2.1 Land management and improving the environment**

- 2.1.1 Need to develop policies and programmes to address fragmented land holdings and lack of producer cooperation and integration
- 2.1.2 Need to develop programmes to increase professionalism and vocational training of both farming and non-farming rural stakeholders
- 2.1.3 Need to promote improvements in the access and use of appropriate technology and appropriate infrastructure in rural areas
- 2.1.4 Need to develop sensible and manageable codex for good agriculture practices

## *Community-led rural development*

### **3.1 Improve the quality of life and encourage diversification of economic activities**

- 3.1.1 Need to promote more community driven rural development responses to improve conditions in rural areas
- 3.1.2 Need to promote support systems and measures to encourage (sustainable) diversification of rural economic, social and cultural activities

## 9. Conclusions and lessons learnt

### 9.1. Overview

This study, Assessment of the Agriculture and Rural Development Sectors in Georgia, has reviewed the importance of agriculture and rural development sectors of Georgia, recognizing their significant proportion and importance for the national economy, and a crucial need for modernisation. The study included consultation with stakeholders involved in the agriculture and rural development sectors, including representatives from governmental bodies, international organizations, donors, and non-governmental organizations. The information included in the study envisaged:

- background and key figures of agriculture and rural development sectors in Georgia;
- status of government policies for the agriculture and rural development;
- strategic priorities areas and key measures concerning the development of agricultural policy in Georgia;
- information of the EU- Georgia relations and the principles for supporting agriculture and rural development;
- the importance of identifying problems and solutions for agriculture and rural development;
- How correspondent Government programmes fit into the ENPARD approach, and possibility of benefiting of EU funds through an ENPARD programme.

A Workshop (Annex 3), involving main stakeholders, was organised to identify and define national initiatives and priorities for agriculture and rural development sectors. The main recommendations were that:

- Rural development is one of the identified priorities for the country, and given the importance and contribution of the agriculture and rural areas in the national population share, employment, GDP and employment it is likely to remain a priority.
- The lack of appropriate policies and funding has resulted in limited attention towards agriculture and rural development support. In addition, the lack of incentives for farmer organization has resulted in the exclusion of the rural population / self employed farmers, from the decision making process. Therefore sector support should include measures for both agriculture production and modernisation, and also rural development.
- There is a need for improvement of government policies and funding for agriculture and rural development.
- The new Government plans a radical makeover of the support to the agricultural sector. In this endeavour the Government will need a lot of support to improve institutional capacity and rise to the challenges ahead. Support for constructive reforms should be supported by all stakeholders in order to use to the maximum extent all of the resources (institutional and personnel) available.
- The technical support element within the Georgia ENPARD programme is of special relevance, as it will assist in the build-up of the legislative and institutional framework of the country for implementation of ENPARD type approaches. In parallel donors should align their activities to further support this positive.
- ENPARD measures and approaches need to be channelled through the implementing entities in close cooperation with the central and local authorities as a way of institutional capacity build up. This will ensure that the institutions are able to take a more proactive role in the implementation for the next programming period.
- The Georgian government has always recognised the importance of Georgia as a hub for regional approaches and initiatives.

The progress and outcomes of the Georgia-ENPARD will provide an important feedback into the progress of ARD measures and their outcomes. The Agriculture and Rural Development Panel that has now been established will provide a platform to develop, extend and conclude on the approaches and their refinement and modification during the ENPARD implementation period.

