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EU-SUPPORTED AGRICULTURAL COOPERATIVES IN GEORGIA

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ENPARD - European Neighbourhood Programme for Agriculture and Rural Development

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The European Union for Georgia
ENPARD

The European Union (EU) is supporting Georgia to reinvigorate rural sector through the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD). Implemented since 2013, with a total budget of EUR 179.5 million, the main goal of ENPARD is to reduce rural poverty in Georgia. The first phase of ENPARD in Georgia focused on developing the potential of agriculture. The second and the third phases focus on creating economic opportunities for rural population that go beyond agricultural activities. More information on ENPARD is available at: www.enpard.ge

DISCLAIMER

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Any errors remaining in this text are the responsibility of the authors.

List of Abbreviations

ABCO	Association of Business Consulting Organizations of Georgia
ACDA	Agricultural Cooperatives Development Agency
ACS	Annual Cooperative Survey
APMA	Agricultural Projects' Management Agency
CARE	Cooperative for Assistance and Relief Everywhere
CIS	Commonwealth of Independent States
ENPARD	European Neighborhood Programme for Agriculture and Rural Development
EU	European Union
EUR	Euro
FAO	Food and Agriculture Organization
GDP	Gross Domestic Product
GEL	Georgian lari
GeoStat	National Statistics Office of Georgia
GFA	Georgian Farmers' Association
ICC	Information and Consultation Center of the Ministry of Agriculture in the Municipalities
IDP	Internally Displaced Person
ISET	International School of Economics at Tbilisi State University
MoA	Ministry of Agriculture of Georgia
M&E	Monitoring and Evaluation
NGO	Non-Governmental Organization
NTFP	Non-Timber Forest Product
OECD	Organisation for Economic Co-operation and Development
PEST	Political, Economic, Social, and Technological
PIN	People In Need
ROA	Return on Assets
SWOT	Strengths, Weaknesses, Opportunities and Threats
UNDP	United Nations Development Programme

Executive Summary

The agricultural cooperative movement started a few years ago in Georgia and the registered farmer groups are currently still at the embryonic stage of development. The Soviet legacy and rather negative attitude towards earlier forms of cooperation (*Kolkoz* and *Sovkhoz*) has gradually faded among farmers, and today more than 1,400 cooperatives are registered with the Agricultural Cooperative Development Agency under the Ministry of Agriculture of Georgia.

It might be the case that most registered because of the favorable programs and projects directed at cooperatives coming from donor organizations and the Government of Georgia. The main program that supported cooperative development in Georgia, is the European Neighborhood Programme for Agriculture and Rural Development (ENPARD). Consortia of the following organizations implemented ENPARD's cooperation development component: CARE, Oxfam, Mercy Corps, People in Need and UNDP Georgia. In a 4-year period of operation, the program directly supported more than 280 cooperatives by purchasing assets (mainly fixed assets) and providing intensive technical support via training sessions, bringing experts to the field, building market linkages and providing day-to-day support in many other directions.

Not many studies have been undertaken on modern agricultural cooperatives in Georgia, which first started to be established in 2014. This report is a rare effort to describe and evaluate the development of such cooperatives in Georgia; focusing in particular on the 281 cooperatives that were directly supported by ENPARD. The results of this report represent the data received from those cooperatives that unite 4,666 members (34% female) as of the end of 2017. The biggest cooperative had 1,303 members at the time of the survey, and the smallest had just 3. However, if we consider the median number of members per cooperative, this increased from 8 members in 2014 to 10 members in 2017.

ENPARD invested 13.6 million GEL in the abovementioned 281 cooperatives, and 4.4 million GEL was invested by the members of the cooperatives themselves as a direct initial investment. In addition, over the four-year period, another 8 million GEL was invested from different sources, including the government, private sector and donors other than ENPARD. In total, about 26 million GEL was provided as direct investment in those 281 cooperatives, amounting to approximately 92,000 GEL per cooperative.

As an immediate effect, since the beginning of the ENPARD project in 2014, the average value of assets used by the cooperatives increased dramatically by 300% per cooperative by 2017. The total value of fixed assets used by those cooperatives at the end of 2017 was 62.3 million GEL, which is 227,000 GEL on average. The top fixed assets by value include all types of agricultural land, buildings, movable machinery and farm attachments, and stationary machinery and equipment. Some 47% of the total value of assets is owned by members of the cooperatives (but is used in cooperative activities), 23% of the total value of assets was purchased by ENPARD, 14% was purchased by the cooperatives after their establishment, 13% was leased, and the remaining 2% was purchased from other sources.

Between 2014 and 2017, many cooperatives doubled the number of their paid employees. The study also shows that women are actively involved at all levels in agricultural cooperatives. In total, 53% of members or paid employees are women. Women also take leading managerial positions in a number of cooperatives – out of all the cooperatives surveyed, 21% of management board members are women.

For now, the line between production and service cooperatives is not clearly defined. Many cooperative members are involved in both production activities as well as in service activities (purchasing inputs, processing and marketing goods together, etc.). However, it seems that the surveyed cooperatives tend to prefer cooperation in production. Apiculture is the most favored sub-sector of agriculture for cooperation, then comes cereal and hazelnut cooperatives. Viticulture and potato cooperatives complete the top five sub-sectors of the agriculture value chain in which the ENPARD-supported cooperatives are involved.

It takes time to see results in agriculture. However, we can discuss general tendencies observed in these ENPARD-supported cooperatives. The average production value increased by 37%[1] in 2017 compared to 2014; however, the figures for 2015 and 2016 were slightly better than for 2017. The latter decline was caused mostly by problems in the hazelnut sector stemming from the stinkbug outbreak and the spread of disease in the hazelnut plantations of western Georgia. If we exclude hazelnut cooperatives from our sample, the value of production per cooperative has been steadily increasing over the last four years in both nominal and real terms. However, production very much depends on the "agricultural year" – weather conditions, and also diseases and pests – which means that production risks remain high. Marketing risks are also high because of the lack of contract-based linkages with buyers.

This survey also revealed that, according to the cooperatives and despite the huge support received from ENPARD and government programs, access to finance and capital remains the top constraint for cooperative business development, even though this constraint has had a decreasing trend since 2014.

Based on the challenges we identified during the study, we propose a set of recommendations with the goal of fostering the development of nascent agricultural cooperatives. The key recommendations focus on continuing research on cooperatives, updating the law on agricultural cooperatives, increasing accessibility to finances, and tailoring support programs towards farmer groups who are well-aware of the principle of cooperatives and are (or have high potential to be) good at managing cooperatives and developing service cooperatives.

1 In nominal terms. In real terms (adjusted by inflation), growth was 22%.

Introduction

Starting in 1992, Georgia was among the first former Socialist republics to implement a large-scale land redistribution plan. This land redistribution resulted in the creation of hundreds of thousands of small landowners, replacing the large-scale collectives and production cooperatives – *Sovkhozes* and *Kolkhozes* – of the Soviet period (Lerman & Sedik, 2014). The main purpose of this land privatization process was to help a large part of the population survive the extremely hard times that followed the dissolution of the Soviet Union.[2] The 1990s were a hard time for Georgia and for its agriculture too. Agriculture had been decreasing by 11% annually between 1991-2000; even after this period its recovery was very modest, lagging behind the rest of the economy at growth of 0.6% per year between 2001-2012 (Millns, 2013).

As a result, today's Georgian agricultural sector may be described more as a missed opportunity than a success story. While employment in agriculture remains high (involving about half of the country's workforce), the share of agricultural output is only around 9.0% of total GDP (GeoStat, 2016). According to the 2014 Census of Agriculture, there are 574.1 thousand agricultural holdings in Georgia, of which only 2.2 thousand are legal entities and the remaining 571.9 thousand are households (with an average farm size of 1.2 ha). Land fragmentation is considered to be one of the main obstacles for the development of Georgia's agriculture. However, small farm sizes do not necessarily imply low productivity. Across the world, small farms have been found to be highly productive, sometimes more so than larger ones (Barret, 1993; Sial, Iqbal & Seikh, 2012). Still, small farms need a supportive environment to flourish. In particular, small farmers are hampered when access to credit, marketing and technology is limited – as is the case in Georgia.[3]

Agricultural cooperatives are found all over the world as they represent one of the best organizational forms for small farmers to gain from economies of scale, achieve higher efficiency, and increase bargaining power in the different steps of the value chain (Lerman & Sedik, 2014). The development of agricultural cooperatives has been identified by both international donors and the Georgian government[4] as a promising way to encourage the development of the Georgian agricultural sector. However, Georgian farmers seemed to be reluctant to form cooperatives. Among the main reasons for this reluctance, as identified by recent studies, was the lack of trust in such institutions which is often associated with the Soviet *Kolkhozes and Sovkhozes*. Another reason was the lack of a coherent legislative framework for regulating agricultural cooperatives[5].

The European Union is supporting agriculture and rural development in Georgia through its European Neighbourhood Programme for Agriculture and Rural Development in Georgia (ENPARD Georgia). Implemented since 2013, over a ten-year period (2013-2022), this program aims to invest 179.5 million EUR with the goal of reducing rural poverty in Georgia.[6] The program is implemented in three phases. The first phase of ENPARD, which is now concluding, focused on developing the potential of agriculture. The second and third phases focus on creating economic opportunities for the rural population that go beyond agricultural activities.

One of the main objectives of the first phase of ENPARD Georgia (2013-2017) was to strengthen cooperation amongst small farmers across the country.[7] The government of Georgia elaborated and passed the Law on Agricultural Cooperatives (July 2013)[8] and established the Agricultural Cooperative Development

2 See: http://iset-pi.ge/index.php/en/iset-economist-blog-2/entry/to-cut-or-not-to-cut-shifting-government-priorities
3 See: http://iset-pi.ge/index.php/en/iset-economist-blog-2/entry/to-cut-or-not-to-cut-shifting-government-priorities
4 Strategy for Agricultural Development in Georgia, 2015-2020, p.20.
5 See: http://iset-pi.ge/index.php/en/iset-economist-blog-2/entry/to-cut-or-not-to-cut-shifting-government-priorities
6 See: www.enpard.ge
7 See: http://enpard.ge/en/about-us/#1441874023759-fa988392-b9adabf7-9fbd
8 See: https://matsne.gov.ge/en/document/download/1972742/0/en/pdf

Agency (ACDA) under the Ministry of Agriculture to support the development of agricultural cooperatives throughout Georgia. Starting from the first registration of cooperatives in March 2014, to date more than 1,400 agricultural cooperatives have been registered, which unite about 13,300 members (ACDA, 2017).

