

Salome Gelashvili, ISET Policy Institute
Ia Katsia, ISET Policy Institute
Salome Deisadze, ISET Policy Institute
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Food security in times of pandemic in Georgia

The lockdowns and trade restrictions related to the COVID-19 pandemic resulted in shortages of some major food commodities on international and local markets. In this policy brief, we discuss and analyze Georgia's response to the crisis in terms of food security and agricultural policy. Furthermore, we provide recommendations to ensure fewer disruptions in food supply chains and low volatility in food prices.



Background

COVID-19 has posed significant risks to the food security of many countries including Georgia. Lockdowns and pandemic-related trade restrictions across the world have resulted in shortages of some major food commodities on international and local markets (e.g. **sunflower oil shortage in Russia**). As of October 16, 2020, according to a World Bank report, 62 jurisdictions have executed a total of 62 export controls in food commodities since the beginning of 2020 (Table 1).

Table 1. Total number of new export controls and import reforms in the food sector globally since January 2020, by month.

	Export curbs	Import reforms
January	1	7
February	3	7
March	20	16
April	21	32
May	2	7
June	3	9
July	4	11
August	3	15
September	4	14
October	1	3

Source: World Bank Group, Global Alert Team, 2020

Most of the interventions have involved import reforms with the largest number of new regulations imposed in March-April. On August 18, 2020, the Eurasian Economic Commission announced an EAEU import tariff quota on certain agricultural goods, valid for 2021. Turkey has also conducted a price stabilization policy by announcing purchasing prices for apricots, paddy, and dried raisin. On August 5, 2020, the government of Turkey introduced additional customs duties on certain agricultural products including chocolate, pasta, and some food preparations. It also eliminated import duties on wheat and barley in October.

Given that Georgia is a net importer of food, and in light of the trade restrictions imposed by its

major trade partners, food security moved up on Georgia's agricultural policy agenda. In order to weaken the adverse impact of the pandemic, keep food prices stable, and reduce input prices for farmers, the state designed the following set of measures:

- 10M Georgian lari (GEL) from the Ministry of Environmental Protection and Agriculture (MEPA) budget were allocated to subsidize imports of 9 food products: pasta, buckwheat, vegetable oil, sugar, wheat, wheat flour, milk powder, and beans (Legislative Herald of Georgia, 2020). The program subsidized importers' additional costs resulting from exchange rate fluctuations and was implemented between March 15-May 15;
- Additional 16M GEL were allocated for purchasing sugar (5,000 tons), vegetable oil (1,500 thousand liters), and pasta (500 tons) stocks from private companies;
- An anti-crisis plan, "Caring for Farmers and Agriculture", was presented by the state on March 12. The plan entailed two forms of aid: direct assistance to farmers and sectoral support. Some of the support measures included the distribution of so-called "agricultural cards"—subsidies for cattle-breeding and land cultivation services for smallholder farmers (registered farms with plots in the range of 0.25-10 ha); provision of cheap diesel fuel for farmers; nullification of costs of land reclamation services; provision of agricultural loans and insurance; grants for machinery, equipment, and cooperatives.

Results of government interventions

As of October 9, 2020, state support schemes had the following results:

- Up to 165,000 farmers had been granted agricultural cards. The size of the subsidy exceeded 28.9M GEL;
- Under the agro-diesel program (which subsidized fuel prices for agro-producers)



122,000 beneficiaries received discount cards on 32,000 tons of agro-diesel;

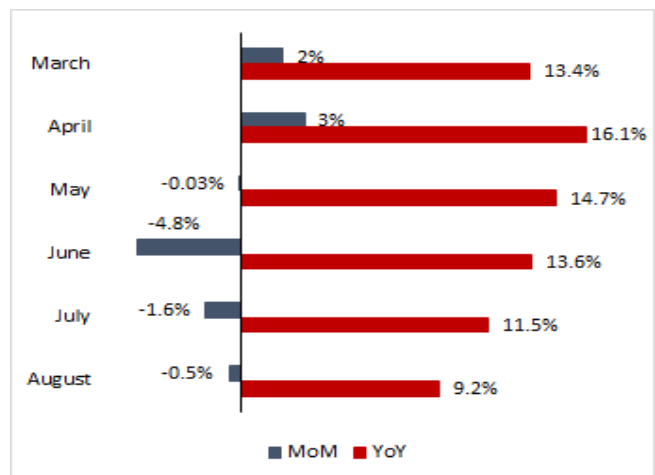
- More than 17,000 policies had been issued and 18,000 hectares (around 2% of agricultural land) had been insured under the agro-insurance program. The value of the insured crop exceeded 160M GEL;
- Across different regions of Georgia, 255 applications for modernization of the dairy sector were approved. In total, 12.4M GEL were spent on this program;
- 2,215 agro-loans had been issued with a 6-month interest rate covered by the state. The total amount of loans exceeded 40M GEL, including the co-financing of interest rates, which exceeded 3.3M GEL.

While many farmers have benefited from state support programs, these programs were not directly focused on the main consequences of the pandemic. The major threats posed by the pandemic - disruptions in food supply chains leading to decreased sales of agricultural products and price volatility - were not sufficiently addressed by the state support programs. According to the Georgian Farmers' Association (GFA), 55% of surveyed farmers and agricultural business representatives encountered complications with product realization due to pandemic-related restrictions. Most farmers depend on the HoReCa (hotels, restaurants, and cafés) and hospitality sector, and their products are largely procured for accommodation and food facilities. 60% of those surveyed claimed that they were simply unable to sell their products due to the closure of hotels, restaurants, and cafés.