## 9.2. Common Regional Agenda Items for the Panel on Agriculture and Rural Development

<b>1</b>	<b><i>Agriculture and Rural Development policy, institutional and regulatory framework development</i></b>
<b>1.1</b>	<b>Rural development policy, competence and budget resources</b>
<b>1.1.1</b>	<b><i>Issue: No rural development policy, assigned competence, or strategic priorities within a defined budget framework.</i></b>
<b>1.1.2</b>	<b><i>Issue: inclusion of cross compliance mechanisms within state support measures aimed at improving food security in strategic arable (cereals) and animal products.</i></b>
<b>1.2</b>	<b>Standards and regulations</b>
<b>1.2.1</b>	<b><i>Gaps in standards, regulations, legislation and comparative information</i></b> <b><i>Issue: a need for common standards meeting international and EU standards, to include compliance measures - monitoring and inspection mechanisms for existing regulations</i></b>
<b>1.2.2</b>	<b><i>Under-developed system of food safety and animal health</i></b> <b><i>Issue: compliance with SPS standards especially veterinary-sanitary for animals and animal products</i></b>
<b>2</b>	<b><i>Agriculture and livestock sector competitiveness and sustainable productivity enhancement</i></b>
<b>2.1</b>	<b>Land management and improving the environment</b>
<b>2.1.1</b>	<b><i>Fragmented land holdings and lack of producer cooperation and integration</i></b> <b><i>Issue: the predominance of small and fragmented land plots leads to inefficient and insecure supply of agriculture products</i></b>
<b>2.1.2</b>	<b><i>Low level of professionalism and training in rural communities</i></b> <b><i>Issue: access to training and education for rural producers through extension services, farmer schools and college courses</i></b>
<b>2.1.3</b>	<b><i>Outdated technology and lack of appropriate infrastructure in rural areas</i></b> <b><i>Issue: outdated and inefficient systems for production and post harvest operations including storage, handling, distribution and markets</i></b>
<b>2.1.4</b>	<b><i>Regional codex for good agriculture practices</i></b> <b><i>Issue: Definition of a codex for good agricultural practices and the supporting mechanisms, including water and irrigation</i></b>
<b>3</b>	<b><i>Community-led rural development</i></b>
<b>3.1</b>	<b>Improving the quality of life and encouraging diversification of economic activities</b>
<b>3.1.1</b>	<b><i>Promoting community driven rural development</i></b> <b><i>Issue: mechanism to enable community participation in agriculture and rural development policy and strategy development</i></b>

The first proposed topic for the panel on agriculture and rural development (Technical Workshop 19th November, 2012, is: **'What is Rural Development?'**

## 10. References and sources used

1. Georgia National Indicative Programme, 2011-2013
2. ENP Georgia Country Strategy Paper, 2007-2013
3. EU/Georgia Action Plan
4. ENP Country Progress Report 2011 – Georgia, May 2012
5. Implementation of the ENP in Georgia, Progress in 2011 and Recommendations for Action
6. The National Statistics Office (GeoStat)
7. Review of EU-Assisted Development Aid in the Agriculture Sector in Georgia, Final Report, Project No. 2010/247181
8. Technical and Administrative Provisions: *European Neighbourhood Programme for Agriculture and Rural Development (ENPARD Georgia)*
9. Strategic “10-Point Plan” of the Government of Georgia for Modernization and Employment 2011 - 2015
10. Ministry of Agriculture, Agriculture Sector Strategy, 2012 to 2022.
11. The Comprehensive Strategy and Legislative Approximation Programme in Food Safety, Georgia
12. State Strategy for Regional Development of Georgia, 2010 – 2017
13. <http://www.mof.ge/en/Budget>
14. Final Report Support Added Value Enterprise Activity, 2009, USAID, Agvantage
15. FAO Country Strategy Paper, Georgia
16. EC/FAO Programme on Information Systems to Improve Food Security Decision-Making in the EaP: *Conference on Policies and Programmes to Support Small Farmers Organizations in Georgia – Review of Experiences in Georgia and Selected European Countries*
17. [www.foodsec.org/web/regional/europe/georgia/en/](http://www.foodsec.org/web/regional/europe/georgia/en/): Food Security and Agriculture Highlights
18. CARE, Conference on Opportunities in rural development for Small farmers 21 June, 2012: *Clarifying the Concept of Rural Development for Georgia*
19. African Swine Fever: Prospects for Control of a Re-emerging Transboundary Disease in Trans-Caucasus, FAO REUD, Animal Production and Health Division
20. OIE project on the “Implementation of surveillance, prophylaxis and contingency plans for brucellosis, tuberculosis, rabies, foot and mouth disease and anthrax in CIS countries”
21. MCA Monitor Report from the Field: Republic of Georgia, December 2010
22. World Bank, Implementation Completion and Results Report Rural Development Project, June 2012
23. The Georgia Poverty Assessment (World Bank, April 2009)
24. Statistics, trends, references: EUROPA, EUROSTAT, FAOSTAT, GEOSTAT, IndexMundi, World DataBank, USDA, IMF