ENPARD's small farmers' cooperation component was implemented by the consortia led by a number of international NGOs: CARE[9], Oxfam[10], Mercy Corps[11], People in Need (PIN)[12] and the UNDP[13]. Those implementer organizations provided technical and financial support to the selected agricultural cooperatives through a rigorous selection process that involved two to three stages of competition. This report is based on a database collected annually from ENPARD-financed cooperatives, which included 281 cooperatives over the course of the project's implementation (2013-2017).

Purpose and Objectives of the Study

During the course of project implementation, the ENPARD consortia decided to use common monitoring and evaluation tools to study the development of ENPARD-supported agricultural cooperatives, and to track the development of cooperatives across the country in general. This idea was supported by the ENPARD management from the European Delegation to Georgia. As a result, in spring 2015, the monitoring and evaluation (M&E) working group established at the beginning of the ENPARD projects with the involvement of four consortia (led by CARE, Oxfam, Mercy Corps, and People in Need), became actively engaged in the development of a common M&E system. The ISET Policy Institute, a partner of the CARE consortium, took the lead in developing the survey methodology. The developed methodology and tools have steadily been updated based on the lessons learned from each year's survey.

While designing the survey questionnaire, the M&E working group members focused on indicators that were common for all implementers and that were important for the project from many different angles. The survey included questions on general information regarding cooperatives and their members, management and employees, on their assets and financial performance, marketing, relations with local input/service providers, and constraints for cooperative business development. However, the questionnaire had to be simple because of limited resources – including the time constraints faced by the enumerators (generally comprising the monitoring and evaluation officers or coordinators from each consortium). Moreover, it should be noted that the objective of this survey was not to measure all of the program indicators given in the logical framework of each implementer consortia and organization. For the latter purpose, each organization used additional surveys such as baseline and endline surveys at the general household and direct beneficiary levels. The annual cooperative survey (ACS) was designed to track the progress on the development of ENPARD-supported cooperatives as a whole, in an attempt to find the evidences that would eventually allow improved policies for cooperative development.

9 The CARE consortium included the Regional Development Association (RDA), the Georgian Farmers Association (GFA) and International School of Economics at Tbilisi State University (ISET). It was partly financed by the Austrian Development Cooperation.
10 The Oxfam consortium included Action Against Hunger (ACF), the Biological Farming Association "Elkana", and the Rural Communities Development Agency (RCDA).
11 The Mercy Corps consortium included the Association of Business Consulting Organizations of Georgia (ABCO), the "Agroservice" union and the Georgian Institute of Public Affairs (GIPA).
12 The People in Need consortium included the Young Economists Association (AYEG) and the Czech University of Life Sciences Prague. It was partly financed by the Czech Republic's Development Cooperation.
13 The UNDP implemented ENPARD in Adjara.

Research Methodology

The Monitoring and Evaluation (M&E) working group has worked together since the beginning of 2015. The UNDP, which is implementer body of ENPARD in the Adjara region, joined the working group in 2017. The monitoring and evaluation of ENPARD-supported cooperatives is conducted annually, and the results are reported to stakeholders on a regular basis.

In the beginning of 2015, the M&E working group developed a questionnaire for the ACS. Upon the completion of the first draft of the survey questionnaire, the monitoring and evaluation officers of each consortium separately conducted pilot testing of the questionnaire, and the M&E working group subsequently incorporated all of the feedback into the final design. In order to avoid different understanding and interpretations of the questions, training for enumerators took place at the beginning of each annual survey.

Because of differences in the selection phases and among the ENPARD implementers' selection schemes, the selection process for supported cooperatives started in 2014 and continued until the end of 2017. Therefore, the survey in each consecutive year included an increasing number of cooperatives as more and more cooperatives became beneficiaries of ENPARD. Because of this, the baseline year differs among cooperatives. The survey timeline and the number of cooperatives surveyed by the implementer organizations are given in Table 1 below.

Table 1: Survey timeline and number of cooperatives surveyed over 2014-201714[14]

Reporting Year	MC	CARE	OXFAM	PIN	UNDP	TOTAL	Survey Period [14]
2014	24	17	32	9	43	**125**	Up to October, 2015
2015	36	28	32	22	64	**182**	April-May, 2016
2016	69	34	48	31	76	**258**	January-February, 2017
2017	73	49	52	32	75	**281**	October-November, 2017

Face-to-face interviews took place with the most knowledgeable persons at the cooperatives (m1ainly the heads of the cooperatives); the enumerators were the M&E officers and/or coordinators from each ENPARD implementer consortium lead or partner organization. The average time for administrating the survey was about one hour. After conducting the interviews, the enumerators entered data into a special spreadsheet file developed for the survey, and then sent it to the ISET Policy Institute. Later, all data were merged, cleaned, checked and transferred into statistical software for analysis. In addition to the data received from the ACS, we used insights from numerous meetings and conferences, and the literature review in the analytical part of this report to complement the quantitative data with qualitative analysis. One such conference communique is provided in Annex 1.

In addition, the competitiveness of agricultural cooperatives in Georgia is analyzed (based on the ENPARD-supported cooperatives) by using the descriptive techniques of PEST[15] and SWOT[16] analysis (see Annex 1 and Annex 2, respectively).

14 UNDP Adjara joined the survey in March 2017 and the data on the reporting years 2014, 2015 and 2016 for their supported cooperatives were collected in March-April 2017 by using a retrospective data collection methodology.

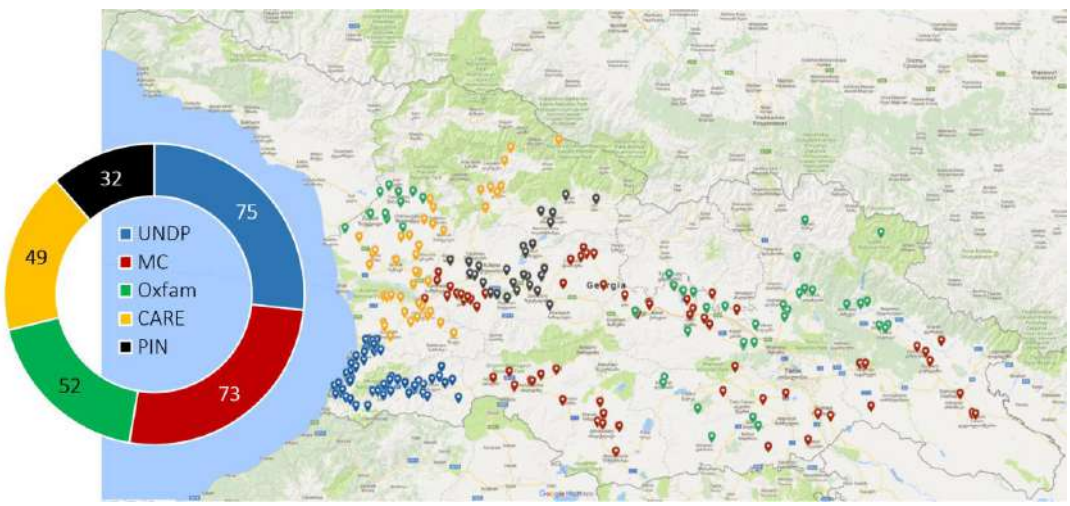
15 PEST (Political, Economic, Social, and Technological) analysis describes the macro-environmental factors affecting agricultural cooperatives.

16 SWOT (Strengths, Weaknesses, Opportunities, and Threats) analyzes the internal and external factors of the agricultural cooperatives that are pros and cons to achieving the objective.

Survey Areas

The survey area included all target municipalities where the ENPARD implementers (CARE, Mercy Corps, Oxfam, People in Need, and UNDP Adjara) worked to develop agriculture cooperatives. In total, the survey was conducted in 55 municipalities, across nine regions and one autonomous republic of Georgia. On the map below, all 281 surveyed cooperatives are shown as pinpoints in their registration locations (colors indicating the implementer consortia).

Figure 1: Locations of the ENPARD-supported Cooperatives



Note: Some pinpoints might overlap as some cooperatives are located closely to each other.

We put forth a discussion of the research limitations in designing, pilot testing, and implementing the survey in the section below.

Research Limitations

The main challenges faced during the M&E working group process were formulating the final version of questionnaire and avoiding different interpretations of the questions by different enumerators. Significant additional problems were posed by data collection challenges (missing data, wrong or unreliable data, etc.) that necessitated double-checking (cross-checking the data, calls to cooperatives, etc.). In many cases bookkeeping is not properly undertaken in the cooperatives and the financial information provided in the report does not include evidence from financial documents (such as balance sheets, cash flow and income statements). Data is self-reported by the cooperatives and in most cases are not verified by official documents. However, as a control system, the consortia crosschecked the information from the ACS with monthly monitoring internal reports to ensure the consistency of the data.

In each year of the survey, there were cooperatives that did not provide comprehensive information because they were newly established at the time of the survey and did not have information on some questions (e.g. production and income).

UNDP Adjara became involved in the process at the beginning of 2017. Because of this, the UNDP-supported cooperatives were surveyed retrospectively in March-April 2017 regarding the years 2014-2016.

The data comparison in this report is based on the average data of surveyed cooperatives, the number of which has been increasing during the last four years because of different rounds of selection. So, the average figures for 2014 are calculated based on the data from 125 cooperatives, whereas the same indicators for 2017 are based on the data from 281 cooperatives (details are given in Table 1). Moreover, because of time constraints, the survey for 2017 was conducted during October and November 2017, so the data for 2017 include a projection made by the cooperatives for the remaining months till the end of the year.

Although this survey faced these limitations, it provides good insight into the development of the ENPARD-supported cooperatives. In addition, this is a rare example of a survey conducted on modern agricultural cooperatives in Georgia, which thus increases its importance. However, further and deeper research is recommended. This survey methodology and the data collected will provide a good basis that can be built upon in coming years.

