

# Problems Faced by the Agricultural Sector and Agribusiness Development Strategy in Georgia

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**Abstract**—The importance of agribusiness development is proved in accordance with the trends in the agricultural sector of Georgia. Agribusiness environment and the consequences of the agricultural reforms are evaluated. The factors hindering the development of agribusiness are revealed and the ways for overcoming these problems are suggested. SWOT analysis is done in order to identify the needs of agribusiness. The needs of agribusiness development in Georgia are evaluated by priorities: prevention of diseases and reduction of the harm caused by these diseases, accessibility of long-term agricultural loans with low interest rates, improving qualification of farmers, the level of education and usage of modern technologies, changes in legislation, accessibility to high quality agricultural machinery, and the development of infrastructure. Based on the outcomes of the research, agribusiness development strategies in Georgia are suggested and appropriate priorities of economic policy are determined. Conclusions are made and based on these conclusions, some recommendations are suggested.

**Keywords**—Agricultural sector, agribusiness development, agribusiness strategy, agribusiness in Georgia.

## I. INTRODUCTION

DIVERSE climatic conditions and more or less fertile soil of Georgia provide good possibility for growing various fruit, vegetables, nuts and other agricultural products as well as for the development of animal husbandry. Full utilization of Georgian agricultural potential is of vital importance for the country [1]. Closeness with Europe and developed transportation links with Europe and other regions, increase in domestic and regional demand for fresh agricultural products makes Georgia attractive from the perspective of agricultural development and exporting agricultural products. Georgia has a growing economy, liberal labor market, low labor costs, reduced fixed taxes and simplified tax policy, which are favorable factors for exporters. There is an increasing demand for high quality Georgian agricultural products both on domestic and international markets. As a result of signing Deep and Comprehensive Free Trade Area agreement, an opportunity has occurred for Georgia to enter the EU market. Agribusiness production in Georgia means to get support from the state and to get profit in relatively short period; as well as liberal land ownership model and low investments on the initial stage. Resource potential of this field is especially high due to scale economy and volume of production, which might be achieved through the introduction of modern technological

innovations and modern methods in production and processing processes of raw materials.

Currently, the volume of national food products on food market in Georgia is averagely 49% lower compared to physiological norms. This indicator is even lower for some products. In fact, balance in food products is maintained with high influence of import. In addition, the share of export in foreign trade with food products is continuously decreasing every year [2]. Under these conditions, it's essential to evaluate the acting agricultural policy and to develop the economic policy oriented to the development of traditional fields having appropriate natural and resource potential and reorientation from import to export. Production of national food products should play a special role in sustainable economic development of the country as well. Development of the competitive sectors, which will be able to ensure food security as well as increase export potential and make profit in short term is especially important [3]. Based on the above-mentioned, study of the needs of agribusiness in Georgia and development of appropriate strategies for the development of this field are quite actual issues. Based on the reasonable strategies for agribusiness development, the farmers will be able to increase the supply of national agricultural products on domestic and international markets. In addition, by expanding the range of products and services, agricultural activities will spread to new fields.

## II. METHODOLOGY

The following research methods have been used in the research process: table research; focus group discussions; in-depth interviews. Based on the SWOT analysis the ways for overcoming the poverty have been determined by using the scheme of priorities. The obtained information has been analyzed through deduction analysis. The analysis was based on grouping the data and revealing the similarities, identifying common tendencies and differences.

## III. DISCUSSION

Strategic directions of agricultural development of Georgia, based on the principles of sustainable development, includes establishing the environment, which will support improvement of competitiveness in agricultural sector, increase production of high quality goods, ensure food safety and security and contribute to overcoming poverty in rural areas [1].

The share of agriculture in the GDP of Georgia amounted to 9.4% in 2013 [4]. Recently, nominal growth has been observed in agricultural sector, which is due to the increase of prices and/or output of agricultural goods. The share of

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agriculture, hunting and forestry and fishing amounted to 2168.2 mln GEL in 2013, which was 12% higher compared with the corresponding figure of the previous year. The share of animal husbandry in gross output of this sector amounted to 51%; it's followed by plant growing sector with 41%; contribution of agricultural services, forestry, hunting, and fishing to gross agricultural output is comparatively less (see Fig. 1).

