



The European Union
for Georgia

ENPARD: Support to Agriculture
and Rural Development

Inter-agency Forum on Access to Finance for Agricultural Cooperatives

Summary

The Forum took place on 29 November 2016 in the framework of the EU-funded European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) in order to discuss some of the key challenges Georgia's agricultural cooperatives face with regard to access to finance. Please see the [conference programme](#) and presentations (see below).

This was the fourth in a series of policy dialogues about agriculture and rural development organized by the CARE consortium, which includes the ISET Policy Institute, the Regional Development Association (RDA), and the Georgian Farmers Association (GFA). Other ENPARD-implementer consortia, led by Mercy Corps, Oxfam and People in Need, also contributed to the Forum. Many other organizations presented and actively participated in the discussion: the Georgian Ministry of Agriculture, the EU Delegation to Georgia, the French Development Agency, the Agricultural Cooperatives Development Agency (ACDA), the Georgian Farmers Association (GFA), agricultural cooperatives, TBC Bank and other financial institutions, leasing companies, business and finance consulting groups, and research centers, among others.

For detailed information, please see the [notes](#) from the forum.

Summarizing the Forum, ISET's President Eric Livny reflected on the commonly expressed view that there is a lack of funding available for Georgian farmers or farmer cooperatives. He suggested that, in fact, there may be too much funding, given that new donors, such as the French Development Agency, now enter the fray and join the EU, USAID, SDC, EBRD and others in subsidizing commercial lending and otherwise supporting Georgian farmers.

Metaphorically speaking, there is a lot of government and development assistance money sitting on top of a mountain, waiting to be distributed to farmers. And, there are a lot of farmers jumping up and down at the bottom of the mountain, trying to reach some of the money that is potentially up for grabs. Unfortunately for both parties, according to Mr. Livny, potential funders and farmers have a hard time meeting each other because of the farmers' limited ability to actually climb the mountain. Put simply, there are simply not enough commercially viable projects in Georgia's fragmented and inefficient agriculture that could be undertaken at the going interest rates and/or could meet the due diligence requirements posed by the Georgian banks.

Despite pro forma statements to the opposite effect, in practice, the Georgian government and its development partners have been so far unable to help farmers climb up the development ladder. Instead of targeting their assistance at individuals and groups that have the potential to become professional farmers, the government and donors have been indiscriminately sprinkling cash – at deeply concessionary rates or absolutely free, in the form of grants, vouchers, free ploughing services or insurance, etc. Thus, this approach helped perpetuate inefficient business and farming practices, leaving villagers at the bottom of the mountain.

According to Mr. Livny, the binding constraint for the development of Georgia's agriculture is not money per se. It is all about leadership, the ability to set clear goals and bring people together around these goals. Unique leaders may sometimes emerge at the community level. Father Peter's honey cooperative in Vani is a very good example of the impact local leadership can have in Georgia's circumstances. Armed with a vision, charisma and popular trust Father Peter took forward (and up) more than 100 households in his congregation. To get his initiative going, he had to pledge his ancestral house to a bank. More recently, thanks to his leadership ability, Father Peter's farmers' group was selected by ENPARD as Georgia's first "second-level" cooperative.

Still, acquiring additional financing remains a challenge given the startup nature of Father Peter's enterprise. Banks are reluctant to finance cooperatives, preferring, instead, to work with individual borrowers. Focusing on service provision to individual members, the coop does not have any valuable assets to collateralize, and its financial savvy may fall short of the Georgian commercial banks' expectation. Still, led by Father Peter, the group is climbing up, gradually improving its management and investing in the marketing and branding of its honey – the standard challenges of any commercial enterprise.

Georgia also knows excellent examples of leadership provided by large private agribusinesses, such as Ferrero's AgriGeorgia. As part of its CSR strategy, AgriGeorgia trained thousands of Georgian hazelnut farmers in modern cultivation and post-harvest techniques, raising their productivity and better connecting them to processors and buyers. Importantly, this activity was supported by USAID, increasing its scale and reducing Ferrero's training delivery costs. USAID and AgriGeorgia's leadership was also key for improving coordination among small hazelnut farmers: creating the Georgian Hazelnut Growers Association (GHGA) and launching "Darchelis Tkhili" – the largest, and probably most successful service cooperative in Georgia.

Large private sector actors, particularly the foreign-invested ones among them, can be great development partners, if their interests are aligned with those of the community in which they operate (e.g. suppliers of raw materials). They certainly have the professional skills and financial resources to provide private extension services and assist in the technological upgrading of agricultural SMEs. Most importantly, private sector partners have a real stake in those branches of Georgian agriculture and those regions in which they operate. Unlike international NGO's that specialize in implementing donor-financed projects, they are there for the long haul.

Finally, coordination and leadership can certainly come from government agencies, such as the ACDA. State-founded service cooperatives could be the solution for coordination failures in areas such as post-harvest treatment, storage, packaging, branding, and export logistics. The main challenge with the government-heavy top-down approach to organizing service cooperatives is to have a smart exit strategy – to gradually reduce the role of government in funding and managing the newly created structures, and creating relevant capacities inside the newly created structures.

Finally, given that public resources – Georgian or international – are ultimately limited, Georgia and its development partners should learn the lessons from previous efforts to develop farmer cooperatives in Eastern Europe and Former Soviet Union. Only service cooperatives – those focusing not on joint production and ownership of agricultural assets but rather on joint use of expensive machinery, procurement of inputs, and marketing – have any chance of success in Georgia.

The highly fragmented pattern of land ownership resulting from Georgia's chaotic land privatizations of the 1990s is certainly not conducive to many types of scale-sensitive commercial agriculture. As a result, the share of small plots (often under 1ha) that are being rented out, sold or otherwise consolidated into modern agricultural farms is constantly on the rise (particularly in Kakheti). This process will inevitably continue despite gaps in land registration and a lack of employment opportunities outside the agricultural sector. While perhaps making economic sense, the alternative model of land consolidation via production cooperatives, such as the Soviet kolkhoz or sovkhoz, has been irrevocably compromised by 70 years of forced collectivization and is effectively dead.

Presentations:

- [Crédit Agricole and other similar European experiences. Lessons learned on access to finance for agriculture. An overview of cooperatives' financing in France](#) – Bernard Fouquet
- [Financial instruments for cooperatives](#) – Juan Echanove
- [Results from the Annual Cooperative Survey: access to finance](#) – Irakli Kochlamazashvili
- [ACDA Programs to support cooperatives: past and future plans](#) – Giorgi Misheladze
- [Revolving fund in ENPARD-coops](#) – Silvia Sanjan Munoz
- [AFD support to smallholders and cooperatives' access to financing: lessons learned and prospects in Georgia](#) – Virginie Dago
- [Value chain financing model, "Darchelis Tkhili" case](#) – Tyler Green

To find out more about ENPARD, please visit: <http://enpard.ge>.

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