Main Findings

General Information

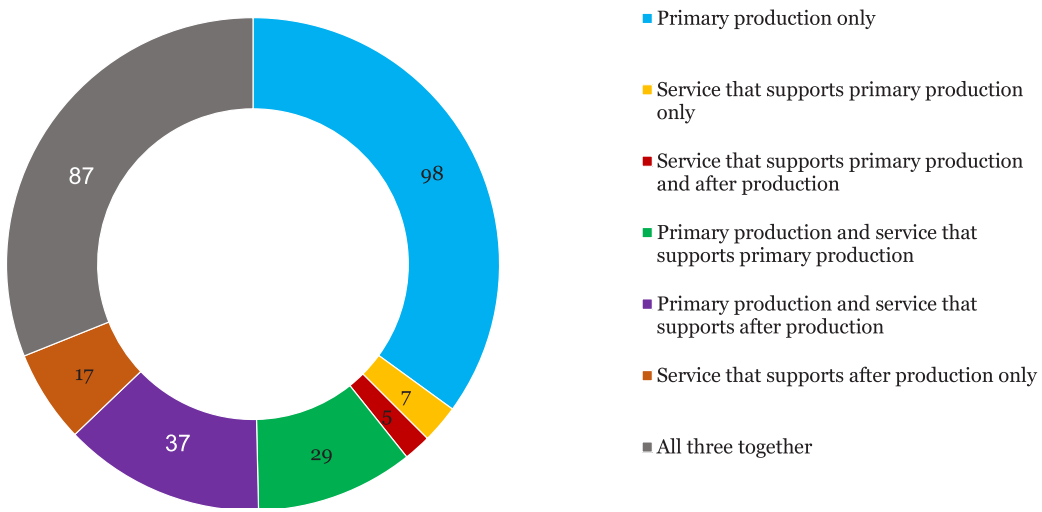
For the final reporting year of 2017, we analyzed the data of 281 ENPARD supported cooperatives. Among those cooperatives, 75 were supported by the UNDP, 73 by Mercy Corps, 52 by Oxfam, 49 by CARE, and 32 by the PIN consortia. The emphasis was on the value of production and services generated by the cooperatives, rather than on their incomes (because the data collection process took place during 2017 when most of the cooperatives had not yet converted their products into revenues). Nevertheless, we performed comparative analyses of 2017 and the previous years to grasp the dynamics of cooperatives' development.

The vast majority (265) of the surveyed cooperatives are first-level cooperatives, while 13 first-level cooperatives are also members of secondary cooperatives, and three cooperatives are secondary cooperatives themselves.[17] Slightly more than two fifths of all these cooperatives were involved in a single stage of a value chain, and the remainder spread their activities across several stages of the value chain. More than one third of the cooperatives are primarily production cooperatives, meaning that the members jointly engage in the production process and sell their output to outsiders. Only about 10% of farmer groups are cooperating at the service level, and those might be considered as (pure) service cooperatives.[18] The remainder of the cooperatives are engaged in several steps of the value chain, including production, service provision to production, or after harvest treatment (storage, processing, branding and marketing). A detailed breakdown of their involvement in value chains are given in Figure 2 below.

17 A first-level (or primary) agricultural cooperative is a cooperative where all members are individual farmers. A second-level (or secondary) cooperative is established by first-level cooperatives.

18 The distinction between production and service cooperatives is taken from Lerman & Sedik (2014). Details are provided in Annex 4.

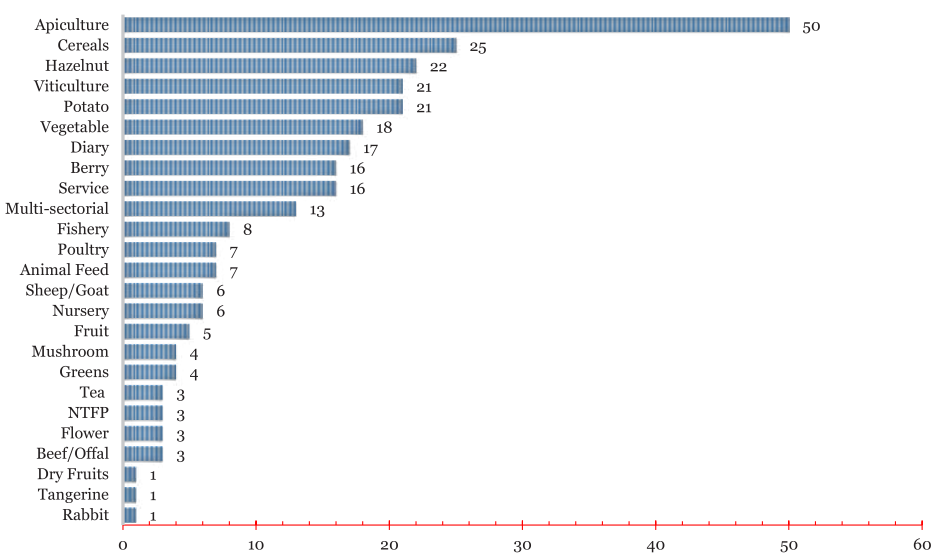
Figure 2: Cooperatives' Involvement in the Value Chain



The surveyed cooperatives have been registering since March 2014, when the first cooperative was officially registered by the Agricultural Cooperative Development Agency. However, not all ENPARD-supported farmer groups are registered as official agricultural cooperatives. A total of 82 of surveyed cooperatives were registered in 2014, 126 received official status in 2015, 37 in 2016 and 14 in 2017. A further 22 cooperatives did not have official status because the implementer organization did not require this status for benefitting from a grant and technical support. Out of the total surveyed cooperatives in 2017, approximately two thirds reported that their members had prior experience working together in agriculture.

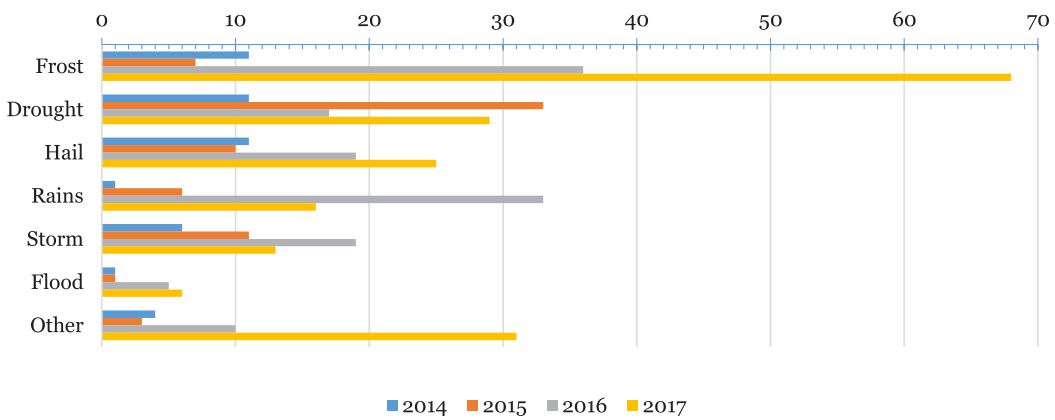
The most favored sub-sector of agriculture for the ENPARD project was apiculture (50 coops.), which was followed by cereals (25 coops.) and hazelnuts (22 coops.). In total, more than twenty value chains were financed by the program. A detailed sectorial breakdown is given in Figure 3.

Figure 3: Cooperatives by sub-sector in 2017



According to the surveyed cooperatives, 2014 was the least problematic year with regard to natural disasters as only 41% of cooperatives suffered from unfavorable weather conditions in that year. In contrast, 2017 was the only year during the last four years when more than half of respondents (140 cooperatives) reported that a natural disaster had affected their production in the reporting year, with frost (68 cases), drought (29 cases), and hail (25 cases) being the most problematic weather-related challenges (Figure 4). To tackle weather-related problems, only 29 cooperatives had contingency plans, but an additional 100 cooperatives reported plans to develop these in the future.

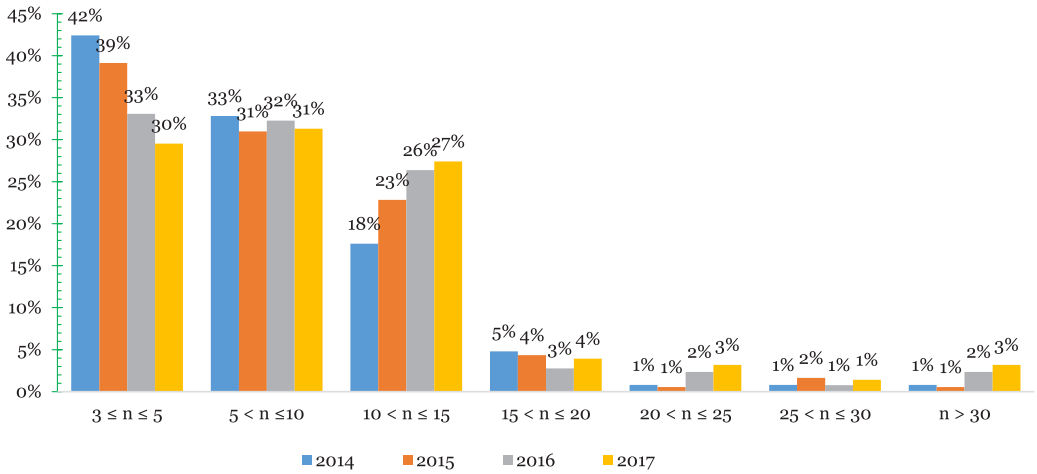
Figure 4: Unfavorable weather conditions affecting cooperative production during 2014-2017



Membership and Management

As of the end of 2017, there were 4,666 members united in the 281 cooperatives surveyed. Interestingly, the average number of members per cooperative has more than doubled in the last four years to reach 16.6. However, only a small part of this growth was related to the net inflow of 113 new members to existing cooperatives in 2017 (40% of cooperatives gained at least one new member, and 7% had at least one member exit the cooperative); the majority of the growth came from the new member-rich cooperatives included in the study. The biggest cooperative during the reporting year had 1,303 members, in contrast to the smallest cooperative with only 3 members. If we consider the median average of the members of cooperatives, this has increased from 8 in 2014 to 10 in 2017. In 2018, the number of members in cooperatives is expected to grow even further, with one third of surveyed cooperatives reporting likely growth, versus just 4% believing the opposite. More detailed information on cooperative membership is provided on Figure 5.

