

## **Annex 1.**

The tea cooperatives find the following issues problematic in tea plantation rehabilitation program. These issues should be critically reviewed for enabling cooperatives to engage and benefit from the program.

### **Land**

(own or leased from the state)

- In order to engage in this program, the land must be registered (with cadastral map). That seems currently problematic for entrepreneurs (cooperatives and other business entities), due to the costs associated with the land registration, taking the land on balance, notarization, separation the plots subject of rehabilitation from cadastral code, etc. The associated costs are main obstacle for farmers to participate in this program. At the same time, there is an expectation that the state will proceed with the land registration in future (land registration will be free of charge or much cheaper than today). This demotivates the entrepreneurs to solve the issues by themselves. They have the following approach "I waited for so long and I will wait a bit more".
  - There are many cases when plot of lands do not match with registration areas that requires re-registration and additional finances as well;
  - The amounts required as a guarantee and mortgage (both agricultural and non-agricultural land) seems problematic for business entities;
  - For the participation in the program, the owned plots of land or taken as a lease should be from 5 to 300 hectares (except the cooperative) and in case of cooperatives it should be from 5 to 50 hectares for cooperative. Furthermore, the tea plantations taken as a lease by agricultural cooperative should not exceed the area of tea plantation owned by agricultural cooperative;
- These restrictions prove that they have tougher approach with regard to the cooperatives, that makes them less competitive in comparison with Ltds;
- At least 75% of the cooperative members should contribute at least 0.25 hectares of tea plantations in the cooperative.

In 2014, the conducted agricultural census indicates that there are only 6626 farms (households and businesses) left with tea plantations in Georgia. Out of which, 92% owns less than 0.5 hectares of tea plantation. We assume that out of it, 30-35% owns less than 0.25 hectares of tea plantation, who might not be able to become involved and benefit from tea rehabilitation program;

- In case the lease agreement will not be fulfilled on time, the amounts provided by beneficiary as a guarantee, will be transferred to the account of state budget. However, the cases when the state is reason for the delay, it is not clarified what would happen.
- In some areas, instead of rehabilitate the old tea plantations, it might be better to plant new tea seedlings (this is also not considered in the program).

### **Rehabilitation**

- Business entities are claiming that they will (and prefer to) carry out rehabilitation work activities by using their own labor force. The involvement of third party (plantation rehabilitation companies) will complicate the process and make it more expensive. The tea companies claim that they can do the same work more efficiently;  
At the same time, cooperative is not taxpayer distinguished from LTD. The farmers worry that they will pay significant amount in taxes while this cost will be avoided if they will carry out this work activity by themselves;
- The specific work activities are not clarified to be carried out within the framework of this program;
- The program does not provide support in fencing activity, which is very expensive and business entities do not have required resources for fencing their plantations. However, without fencing, it is hard to protect the plantations from livestock;
- One hectare of tea rehabilitation work costs more than allocated funds maximum 2500 GEL (including VAT) by government. The tea leaves are picked up after 3-5 years since rehabilitation. This means that business entities will not have the income from the rehabilitated tea plantations during this period. This will place the enterprises into difficult situation.
- In some cases, the plantations are old and rehabilitation will not lead to expected harvest volume. This will cause the non-fulfillment of production plan and taken obligations by business entity.
- This year, tea rehabilitation has been delayed already

### **Obligations of tea processing factory establishment**

- The obligation to establish a tea processing factory is strongly tied to this program. However, the main problem is the lack of raw material (especially high quality tea leaves). Currently, the vast majority of businesses works at much lower than full production capacities, mainly due to the lack of raw materials (tea leaves). After the first

investment (in the framework of this tea program), there is not clear plan what kind of follow-up support will be provided from the government before tea companies' start producing and thus selling tea and generating income.

- After 3 years period of successful implementation of the project (processing of tea leaves) and building arrangement according to HACCP standards, the government will transfer the equipment to cooperatives. Developing a successful business in 3 years period is very hard for cooperatives, considering that they have to build a high standard factory, while lacking the raw material as well as lacking the opportunity for finding the target market. .

#### **General concern**

- There are not assessment indicators given in the program, which goals the program would like to achieve, so it is difficult to monitor and evaluate the program.