## **11. Annexes**

Annex 1: Farm Service Centres (FSC) and Machinery Service Centres (MSC)

Annex 2: Organisation chart, Agriculture and Rural Development

Annex 3: Workshop, 18th October 2012

## Annex 1: Farm Service Centres (FSC) and Machinery Service Centres (MSC)

### MCC/CNFA/ADA Project

N	NAME	REGION	DISTRICT	TYPE
1	Ltd Kartlis Holding (Zaza Avalishvili)	Kvemo Kartli	Bolnisi	FSC/MSC
2	I/E Solomon Koroglishvili	Kakheti	Signagi	FSC/MSC
3	I/E Ambrosi Macharashvili	Kakheti	Lagodekhi	FSC/MSC
4	Ltd Aibolit 20 vek (Shaik Bairamovi)	Kvemo Kartli	Marneuli	FSC/MSC
5	I/E Tamaz Niparishvili	Shida Kartli	Kaspi	FSC/MSC
6	Terjola Farmers House (Ramaz Tskipurishvili)	Imereti	Terjola	FSC/MSC
7	Ltd Agro Kartli (Giorgi Simonishvili)	Shida Kartli	Gori	FSC/MSC
8	Ltd Agrosfero Gurjaani (Ioseb Dzamanashvili)	Kakheti	Gurjaani	FSC/MSC
9	Ltd Noblex (Aleksandre Ediberidze)	Kakheti	Kvareli	FSC
10	I/E Diana Kakhidze	Imereti	Tskaltubo	FSC
11	I/E Tamari (Nino Ratiani)	Samegrelo/ Zemo Svaneti	Mestia	FSC
12	Livestock Bazar (Pavle Gelashvili)	Samtskhe/Javakheti	Akhaltsikhe	FSC
13	Nektari ltd	Imereti	Chiatura	FSC
14	Ltd Agrosharmi			FSC
15	I/E Gia Kordzadze	Kvemo Kartli	Gardabani	FSC/MSC
16	I/E Giorgi Mindiashvili	Kakhet	Sagarejo	FSC
17	I/E Mamuka Tsikoridze	Imereti	Tskaltubo	FSC
18	LLC Alva	Imereti	Sachkhere	FSC
19	I/E Lasha Giorgadze	Guria	Chokhatauri	FSC
20	I/E Kakhi Mesabliashi	Kakheti	Telavi	FSC/MSC
21	LLC Farmer's House	Ajara	Khelvachauri	FSC
22	I/E Zurab Kartvelishvili	Imereti	Vani	FSC
23	LLC Gvaza	Samegrelo/Zemo Svaneti	Senaki	FSC
24	I/E Bezhan Gonashvili	Kakheti	Dedoplistskaro	FSC
25	Ltd Agroservis Kareli	Shida Kartli	Kareli	FSC
26	Farmers House LLC	Samegrelo/Zemo Svaneti	Khobi	FSC
27	I/E Avtandil Guntsadze	Imereti	Zestaponi	FSC
28	LTD Rural Advisory Service	Samtskhe/Javakheti	Aspindza	FSC
29	Ltd Sopkimia	Kakheti	Gurjaani	FSC
30	I/E Nato Giorgadze	Guria	Lanchkhuti	FSC
31	I/E Agasi Ezoian	Samtskhe/Javakheti	Akhalkalaki	FSC
32	LLC Agrotechnocentre	Samtskhe/Javakheti	Adigeni	FSC
33	I/E Nugzar Kiladze	Shida Kartli	Khashuri	FSC