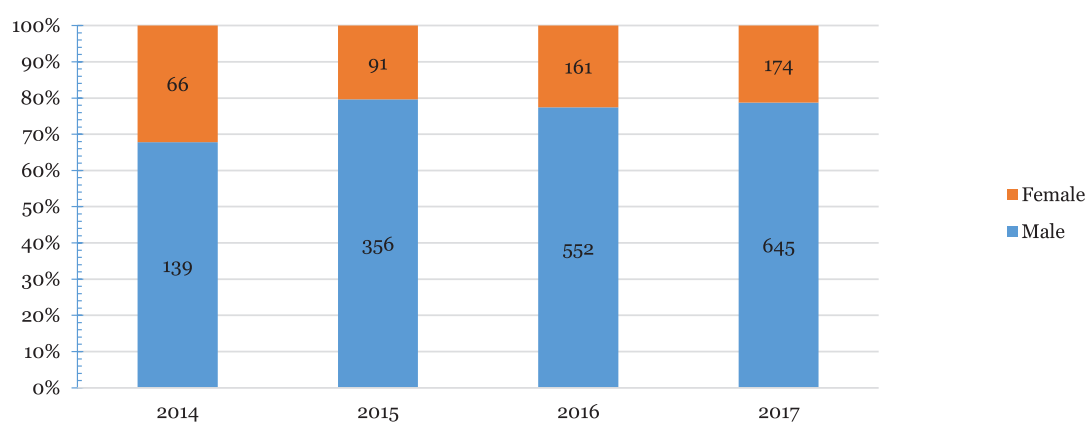
Figure 5: Total Number of Members of the cooperatives in 2014-2017



Diversity among the members of cooperatives

In 2017, the share of female members in the cooperatives reached 34%, while this share equaled 32% in 2016 and stood at 30% in 2014 and 2015. The share of female employees was also on the rise and exceeded 50% in 2016, reaching 53% in 2017. On the other hand, there was no clear trend in female involvement in management boards. The share of females in those positions dropped to 20% in 2015 from 32% in 2014, but has remained almost unchanged since then. Figure 6 displays information about gender disaggregation on the cooperative boards (general assembly and management) through 2014-2017 with the amount of male or female members indicated within the bars.

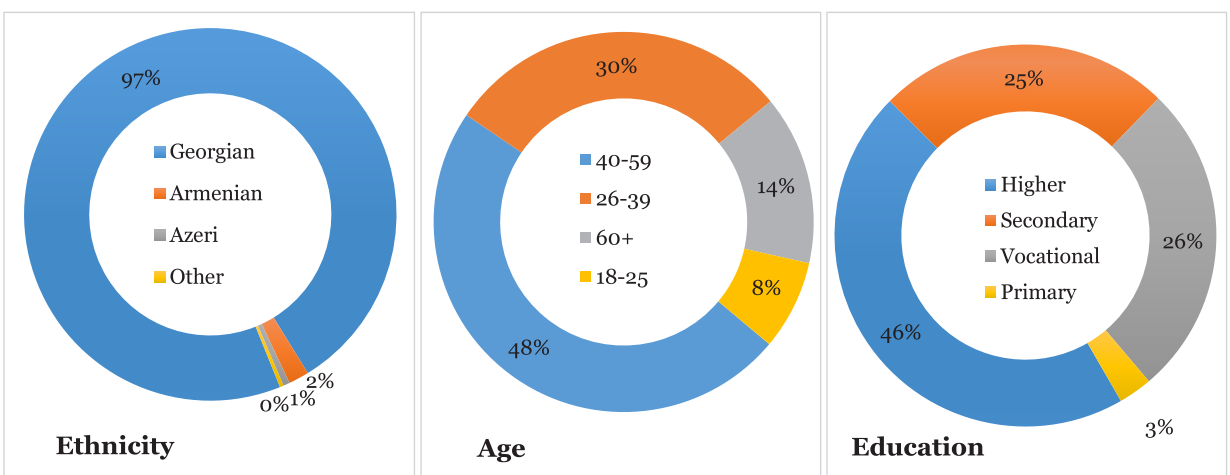
Figure 6: Gender Disaggregation on Cooperative Boards in 2014-2017



A total of 23 cooperatives reported that they did not have a management board in 2017, and 20 of those reported that they did not know that they were required to have one by law. On the other hand, 89% of cooperatives did have a management board and held assembly meetings in 2017. In total, 2,692 people regularly attended these meetings. Additionally, almost three quarters of cooperatives held a management board meeting in 2017, 98 cooperatives had multiple meetings, while 62 cooperatives held meetings on demand. The largest management board was composed of 15 people, while 57 cooperatives had as few as 2 members on their boards. As far as plans regarding the elections of management boards' members are concerned, most of the cooperatives indicated that these would occur once in four years.

Ethnic Georgians constituted the absolute majority of members in 2017, with only one person in every 50 being ethnic Armenian and one in every 100 being ethnic Azerbaijani. There were practically no representatives from other ethnic groups. In addition, 42 internally displaced people (IDP) were represented in 19 different cooperatives. Almost half of the members fell into the 40-59 age category, with an additional 14% being 60 years or older. In contrast, just 8% of the members were aged between 18 and 25, and about 30% of members were aged from 26 to 39. As far as educational background is concerned, a quarter of the members had secondary education, 26% had vocational education and 46% had higher education. The remaining 3% had only primary education. A detailed breakdown of demographic data of members in 2017 is given in Figure 7.

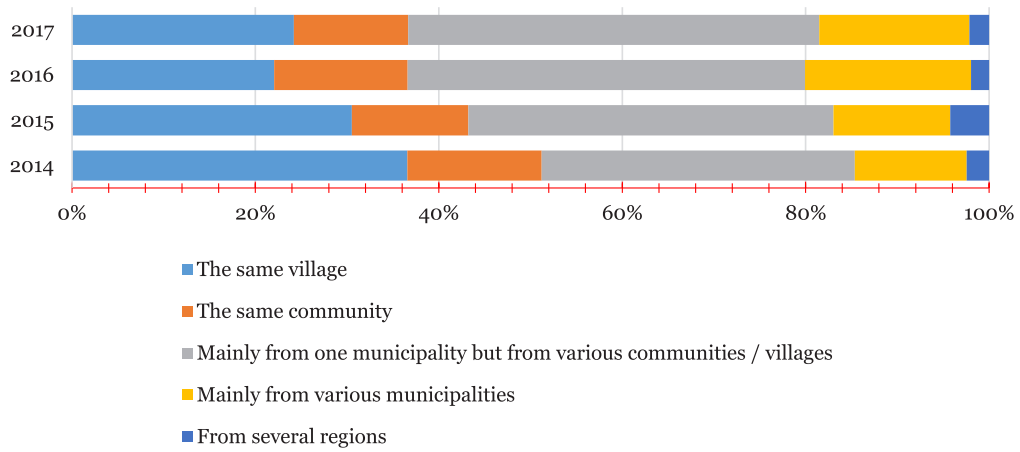
Figure 7: Demographic Data of the Cooperative Members in 2017



It should be noted that during the four-year period, the ethnic structure of the cooperative members remained almost unchanged. On the contrary, the share of people with higher education has been falling since 2015, while the share of young people aged 18-39 shrank by 6 percentage points in 2014-2016, until the trend became positive in 2017.

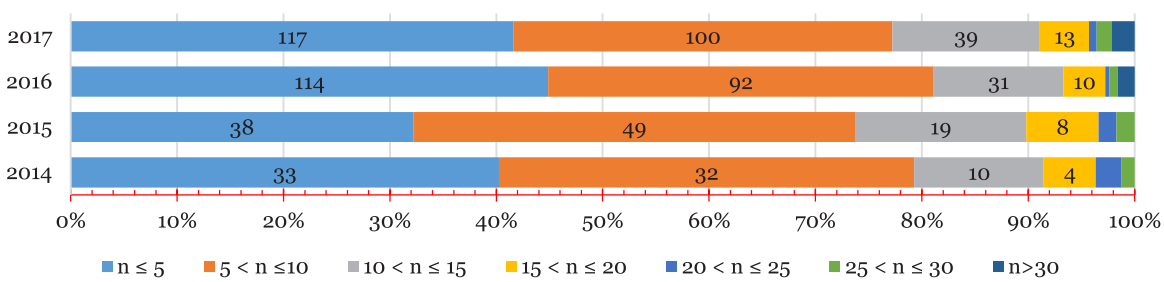
The geographic distribution of members within the surveyed cooperatives was diverse in 2017. There were 46 cooperatives with members mostly from different municipalities of Georgia, and six additional cases when the cooperative united people from different regions of the country. Nevertheless, in almost a quarter of cases, it was only fellow-villagers that were enlisted in a given cooperative. More on this subject is provided in Figure 8.

Figure 8: Geography of Cooperative Members



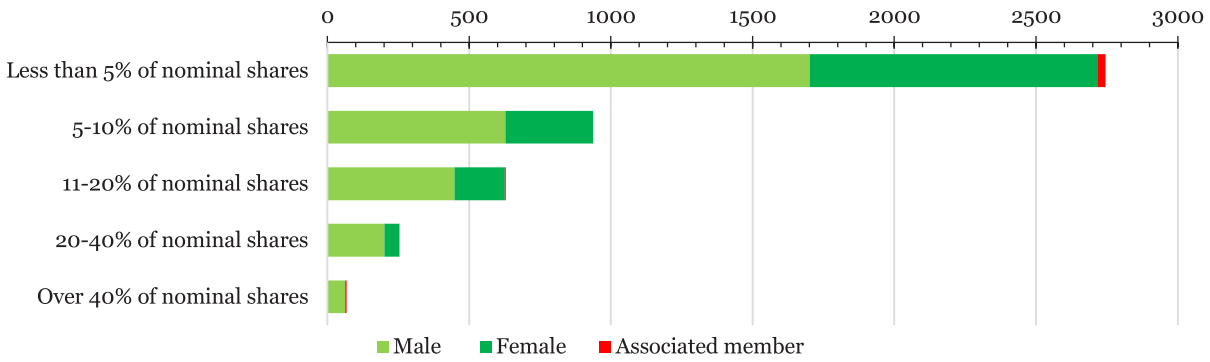
In parallel to the widening geography of the cooperatives and their increasing size, the number of nuclear families in the cooperatives has also risen. There were six cooperatives surveyed in 2017 that united people from more than 30 different families, while there were none in 2014 or 2015. Notably, the largest cooperative had representatives from 995 different families, which is twice the corresponding figure for the second largest cooperative. A detailed breakdown on the topic is given in Figure 9.