Food price dynamics

During March-May 2020 - the first months of the pandemic - food prices in Georgia showed an upward trend on both a month-on-month and year-on-year basis (Figure 1).

Figure 1. Month-on-month and year-on-year changes in food prices



Source: GeoStat, 2020

The main explanation is likely the depreciation of the GEL against the US dollar: during March-May 2020, the GEL depreciated against the USD by 15.8% from 2.71 to 3.14 compared to March-May 2019 (National Bank of Georgia, 2020). As Georgia is a net importer of food commodities, the depreciation of the GEL put upward pressure on food prices. To limit the GEL depreciation and its impact on food prices, the Government of Georgia subsidized additional costs of importers of major food commodities arising from exchange rate fluctuations. The price restraint mechanism involved negotiating with food importers to not increase prices of their commodities and setting the exchange rate of the GEL against the USD at 3, while the Government of Georgia subsidized the corresponding difference between the actual and fixed exchange rates. Despite minimizing the effects of GEL depreciation, food prices in Georgia experienced a significant increase during the observed period: disruptions in supply chains associated with the COVID-19 pandemic led to food shortages that further increased food prices.

In April, annual food price inflation marked its highest level at 16.1% during March-August 2020. Since then, annual food price inflation has been decreasing as farming activities resumed after COVID-19-related restrictions were relaxed and seasonal (locally produced) agricultural products appeared on the market. Accordingly, food prices started to decrease on a monthly basis.



However, with very few exceptions, prices for major food commodities that were subsidized by the state during March-May increased for both month-over-month and year-on-year comparison (Table 2). On a monthly basis, the biggest price changes were observed for sugar; while on annual basis prices for buckwheat increased the most.

Table 2. Year-on-year changes in prices of major food commodities, March-September 2020

	March	April	May	June	July	August	September
Rice	📈 4.7%	📈 7.6%	📈 7.6%	📈 12.9%	📈 16.8%	📈 15.5%	📈 15.3%
Pasta	📈 10.7%	📈 15.0%	📈 15.0%	📈 24.1%	📈 24.3%	📈 22.8%	📈 21.9%
Buckwheat	📈 63.1%	📈 74.2%	📈 74.2%	📈 78.0%	📈 122.8%	📈 122.7%	📈 107.8%
Sunflower oil	📈 9.3%	📈 11.3%	📈 11.3%	📈 13.7%	📈 12.1%	📈 12.8%	📈 10.8%
Sugar	📈 27.3%	📈 35.5%	📈 35.5%	📈 21.6%	📈 7.9%	📉 -2.8%	📉 -5.4%
Wheat flour	📈 17.6%	📈 21.2%	📈 21.2%	📈 17.5%	📈 17.1%	📈 14.6%	📈 10.6%
Beans	📈 13.4%	📈 21.4%	📈 21.4%	📈 27.8%	📈 26.8%	📈 29.8%	📈 29.1%
Milk products	📈 12.9%	📈 14.9%	📈 14.9%	📈 15.7%	📈 13.7%	📈 11.3%	📈 10.5%

Source: GeoStat, 2020

While food prices could have increased even more in the absence of subsidies, it appears that the state measures did not fully reach their objectives and could not fully overshadow the adverse impact of the pandemic and GEL depreciation.

Recommendations

The pandemic has shown the need for increasing the level of food security in Georgia. Given the multidimensional nature of food security, a longer-term policy should consider not only an

increase in domestic production of key food commodities but also a diversification of import markets to ensure low volatility in food supply and prices. As an immediate response to the pandemic, it is recommended to:

- further subsidize farm inputs in order to reduce the current costs of production;
- support farmers in selling their produce;
- develop state programs that strengthen local producers;
- focus on diversification of import markets for food commodities which constitute a high share of households' consumption basket.

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Salome Gelashvili

ISET Policy Institute (ISET-PI)
s.gelashvili@iset.ge
www.iset-pi.ge

Salome Gelashvili is an acting head of Agricultural and Rural Policy Research Center at ISET-PI. Salome is supervising all the research projects and regular analytical publications of the center. Her research interests include Agricultural Economics, Development Economics and Macroeconomics.

Salome has a BA degree in business administration from Iv. Javakhsishvili Tbilisi State University (TSU) and a MA degree in Economics from International School of Economics at TSU (ISET).



Ia Katsia

ISET Policy Institute (ISET-PI)
i.katsia@iset.ge

www.iset-pi.ge

Ia Katsia is a deputy head of the Agricultural and

Rural Policy Research Center at ISET Policy Institute. Ia focuses her research on agricultural and rural development policy. She is responsible for the monthly Khachapuri Index publication. Her main research interests are: Agriculture Economics, Climate Change, Food Security and Sustainable Development.

Ia Katsia is a graduate of the International School of Economics at Tbilisi State University (ISET) with a specialization in Agricultural Economics.



Salome Deisadze

ISET Policy Institute (ISET-PI)
s.deisadze@iset.ge
www.iset-pi.ge

Salome Deisadze is a senior researcher at Agricultural and Rural Policy Research Center at ISET Policy Institute. Along with other research projects, she is involved in Agri Review publishing and writes monthly highlights on food price changes in local and international markets. Her research interests lie broadly in the area of agricultural economics and rural development.

Currently, Salome Deisadze is a Ph.D. candidate at Tbilisi State University. In 2016, she received a Master's degree in economics at ISET.

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