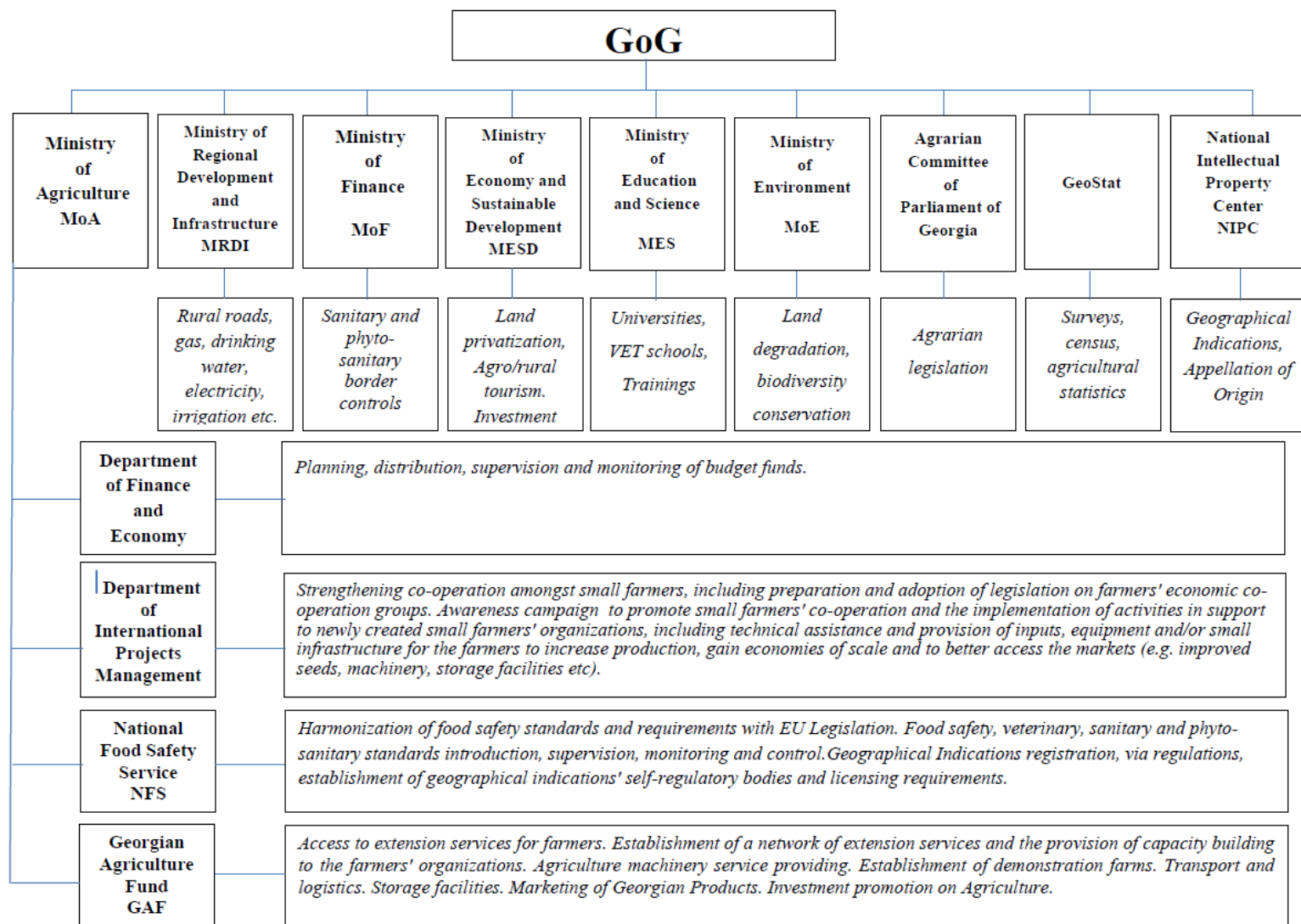
**USAID/CNFA/AMP Project**

<b>N</b>	<b>NAME</b>	<b>REGION</b>	<b>DISTRICT</b>	<b>TYPE</b>
1	Ltd Alaverdi	Kvemo Kartli	Marneuli	MSC
2	IE Gonashvili	Kakheti	Dedoplistskaro	MSC
3	Ltd Laba +	Samtskhe/Javakheti	Akhaltzikhe	MSC
4	IE Nakhutsrishvili	Shida Kartli	Kareli	MSC
5	Ltd Mamuli 96	Kvemo Kartli	Gardabani	MSC
6	IE Petriashvili	Kvemo Kartli	Tetritskkaro	MSC
7	Ltd Dorani	Kakheti	Akhmeta	MSC
8	Ltd DVPlus	Kvemo Kartli	Bolnisi	MSC
9	IE Tvaliashvili	Shida Kartli	Gori	MSC
10	Ltd Geonut	Samegrelo/Zemo Svaneti	Senaki	MSC
11	Ltd Agronominali	Kakheti	Signagi	MSC
12	Ltd Alva	Imereti	Savkhkhere	MSC
13	IE Londaridze	Samtskhe/Javakheti	Aspindza	MSC
14	IE Aroshidze	Kakheti	Gurjaani	MSC
15	IE Lursmanashvili	Imereti	Zestaponi	MSC
16	IE Mikiashvili	Racha/Lechkhumi	Ambrolauri	MSC
17	IE Gamkrelidze	Guria	Ozurgeti	MSC
18	Ltd Daviti	Kakheti	Lagodekhi	MSC
19	IE Kharadze	Kvemo Kartli	Gardabani	MSC
20	Ltd Ruka Mapping	Samegrelo/Zemo Svaneti	Khobi	MSC
21	Ltd Energia 777	Samtskhe/Javakheti	Akhalkalaki	