Figure 9: Composition of Members of the Cooperatives



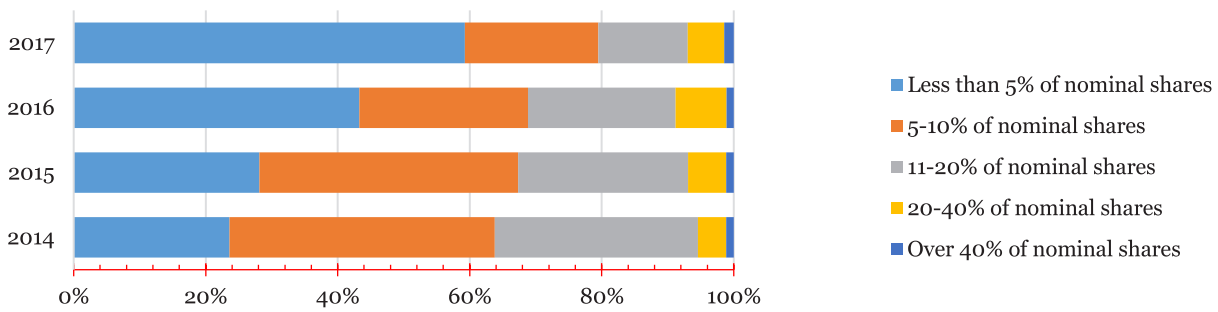
The widening geography and enlargement of the cooperatives is partly responsible for the changes in shareholding structure too. For example, in 2015 shareholders with 5-10% shares in the cooperatives were the biggest group, while in 2016 and 2017 the group of shareholders with less than 5% of cooperative shares were the biggest group. It is a positive sign that more and more cooperatives are gaining associated members – on average, there was one associated member per thousand in 2016, while this ratio increased almost sevenfold in 2017, reaching 26 associated members in total (Figure 10).

Figure 10: Shareholding Structure among Members of Cooperatives (as of end of 2017)



As far as the value of cooperative shares are concerned, one cooperative had shares valued at more than half a million GEL, but the average value of shares per cooperative practically did not increase in the last four years. In 2017, this figure equaled 27,534 GEL per cooperative. It should be noted that in many cases, despite putting additional money into their activities, the cooperatives did not register it immediately as an official share. This can be an explanation of the small figures reported in total equity (Figure 11).

Figure 11: Dynamics of Shareholding Structure

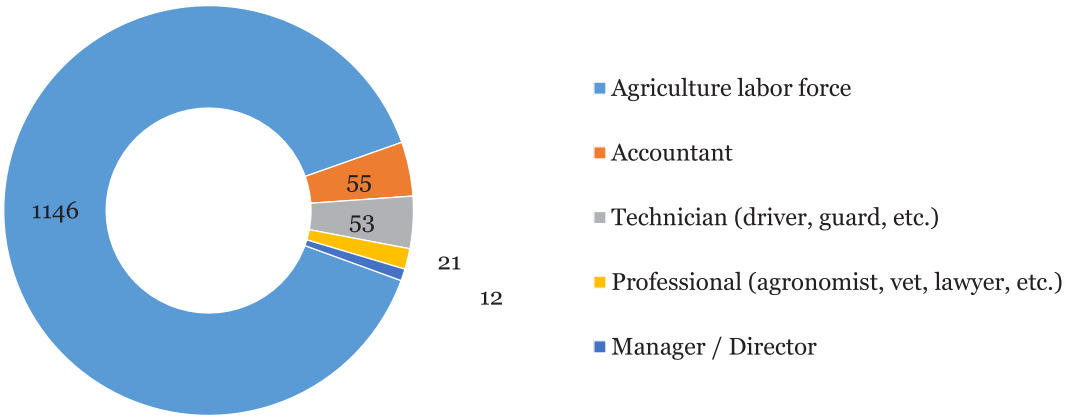


Regardless of geographic distribution, agriculture proved to be the main source of income for more than three quarters of members of the surveyed cooperatives (3,545 in total), while employment in the private sector (besides agriculture) played the same role for 9% of people, and employment in the public sector was the main source of income for 6.5% members in 2017, in which almost half of them were women. It is interesting that the private and public sectors have recently switched second and third place, while social assistance was never the main source of income for any cooperator surveyed during the 2014-2017 period.

Employment in Cooperatives

Year by year, more and more cooperatives (44% in 2017 versus 24% in 2014) are increasingly using external workforces (11.3 workers per cooperative in 2017 versus 7.2 per cooperative in 2014) and in 2017, there were 122 cooperatives (out of 281) that hired 1,287 employees on a salaried basis. Roughly four out of every five employees were seasonal workers, while the rest were full time employees, and to a lesser extent (only 35 people), part-time employees. The cooperatives hired accountants, technicians, agronomists and sometimes even managers as full- or part-time employees. More detailed dynamics regarding the staff employed and the specialization of labor demanded are given in Figure 12.

Figure 12: Occupation of Employees Hired by the Cooperatives



Notably, female employment has been steadily increasing for the past four years, and since 2016 women have represented the biggest share of employed staff (Table 2).

Table 2: Employed Staff in the Cooperatives

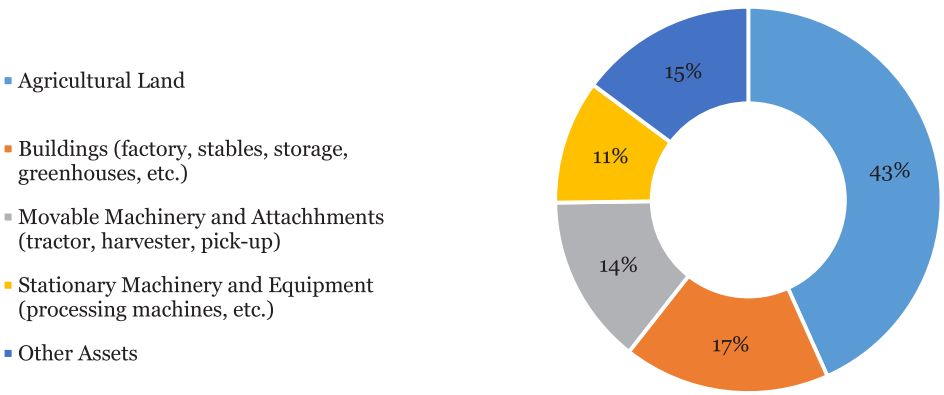
Year	Total number of employees	Average employees per Coop	Share of seasonal workers	Women employees
2017	1,287	11.3	81%	53%
2016	1,062	10.8	73%	51%
2015	474	7.1	83%	45%
2014	215	7.2	50%	44%

In future, employment in cooperatives is expected to grow even further because 133 cooperatives (out of 281) have stated that they plan to hire paid workers in 2018.

Assets Used by Cooperatives

The value of total fixed assets used by cooperatives increased by 300% through 2014-2017, reaching 62.3 mln. GEL in 2017 and amounting to 227,000 GEL per cooperative. The results showed that the main assets used by cooperatives is all types of agricultural land – which account for 43% of the total value. This is followed by buildings, with 17% of value (Figure 13). While looking at the sources of all assets, the highest part (47%) is owned by members of the cooperatives (but are used in cooperative activities); 23% of total value of assets, equal to more than 14 million GEL, were purchased by ENPARD; 14% was purchased by cooperatives after their establishment; 13% was leased, and the remaining 2% was financed from other sources.

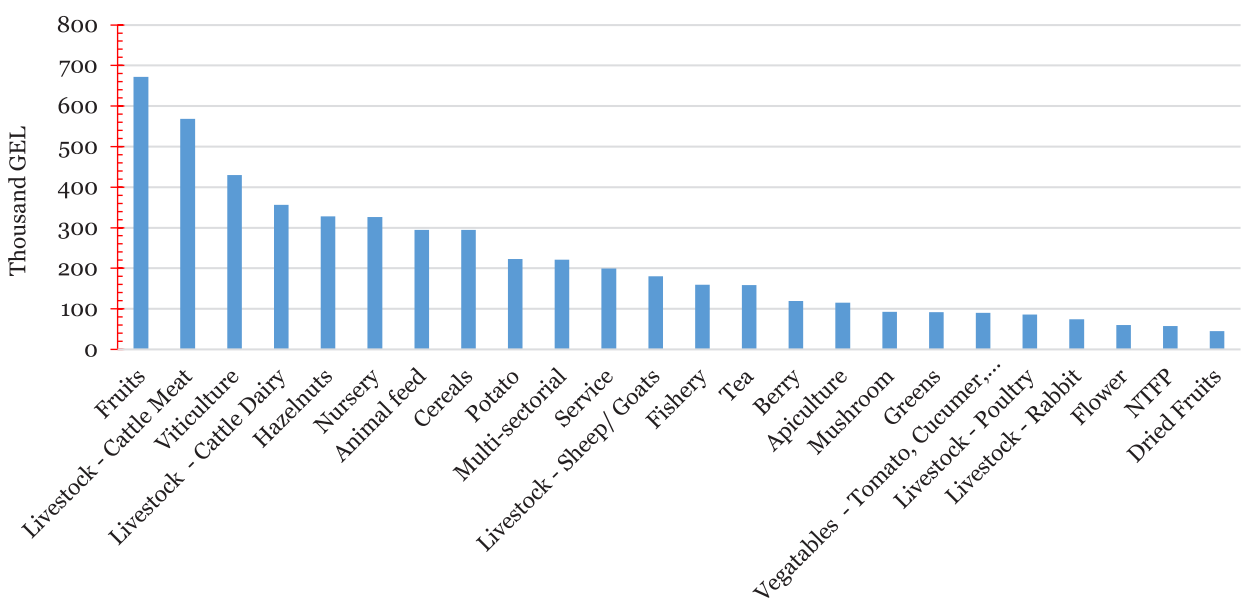
Figure 13: Top Fixed Assets Used by Cooperatives



For production purposes, 38 cooperatives reported using greenhouses in 2017. The main product categories produced in greenhouses were vegetables and greens, berries, and five cooperatives used greenhouses for nurseries.