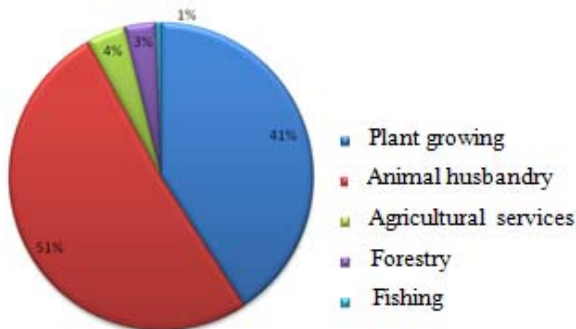


Fig. 1 Structure of agricultural goods, 2013

Total output of agricultural goods in the first quarter of 2014 was 2% higher compared to the corresponding period of 2013 [4]. Comparably higher growth of 7.4% was observed in the gross output of agribusiness. The output of agribusiness includes agricultural goods as well as the goods produced through processing of agricultural goods, which includes production of wheat flour, bread, cookies and other confectionery, meat products, dairy products, alcoholic drinks and others.

According to the preliminary data of National Statistics Office of Georgia, the volume of foreign direct investments in Georgia in this period amounted to 914 mln UD dollars. The share of agriculture in FDI flows was 3.5% - two times higher compared with the corresponding figure of 2012. Fig. 3 presents the dynamics of FDI in agricultural sector of Georgia and its share in total investments since 2007. As the figure shows, in recent years the share of agriculture in the investments ranged from 0.5% to 3.5% [4]. According to these figures we may conclude that agriculture is a less attractive sector for investments.

Based on the above analysis we may conclude that a growing trend is observed in the development of agribusiness in Georgia. However, there are a number of problems in strategic development of agribusiness. Self-sufficiency rate of almost all agricultural products is significantly reduced, which is a serious problem from food security perspective.

Land reform and functioning of effective land market are the main directions of agricultural policy. According to the 2014 agricultural census in Georgia, 66.9% of land users owned about 0.1-1 hectare of land area, 23.3% - 1 to 5 hectares, and only 0.15% owned more than 50-500 hectares.

The problem is also aggravated by the fact that one hectare of land owned by households is divided into 2-3 parcels [1]. Farming sector is dominated by small farmers. 99% of these

farmers are classified as households. 93% of them own less than 2 hectare of land area. Average area of land owned by one farmer is 2.3 hectare. About 82% of agriculture holdings are subsistence and 18% for semi-subsistence or commercial [5]. Scarceness of land resources is negatively reflected on the scales of production [6].

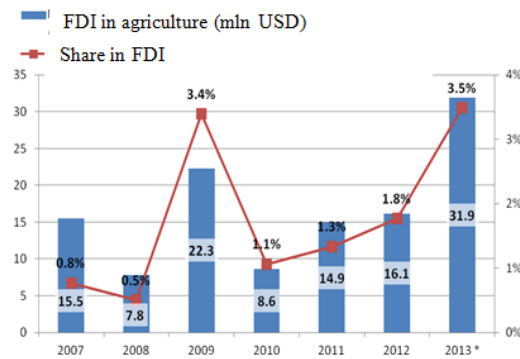


Fig. 2 The share of agriculture in foreign direct investments

The major problem regarding effective land management policy is that there is no initial registration of land; as a result, areas of land owned by the state, municipalities and individuals couldn't be registered separately. In Georgia, only 20-30% of agricultural land is registered. In addition, there are frequent cases when the purpose of land usage is changed. These factors make it more complicated to plan appropriate activities and determine directions of the policy for agribusiness development. There are some problems in selling and buying the land and in accessibility of appropriate equipment for land cultivation. Without the appropriate economic policy and including corresponding measures in agricultural policy, farmers won't be able to diversify their activities and bring existing and unused resources into production [7].

High level of poverty in rural areas is one of the hindering factors for agribusiness development. Based on the analysis of poverty rates and indexes it has revealed that over 55% of the poor population in Georgia live in rural areas [4]. The analysis of the recent years also proved that the poverty rate in rural areas hasn't changed in terms of national minimum wage. Thus, there hasn't been any progress in social welfare. Average salary of the people employed in agricultural sector is only 64% of the average salary for the country. There is a significant gap between the income of the people living in urban and rural areas and there is hardly any alternative possibilities of employment in rural areas. If we take into consideration that income from the sale of agricultural products is only 11.6% of the total income, it becomes clear, that there is no evident trend of increase in revenues and fair redistribution of revenues in agricultural sector. Development of agribusiness in Georgia is strategically important for solving the above problems, in particular for overcoming the poverty.

Development of strategic sectors of agriculture needs special support. These are the sectors, which should produce goods for export. It's important to develop the strategies for entering international markets, establish a wide marketing network, etc., which will become the basis for increasing the popularity of the country and growth of revenues [8].

Strategic directions of agribusiness development should include budgetary support policy. Budgetary support of agriculture is relatively small compared with the European Union [9]. In addition, Georgia is one of the most unequal countries in Europe and Central Asia.