**GAC (Georgian Agriculture Corporation)**

<b>N</b>	<b>NAME</b>	<b>REGION</b>	<b>DISTRICT</b>	<b>TYPE</b>
1	Ltd Mecanizatori	Tbilisi	Tbilisi	FSC/MSC
2	Ltd Mecanizatori	Kvemo Kartli	Marneuli	FSC/MSC
3	Ltd Mecanizatori	Kvemo Kartli	Bolnisi	FSC/MSC
4	Ltd Mecanizatori	Shida Kartli	Kaspi	FSC/MSC
5	Ltd Mecanizatori	Shida Kartli	Kareli	FSC/MSC
6	Ltd Mecanizatori	Samtskhe/Javakheti	Akhaltzikhe	FSC/MSC
7	Ltd Mecanizatori	Kakheti	Gurjaani	FSC/MSC
8	Ltd Mecanizatori	Kakheti	Dedoplistskaro	FSC/MSC
9	Ltd Mecanizatori	Imereti	Zestaponi	FSC/MSC
10	Ltd Mecanizatori	Imereti	Samtredia	FSC/MSC
11	Ltd Mecanizatori	Samegrelo	Abasha	FSC/MSC
12	Ltd Mecanizatori	Racha/Lechkhumi	Ambrolauri	FSC/MSC
13	Ltd Mecanizatori	Guria	Ozurgeti	FSC/MSC

## Annex 2: Organisation chart, Agriculture and Rural Development





### Annex 3: Workshop, 18th October 2012

**9.00** Registration of the participants, Conference Hall, Betsy's Hotel, Tbilisi, Georgia

**09.30** Opening: **Mr. Raimund Jehle**, *Alternate FAO Representative for Georgia* **Mr. Juan Echanove**, *EU ENPARD focal point in the EU Delegation to the Republic of Georgia*.