Figure 14 presents information regarding the average fixed asset value per cooperative by the various sub-sectors of agriculture represented in ENPARD-supported cooperatives. We see that the most asset-rich cooperatives are those operating in the fruit sector, followed by livestock (cattle for meat or dairy), viticulture and hazelnut cooperatives.

Figure 14: Average Fixed Asset Value per Cooperative by Sector

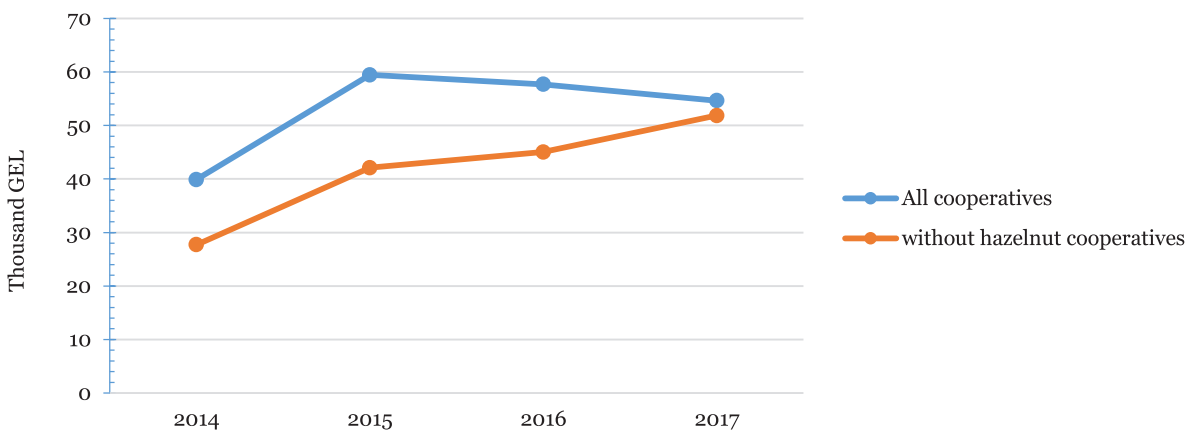


Financial Performance

In this section, we will analyze the dynamics of the 4-year financial performance of the surveyed cooperatives. As mentioned above, the selection of cooperatives started in 2014, and has continued through 2017. Therefore, the involvement of the cooperatives in the annual surveys was a continual process over the whole project period and consequently there are cooperatives with registered data during 1, 2, 3 or 4 years – this also concerns the receipt of financial information. We calculated the mean values for each year and the results of the analyses are provided below. To help understand differences between the cooperatives selected in different years, further analysis can be found later in this section.

The total value of production of all surveyed cooperatives comprised nearly 15 million GEL in 2017[19], which translates into 55,000 GEL on average per cooperative. The latter exceeds the corresponding value of 2014 by 37% in nominal terms, and by 22% in real terms; however, the average production value of 2017 was less than the average production value of 2015 or 2016. The latter was mostly a result of the stinkbug outbreak and spread of disease in the hazelnut sector that affected the harvest in 2017. If we exclude hazelnut cooperatives for that reason, steady year-by-year growth is noticeable; however, the growth rate since 2015 has been rather slow in both nominal and real terms.

Figure 15: Average Production Value per Cooperative 2014-2017



As far as average income and profit in the calendar years are concerned, both increased in 2017 compared to 2014, by 27% and 30% respectively.[20] However, if we again exclude cooperatives from the most affected sector – hazelnut cooperatives – growth is noticeable, with income increasing by 73% and profits by 85% on average.[21] It should be noted that in each reporting year some cooperatives had either losses (negative profit) or no profit at all (profit was zero), which dragged down the average profit values.[22]

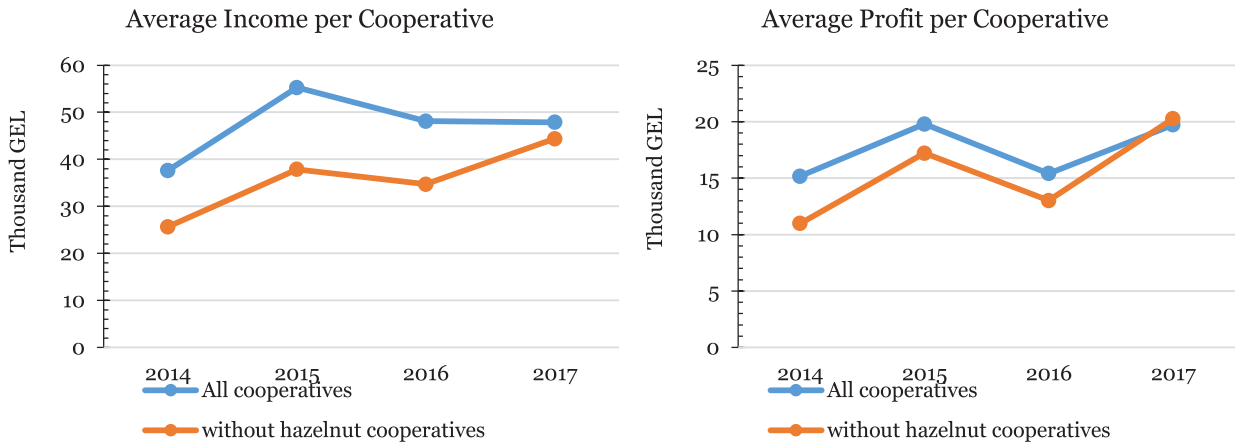
19 267 cooperatives (out of 281) had production in 2017.

20 This is in nominal terms; however, in real terms (adjusted by inflation) it increased by 13% and 19% respectively.

21 This is in nominal terms; however, in real terms it increased by 54% and 64% respectively.

22 In 2017, 17 cooperatives had losses valued at 338,000 GEL and 14 cooperatives had zero profits. In 2016, 27 cooperatives lost 454,000 GEL and seven cooperatives had zero profits. In 2015, six cooperatives reported negative profits (losses valued at 65,000 GEL) and one cooperative had zero profit.

Figure 16: Average Income and Average Profit per Cooperative, 2014-2017

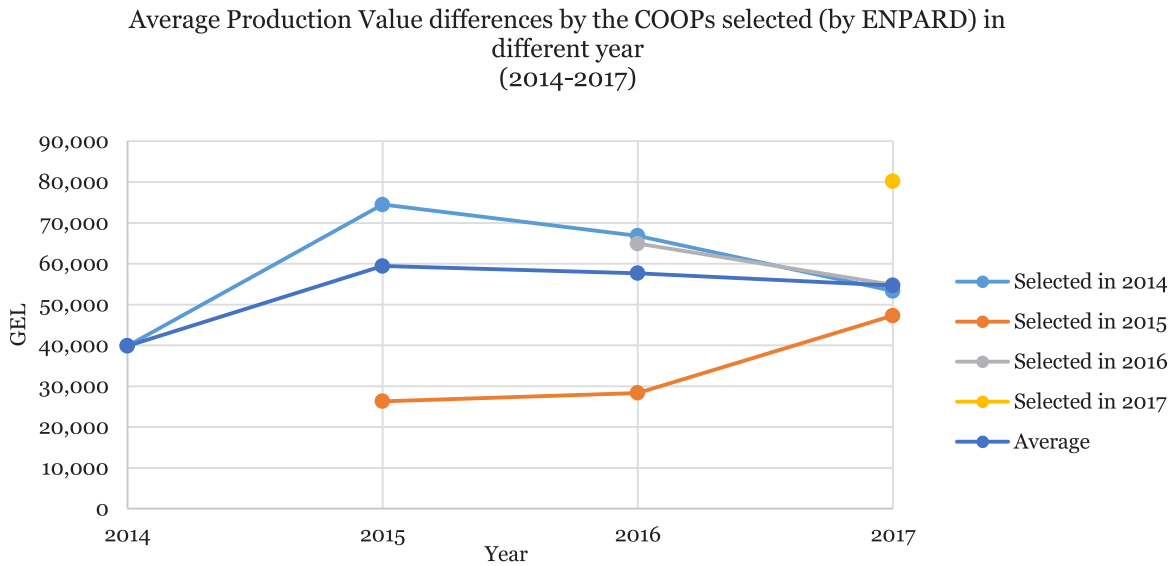


Comparison of cooperatives selected for support in different year

As we mentioned above, selecting cooperatives for support was a continuous process during the project term (2014-2017). As a result, some cooperatives received support by ENPARD (financial as well as technical) for up to four years, whereas some cooperatives received support for less than one year. Specifically, 125 cooperatives were selected in 2014, 57 cooperatives in 2015, 76 cooperatives in 2016, and 23 cooperatives in 2017. These differences may be reflected in the sustainability of financial performance of cooperatives. To understand this better, we have divided cooperatives by selected year as a baseline year for them before directly benefiting from ENPARD, and the results are presented below in the figures.

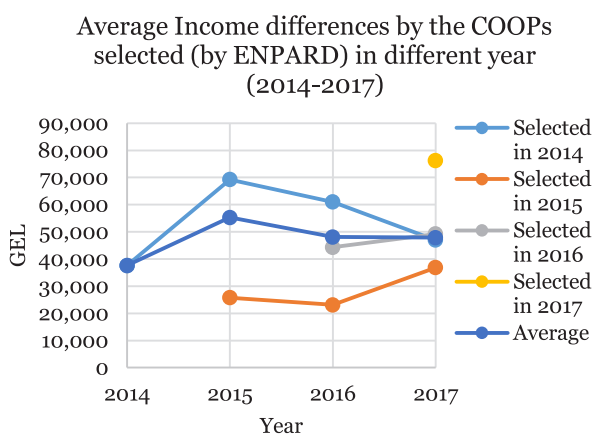
Figure 17 presents the differences in production value generated over time by cooperatives selected in different years. Interestingly, cooperatives selected in 2015, in which only few of them working in hazelnut, increased their average production value in 2017, compared to previous year, which is the opposite result of cooperatives selected in 2014 and 2016, for whom production value decreased. In addition, cooperatives selected in 2017 have higher average production value than the rest of the cooperatives. This can be explained by the fact, that fewer, but larger, cooperatives were selected in 2017.