Until 2012, agriculture wasn't considered as a priority for the country. As a result, budgetary expenditures on this sector were variable and small and amounted to only 0.44% of total expenditures. In 2012, development of agriculture was declared to be the priority for Georgia and 3% of total expenditures was allocated to agriculture [10].

In order to evaluate the outcomes of the reforms, it's important to study the needs of the key participants – national governments, the EU bureaucracy, agricultural alliances and farmers in the context of new political economy [11]. The new political economy includes growth of welfare through creating new employment possibilities and not through social assistances. From this perspective, two conclusions might be done based on the analysis of economic policy in Georgia:

1. The economic policy of the previous decade was successful from the point of investments and consequently, economic growth was supported, but it failed to promote employment and increase of competitiveness of the economy of Georgia;
2. The outcomes of the economic growth didn't reflect on the lives of most part of Georgian population and the poverty rate is still high.

As a result, the priority of the strategy is to solve the problems, which serve as barriers to achieve the planned level of welfare [12].

Based on the above conclusions and in terms of limited resources, the key factor for improving welfare is to select appropriate priorities of economic development. Priorities should be determined based on the competitive analysis of the sectors or fields in the context of international trade. In particular, it's advisable to choose the fields taken into consideration the following indicators:

- Leading export fields (in the context of volume and value);
- New fields with significant potential;
- The fields, which may have competitive advantage in Georgia [9].

In order to find out the needs of agribusiness development, SWOT analysis has been conducted taking into consideration the above priorities. 25 small and medium farms have been selected for SWOT analysis. As a result, we have presented strengths and weaknesses, possibilities and threats of agribusiness.

Based on the opinions of farmers having small and medium farms, the outcomes of the SWOT analysis are presented as follows:

#### Strengths:

Favorable terrain and climate for the development of plant-growing and animal husbandry sectors; More or less fertile lands; Irrigation water resources; A large number of pasture; Existence of endemic varieties; Tradition of agricultural activities and experience in this field.

#### Weakness:

Limited access to high quality agricultural machinery; Lack of information of different programs (agro loans, grant programs, etc.); Lack of skilled labor; Low level of farmers' knowledge on modern technologies and development of business projects; Low productive varieties in plant-growing and animal husbandry sectors; Lack of business loans and grant programs for small farmers; Frequently changing climate conditions; Failure of irrigation system; Lack of drainage systems; Limited access to high-quality chemicals and fertilizers; Existence of counterfeit products (in particular, wine and honey) on the market; Limited access to the service of qualified veterinarians and agronomists; Lack of soil study and appropriate mineralization of soil; Small number of arable land; Lack of agricultural insurance products; Non-legalized agricultural land.

#### Opportunities:

Providing farmers with various educational courses; Development of fisheries and poultry farming; Establishing new farms for increasing production and processing of agricultural products; Attracting and maintaining labor; Improving access to the service of qualified agronomists and veterinarians; Control of animal diseases; Providing business consulting in order to develop new business projects; Providing small farmers with business loans and grant programs; Improving species of plants and animals; Fighting against counterfeit products (wine and honey); Development of irrigation systems; Conducting frequent information campaigns about the programs and projects that support agricultural development; Establishing cooperatives of small and medium farmers; Renewal of agricultural equipment, increasing access to new agricultural machinery and introduction of new technologies; Activating the agricultural land legalization process; Reducing probabilities of natural disasters; Development of greenhouses; Increase in access to internet; Conducting frequent information campaigns about the programs and projects that support agribusiness development; Development of plant nurseries; Development of agricultural insurance products for local farmers.

#### Threats:

Migration and brain drain; Natural threats (heavy rains, frost, hail, etc.); Epidemic diseases (mainly diseases of pigs and cattle); Pollution of the environment due to the usage of chemicals; Instability of export markets.

Small and medium farmers participating in the focus groups determined the needs for agricultural development and prioritized them as follows:

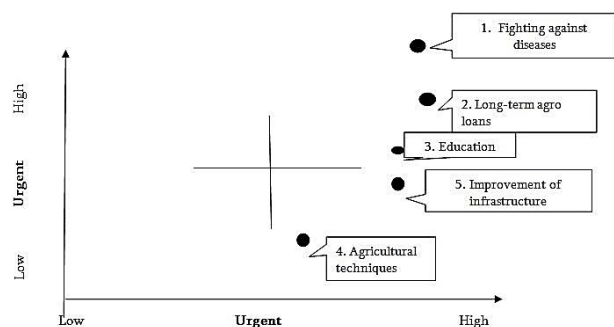


Fig. 3 Needs for agribusiness development by priorities

The needs for agribusiness development have been determined in the following succession:

- (1) Fighting Against Diseases: Local farmers find it hard to prevent diseases and reduce the harm caused by the diseases both in plant-growing and animal husbandry sectors;
- (2) Long-Term Agro Loans: Most of the farmers don't have access to the long-term agro loans with low interest rates;
- (3) Education: The level of education of farmers mostly isn't enough to apply modern technologies, which significantly hinders improvement of effectiveness of agricultural activities;
- (4) Changing the Legislation: The need for changing the corresponding legislation has often been named by the farmers as one of the problematic issues;
- (5) Equipment: Most of farmers don't have access to high quality agricultural equipment;
- (6) Improvement of Infrastructure: One of the most important needs for local farmers is improvement of local road system and infrastructure.