**10.00** An introduction to the workshop, concept and strategy, **Mr. Raimund Jehle**,

**10.30** Presentation of the study, "Assessment of the Agriculture and Rural Development Sectors in Georgia"

-Country report, **Mr. Zurab Chekurashvili**, *FAO national consultant*.

-Priorities, gaps and targeting in agriculture and rural development, **Mr. Mark Le Seilleur**, *FAO international consultant*.

**11.30** Coffee Break

**12.00** Group discussions, moderated by **Mr. Dragan Angelovski**, *FAO international consultant*.

**12.30** Summary of conclusions/recommendations and lessons learned, presenting guiding principles for future intervention. **Mr. Dragan Angelovski**, *FAO international consultant*.

**13.00** Closing of the workshop. **Mr. Raimund Jehle**, *Alternate FAO Representative for Georgia* **Mr. Juan Echanove**, *EU ENPARD focal point in the EU Delegation to the Republic of Georgia*.

### Workshop Report

#### **1. Policy Documents related to Rural Development and Agriculture**

In the past 2 decades the Government policy paid little attention to the agriculture sector. Agriculture has become a development priority since 2010-11, emphasized by restrictions of grain exports from traditional supplier countries and spikes in food prices in 2010.

The Government in Georgia has changed following to the parliamentary elections held on the 1<sup>st</sup> of November 2012. With the change of power a radical makeover of the country's policies towards agriculture is expected. By the time this report was prepared the new Ministers were sworn in, however the only guidance on the new policies available is the programme of the ruling coalition.

##### ✓ National level

The strategic policies on agriculture in Georgia are based on the Agriculture Sector Strategy developed by the Ministry of Agriculture. The strategy covers the period from 2012 to 2022.

In order to implement the strategy, the Ministry of Agriculture, in collaboration with the EU, FAO and other partner organizations, is developing a 3 to 4 years Action Plan.

A primary objective of the Agriculture Strategy is the development of agriculture through strengthening of the small household farms and forming of profitable production chains. The document to a significant extent reflects the priorities of the agricultural sector; however it fails to address the stagnant rural sector.

The Government established the Agriculture Policy Commission in 2011, led by the Ministry of Agriculture together with relevant line ministries/agencies including the Ministry of Regional Development and the Ministry of Environment. This Commission is expected to have a significant role in monitoring the implementation of the sector strategy.

There are indications that the strategy on Agriculture and its action plan (in the final phase of preparation) will be further developed and improved, as they do not include any provisions in regards to Rural Development. Additional policies linked to agriculture were provided in the "10-Point Plan" aiming to create more and higher-paid jobs, and to improve the social status of citizens.

Incentives are also being offered to investors as part of an initiative "100 New Enterprises in Rural Areas" to acquire state-owned agricultural land (75% of total agricultural land) at 20% of the market price for agricultural processing projects; 0% tax burden for primary agricultural processing, and; 100% depreciation allowance on investments. In 2011 the Ministry of regional development made a strategy adopted by the prime minister including some topics connected to rural infrastructure electricity, gas and potable water.

All stakeholders agree that there is a gap in legislations on non-agricultural income activities in rural areas as well as on rural development. Any legislation that will be prepared and adopted needs to take in consideration the geographical region. Mountainous areas are of a special concern as there are no Government programs and agriculture alone will be sufficient to ensure sustainability. Therefore, there is a need for sustainable development in parallel to agricultural development. All activities should be spearheaded by pilot projects. One approach would be to make available more support for Less Favourite Areas with special programmes. There is a law existing, which defines mountainous areas but the criteria need to be remodelled.