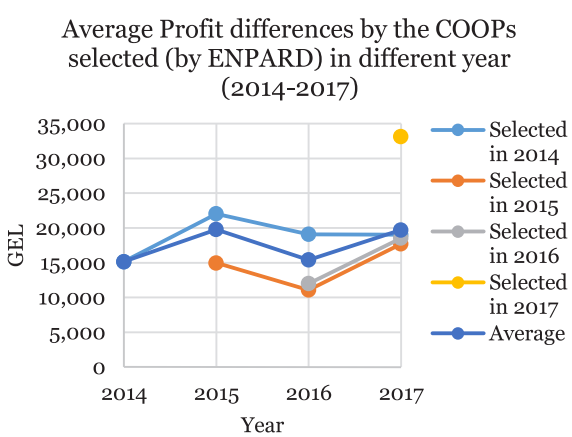
Figure 17: Average Production Value differences by the Cooperatives selected in different year (2014-2017)



The average income and profit follow the trend observed in production value, but the average profit mostly has increased in 2017 compared to 2016, that is not in-line with average income, which slightly decreased on average between these two years. However, here again as in case of production value, average income increased in 2017 for cooperatives selected in 2015.

Figure 18: Average Income and Average Profit differences by the Cooperatives selected in different year (2014-2017)



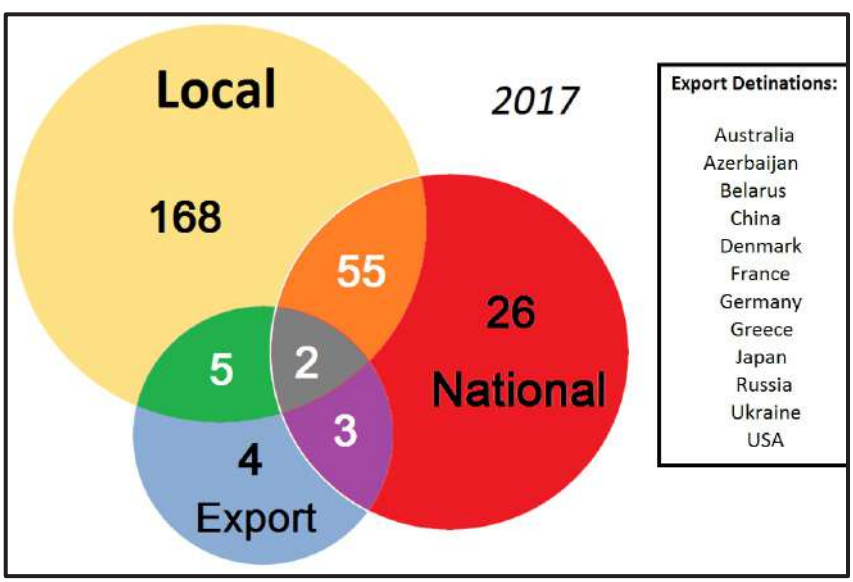


Marketing of Produce

In 2017, 25 cooperatives produced peeled or unpeeled hazelnuts and hazelnut shells valued at more than 1.90 million GEL, whereas 52 cooperatives produced eight different apiculture products valued at more than 1.60 million GEL. On the other hand, 31 producer cooperatives produced potatoes and seed potatoes valued at 1.57 million GEL, and 17 cooperatives produced seven different dairy products with a total value reaching 1.45 million GEL. Additionally, the value of products produced by 47 crop producer cooperatives equaled 1.36 million GEL, which was the same as the value of grapes and wines produced by 23 different viticulture cooperatives. The value of products produced in other sectors did not reach the 1 million GEL mark.

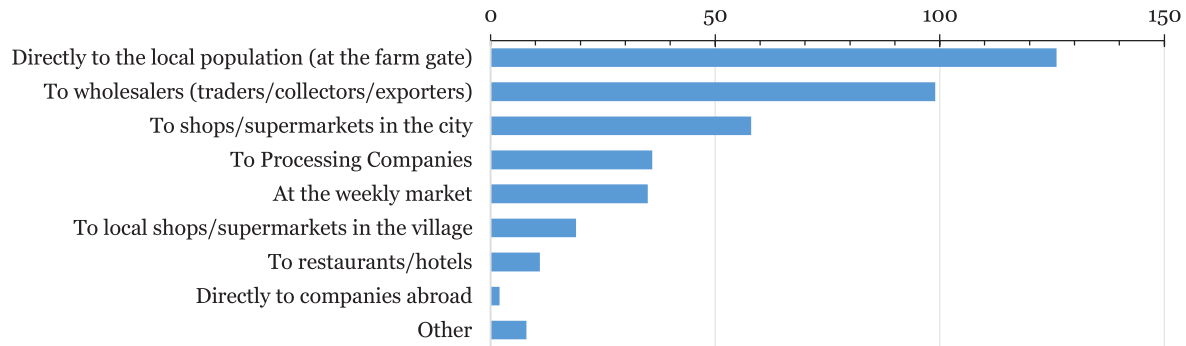
During the four-year period, cooperatives have been expanding their markets, but despite this, in 2017 cooperatives' products were still mainly sold on local markets — 168 cooperatives (64%) did not reach any customer outside their municipality. Nevertheless, 86 cooperatives (33%) covered the national market, either partly or fully, and 10 cooperatives (4%) exported some of their products. Wine, hazelnuts, citrus and greens were popular export products and the export destinations were located on four different continents and included various OECD and CIS countries, as well as China. More details regarding the markets are provided in Figure 19.

Figure 19: Geographical Areas where the Cooperatives sell their products / services



To reach the abovementioned markets the cooperatives utilized multiple, but mostly the same channels, throughout the years. Details regarding these channels for 2017 is provided in Figure 20. Almost half of the cooperatives responding to the relevant question in 2017 sold their products directly to locals or at the farm-gate. Roughly 40% of cooperatives sold via wholesalers/collectors/exporters, and 23% of cooperatives sold their products through city shops or supermarkets. In selling their produce, 52% of respondents did not face any problems, but the remainder were affected by price volatility (44 coops.), poor quality production or insufficient production amounts (39 coops.), market access (31 coops.), lacked post-harvest treatment facilities (25 coops.), or faced other problems (12 coops.).

Figure 20: Channels used for selling produce in 2017



To make the selling or production processes easier, 46 cooperatives secured 37 new, short-term contracts with customers and 26 new contracts (25 short-term and a single one-time contract) with suppliers in 2017. Additionally, 17 cooperatives had different types of certificates in 2017, and 87 of the cooperatives planned to get new ones.

Production Volumes

To track the dynamics of the volumes of produced and/or processed products by cooperatives, we analyzed five main products and compared their total volumes to Georgia's total production figures for the same products. The latter data was provided by GeoStat (see Table 3).

The ENPARD-supported cooperatives produced nearly 100 tons of honey in 2017. Although the total production data for Georgia for 2017 is not yet available, the honey production of the surveyed cooperatives comprised 3.4% of Georgia's total in 2016.

Potato cooperatives did not have a good year in 2017, and their total produce was almost halved compared to 2016. In 2016, the total volume of potatoes produced by cooperatives comprised nearly 2% of Georgia's total.

Table 3: Production volumes for top products produced by ENPARD cooperatives, and their share in Georgia's total production

YEAR	2014		2015		2016		2017	
PRODUCT	Total Production Volume by Cooperatives (Tons)	Share in Georgia's total production (%)*	Total Production Volume by Cooperatives (Tons)	Share in Georgia's Total Production (%)*	Total Production Volume by Cooperatives (Tons)	Share in Georgia's Total Production (%)*	Total Production Volume by Cooperatives (Tons)	Share in Georgia's Total Production (%)**
HONEY	24	1.25%	55	2.75%	72	3.40%	97	--
POTATOES	453	0.21%	1,815	0.97%	4,643	1.86%	2,796	--
VEGETABLES	79	0.05%	167	0.11%	553	0.39%	507	--
HAZELNUT (in-shell)	256	0.76%	322	0.91%	681	2.31%	618	--
MAIZE	683	0.23%	969	0.52%	1,830	0.75%	1,607	--

*Based on GeoStat's data; ** 2017 data is not yet available.

Relations with Local Input and Service Providers

Figure 21 and 22, below, provides information regarding the frequency and quality of collaboration with institutions and agencies related to the agriculture sector. According to the data, farmers collaborated with ENPARD implementer organizations the most over the whole four-year period, while collaboration with local farmers became more important in 2016, replacing collaboration with Information and Consultation Centers of Ministry of Agriculture in the municipalities. In terms of quality, ENPARD implementer organizations were also leading, while the quality of collaboration with local and non-local farmers was also considered very satisfactory for cooperative members. The least popular partner in terms of quality as well as the frequency over this period, was the regional government, but the quality of that collaboration still increased significantly over the four-year period. As for the ACDA, the main government body responsible for agricultural cooperatives in the country, it stands in the middle, but the frequency of collaboration between ACDA and ENPARD-financed cooperatives has been decreasing over last four years. However, the quality of collaboration remained almost unchanged.