#### IV. CONCLUSION AND RECOMMENDATIONS

Based on the research the following major needs for agricultural development have been revealed:

- Farmers are experiencing difficulties in realization of products on local and regional markets.
- Local small farmers have almost no access to preferential agro loans. It's difficult for them to participate in the programs of preferential loans, which require co-funding or real estate collateral. While preferential agro-loans are more or less accessible for large farmers, it's difficult for small farmers to compete with large farmers.
- Primary production is negatively affected by fragmentation of land.
- Farmers don't have appropriate access to skilled specialists. Such service can be provided by only a few persons in Georgia and consequently, high demand for such service isn't met. As a result, farmers face problems in producing and keeping products.
- Local farmers face problems in land registration process. They say that due to the lack of appropriate documents, they find it difficult to prove the ownership of the land that belonged to their ancestors.

- Local farmers, especially wine and honey producers, have problems in selling their products as in many cases, there are counterfeit products on the market;
- Medium farmers have less access to the qualified labor. Thus, they need the database of the people seeking jobs in agricultural sector.
- Due to increased frequency of drought nearly 30-40% of arable land needs to be watered. Currently, irrigation system is available for only small number of farms.
- Very often, farmers lack appropriate knowledge and qualification to use modern equipment. In addition, farmers can't buy high-quality fertilizers and pesticides, which are very important for the production of high-quality products. Besides, farmers need to acquire modern knowledge in specific sectors of plant-growing and animal husbandry.
- Small and medium farmers consider that establishment of cooperatives and operating jointly on the market is one of the good possibilities for expanding their business.
- Increased frequency of natural disasters, such as heavy rain, hail, landslides and floods have negative effect on local production.
- Agribusiness development strategy of Georgia is fragmented as yet.

Based on the above analysis and the conclusions, we have developed the following recommendations:

- It's advisable to establish new processing factories, where raw materials will be supplied by farmers. For this purpose, it's important to exercise the economic policy, which will support establishment of processing factories;
- The programs of business loans and grants for small farmers need to be carried out;
- It's essential to establish a register of farmers and formalized land market. The state should promote development of cooperatives of farmers;
- Improving access to qualified service ensures increasing productivity in agricultural sector. It's advisable to improve access to qualified agronomists and veterinarians in rural areas;
- In medium farmers' opinion, legalization of land will help them to expand their business. Activation of the agricultural land legalization process will result in development of agribusiness;
- Fighting against counterfeit products should be one of the components of agribusiness development strategy;
- From strategic perspective, creating the database of the people seeking jobs will support to attracting additional labor and development of agribusiness;
- Irrigation system should be developed and the network of irrigation channels need to be expanded; this will significantly contribute to the development of agribusiness;
- It's important to develop a strategy of delivering special training courses for farmers in agricultural sector;
- Farmers need to be supported in establishing cooperatives and operating jointly on the market both by central and

local governments as well as by donor/international organizations;

- For agribusiness development it's important to reduce the harm caused by natural disasters. The strategy should include appropriate activities in this direction. This will contribute to maintaining agricultural assets;
- It's recommended to develop a multi-level strategy focusing on three interconnected levels:
  1. Basic Level: Determination of mission and vision; setting up long-term goals and development of state policy for agricultural development;
  2. Sector Level: Development of primary production, processing and production chain; improvement of resource base and providing information to market participants; creating a register of farmers and establishing a formalized land market; development of commodity market; integration with international markets; development of infrastructure and technological base;
  3. Field Level: Competitive analysis, situational analysis (analyzing strengths and weaknesses, opportunities and threats); development of acting strategies and detailed action plan for each of the fields, where subsidies can be avoided.

Development of the strategy should be based on three main objectives: development of primary production, effective processing industry and trade infrastructure. Each of the above levels might become drive of future development; consequently, the state should focus on all of them. Georgia should choose such complex approach and develop supporting measures oriented to commercialization of small farmers, development and improvement of production, processing and service infrastructure as well as widening public services and generating off-farm income in rural areas.

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