All stakeholders agree that Rural Development should be more diversified approach with agriculture in its core. The rural development needs development of indicators like income of rural people and poverty, rather than production targets. The government needs to fashion its expectations for rural development with criteria and build a vision. The mandate for agriculture and rural development should be under a central authority as the sectors are inseparable. For instance the agricultural season in mountainous areas is short and people need other income sources from non-agricultural areas, developed in parallel to agriculture. Only such development will ensure that the rural population will stay in the rural areas.

Rural development is often based on prerequisites like infrastructure required for non-agricultural activities which may require larger investments than available and in this cases priorities within priorities need to be established.

✓ Regional/Local level

In a Ministry of Regional Development and Infrastructure led process and for the purposes of the Regional development strategy, several regions have adopted their Development Strategies. All of the regions are required by law to have development documents. In general, rural development and agriculture are poorly addressed in these documents. Donor funded projects are currently involved in development of Regional Development documents.

For the purposes of obtaining support from the Village Development Fund by the Ministry of Regional Development and Infrastructure, several Municipalities have prepared Local Development Plans. This process has also been addressed by a number of donor funded projects, which have provided support for drafting of local development papers. Most of these documents were prepared for the purposes of the projects and were not adopted by the local authorities.

There is a need to strengthen the policies with focus on involvement of local authorities and stress the need to improve the enabling environment at local level. Given the limited capacity

to develop and implement policies at local level and there is a need to provide technical assistance for this task. Local authorities (elected and appointed) are in general positive and participate in development initiatives by donor driven projects.

## **2. Support programs for Rural Development**

The Ministry of Agriculture in Georgia has not been implementing any long term support programmes for the agricultural sector apart from ad-hoc distributions of small quantities of inputs (fixed amount of 20 l/ household and one bag of fertilizer).

The government ventured into establishment of state owned commercial entities (Mechanizatori and Georgian Agricultural Corporation etc.) providing (selling) services to farmers and indirectly competing with the private sector for services and inputs provision. The government regularly stated that the service centres should be privatized. This involvement has been criticized as disruptive to the private sector by many stakeholders in the country. It is expected that the new government will reassess the role of these entities followed by a transformation process.

All stakeholders agree that one of the priorities is to develop an instrument for dissemination of information on activities implemented and results obtained. The Ministry of Agriculture needs its institutional memory to be strengthened in order to identify and assess best practices suitable for replication. On the other side agricultural sectors need to have SWOTs developed for justification of support measures in different areas.

## **3. Participation of stakeholders in the preparation of policy documents and support programs**

In February 2012 the Government of Georgia finalized its Agriculture Sector Strategy, which was produced by the Ministry of Agriculture of Georgia in consultation with other line agencies, and reviewed by the Prime Minister Office. Donors were invited to comment on the strategy, however very few of the recommendations were adopted. Local Authorities have not been involved in the preparation of the Agriculture Sector Strategy. Farmer organizations have not been involved in any decision or policy making processes in the Government and this is a priority which needs to be addressed.

The Farmer Organization sector is fragmented and weak and supported by foreign projects. Most of the small farmers, 95%, are not organized or represented in any form. The farmer organizations struggle with restrictive policies on taxation and internal organization which compounds their problems. Farmer organizations need special legislation in order to be recognized as partners in the development. In the last year the government has been supported in preparation of a new legislation on farmer organizations. Given the limited capacity of farmers to manage complicated organizational structures there is an effort in the new legislations to simplify the requirements and make them more understandable for the members. It is expected that this legislative framework will be adopted soon by the new government. The taxation policy is seen as constraining and needs to be addressed by the new government.

## **4. Statistics used in the preparation of policy documents and support programmes**

The last General Agricultural Census took place in 2005, conducted by Geostat with FAO support. Statistics are collected and published annually by Geostat.

## **5. Indicators and targets in the policy documents and support programmes**

The strategy on Agriculture does not contain indicators or targets, apart from general objectives. The monitoring requirements are being addressed in an Action plan which is currently being finalized.

## **6. Synergies with programmes implemented by other Ministries and other stakeholders**

In regards to synergies within the government, meaning the cooperation between different ministries there is the general conclusion that Ministries are aware of the different Governmental programs. However, there is no concrete mechanism established of cooperation between all Government Ministries apart from coordination by the Prime Minister. All of the support measures and policy documents are eventually reviewed by the Prime minister's office in order to ensure their compatibility with the national priorities. However, the platform for cooperation could be improved.

## **7. Investment support mechanisms and access to credits**

Apart from few donor projects that have provided assistance to rural and IDP communities and apart from the investments by the Village Development Fund, no other initiatives based on investment support has been provided by the Government and in particular the Ministry of Agriculture.

In regards to the upcoming Georgia ENPARD and future policies of the new government, all stakeholders agree that investment support should be in the forefront. However, due attention has to be devoted to the problem of lack of credit access and the extremely high interest rates.

Credit access for rural residents in general is considered as a mayor constraint. Collateral for the small and subsistence farmers remains an issue. There is an obvious lack of cash in the rural areas and therefore simplified approaches should be used avoiding the banking system and keeping the overhead costs of loans low. LFAs as usually economically unviable areas should be supported with higher participation from the Government/Donor side compared to economically/agriculturally viable areas.

## **8. Institutional setup for agricultural and rural development support**

Up to now the Ministry of Agriculture and the public enterprises on one side and Ministry of infrastructure and the Village Development fund through the Local Authorities on the other side, were the only institutions addressing the development of the agricultural sector. This setup is expected to change with the increasing of the role of the role and capacity of the Ministry of Agriculture and with the expected deconstruction of the Ministry of regional development and infrastructure. This ministry will not exist anymore as there will be more focus on decentralization and infrastructure will be a part of the Ministry of economy.

For the new government which will address the upcoming reforms the most important constraint will be the lack of capacity at all levels (Ministries, Regional Authorities and Local Authorities). Therefore, more emphasis will be needed in strengthening of the institutional capacities and establishment of the institutional setup for design and implementation of the agriculture and rural development policies.

Capacity of institutions for management, planning and monitoring of agriculture and rural development policies is low and therefore it is a priority for improvement and a prerequisite for implementation of both ENPARD type approach and state support programmes.

There are at least few ministries in are part Economy, Regional, Agriculture, Environment which should be a task force or a platform to oversee the rural development. All of the stakeholders agree that Government programmes should build on local activities. Elected local authorities should be more involved in defining priorities and appointed local authorities should be involved with the management of agriculture and rural development programmes. The involvement of the local authorities should be concentrated around the enabling environment for local initiatives.

## **9. Conclusions and recommendations:**

1. Rural development is one of the identified priorities for the country, and given the importance and contribution of the agriculture and rural areas in the national population share, employment, GDP and employment it is likely to remain a priority.
2. The lack of appropriate policies and funding has resulted in limited attention towards agriculture and rural development support. In addition, the lack of incentives for farmer organization has resulted in the exclusion of the rural population / self employed farmers, from the decision making process. Therefore sector support should include measures for both agriculture production and modernisation, and also rural development.
3. There is a need for improvement of government policies and funding for agriculture and rural development.
4. The new Government plans a radical makeover of the support to the agricultural sector. In this endeavour the Government will need a lot of support to improve institutional capacity and rise to the challenges ahead. Support for constructive reforms should be supported by all stakeholders in order to use to the maximum extent all of the resources (institutional and personnel) available.
5. The technical support element within the Georgia ENPARD programme is of special relevance, as it will assist in the build-up of the legislative and institutional framework of the country for implementation of ENPARD type approaches. In parallel donors should align their activities to further support this positive.
6. ENPARD measures and approaches need to be channelled through the implementing entities in close cooperation with the central and local authorities as a way of institutional capacity build up. This will ensure that the institutions are able to take a more proactive role in the implementation for the next programming period.
7. The Georgian government has always recognised the importance of Georgia as a hub for regional approaches and initiatives.