Figure 21: Frequency of Collaboration with Institutions / Agencies

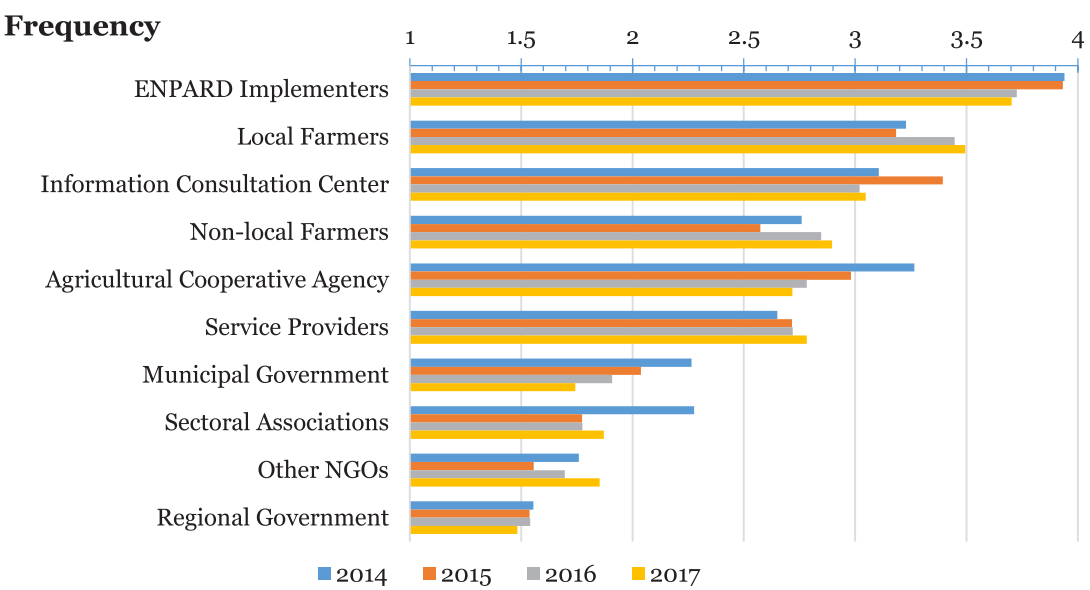
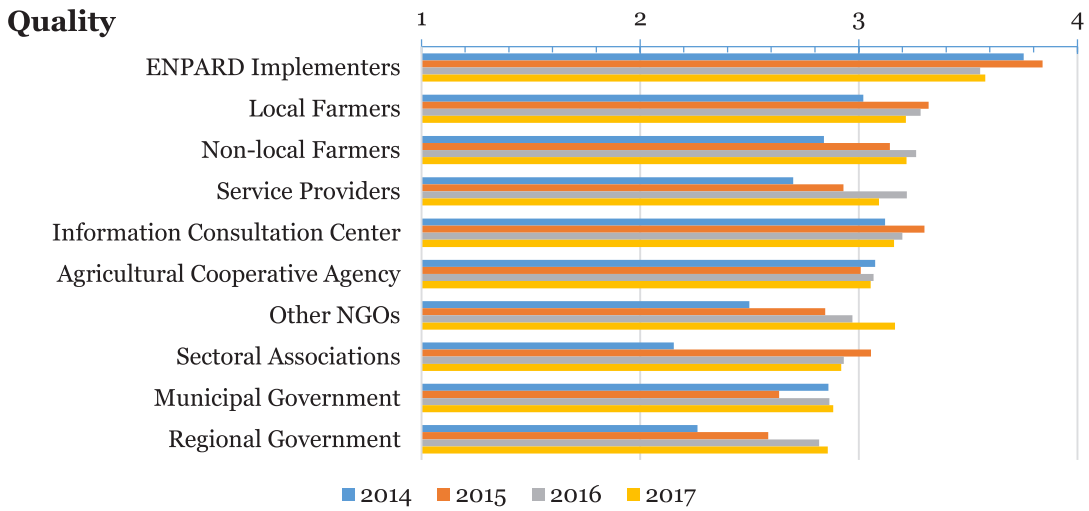


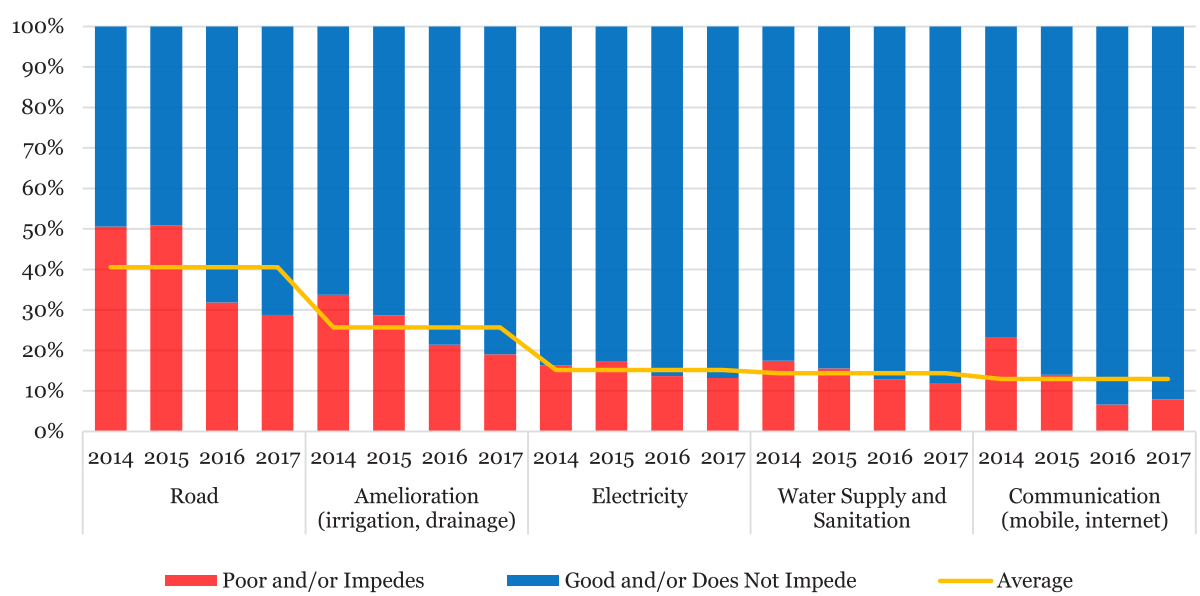
Figure 22: Quality of Collaboration with Institutions / Agencies



Constraints

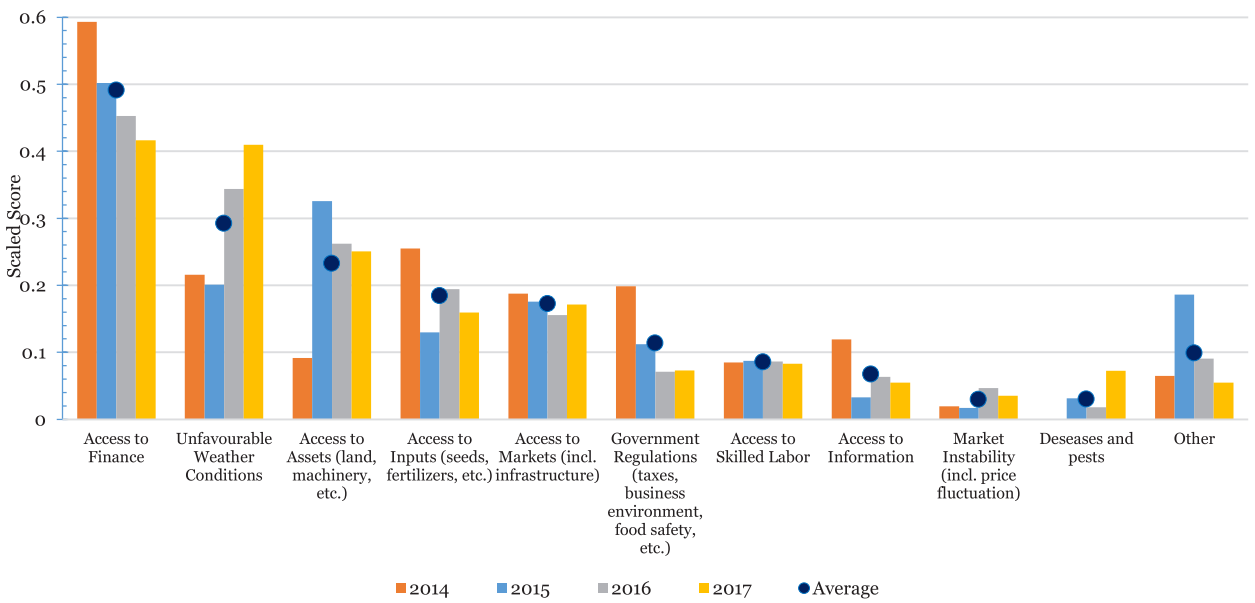
During the four-year period surveyed, different factors affected cooperatives' operations in negative ways. Roads were the biggest infrastructural problem for the cooperatives. Although the situation had been improving steadily, in 2017 three out of ten cooperatives suffered from poor quality roads. Constant improvements were observed in amelioration system (irrigation and drainage); in 2017 only about 20% of cooperatives faced irrigation and drainage-related problems, versus 34% in 2014. The most dramatic improvement was observed in communication, which was the third biggest infrastructural problem for the cooperatives in 2014, but became the least problematic over time. More details on this topic are provided in Figure 23.

Figure 23: Infrastructure Affected Cooperative Operation



As for the constraints to the development of cooperatives, access to finance was identified as the most pressing issue during the four-year period. Although the situation has been improving year by year, this remained the greatest constraint (even in the wake of the unfavorable weather conditions seen in 2017). The constraints of access to assets, inputs and information have had a decreasing trend in the last four years, as have constraints caused by government regulations. The constraints of access to markets and skilled labor both remained almost unchanged. However, the issues of diseases and pests as a constraint for cooperative development increased in 2017. Further details and dynamics regarding this topic are shown in Figure 24.

Figure 24: Constraints to the development of agricultural cooperatives



Additional Investment

Besides the 18 million GEL initial investment made by ENPARD and the cooperative members, the cooperatives received an additional 8 million GEL in investments in the 4-year period. The source of these investments varied, ranging from additional investments from members of the cooperatives, to government programs, loans and donor programs (besides ENPARD).

Additional investments have been increasing over the 4 years in both total (0.2 million GEL in 2014 versus 4.1 million GEL in 2017) and average terms. It is noteworthy that in 2017 one out of every four cooperatives received some form of additional finance, and more than 60,000 GEL were collected exclusively from only two associated members.

The top non-government investment source for cooperatives was additional investment (or re-investment) from the original members (there were 34 such cases in 2017). This was followed by regular credit from financial institutions (14 such cases in 2017), and finances from new members joining the cooperative (19 such cases in 2017). NGO grants, besides those from ENPARD (seven such cases in 2017), and investments made by associated members (two such cases in 2017) had only a tiny share.

Government sources of additional investment have increased during the last four years and more and more cooperatives are benefiting from the Agricultural Projects' Management Agency (APMA) and Agricultural Cooperatives Development Agency (ACDA) programs, which include preferential agro credits (cheap loans,

from which 10 cooperatives benefited in 2017), support for beekeeping cooperatives (six cooperatives benefited in 2017), Produce in Georgia (three cooperatives benefited in 2017), Plant the Future (two cooperatives benefited in 2017), support for viticulture cooperatives (two cooperatives benefited in 2017) and support for dairy cooperatives (2 cooperatives benefited in 2017). However, the number of beneficiary cooperatives is modest compared to the total number of ENPARD-supported cooperatives.

Figure 25: Additional Investments from Non-Government Sources

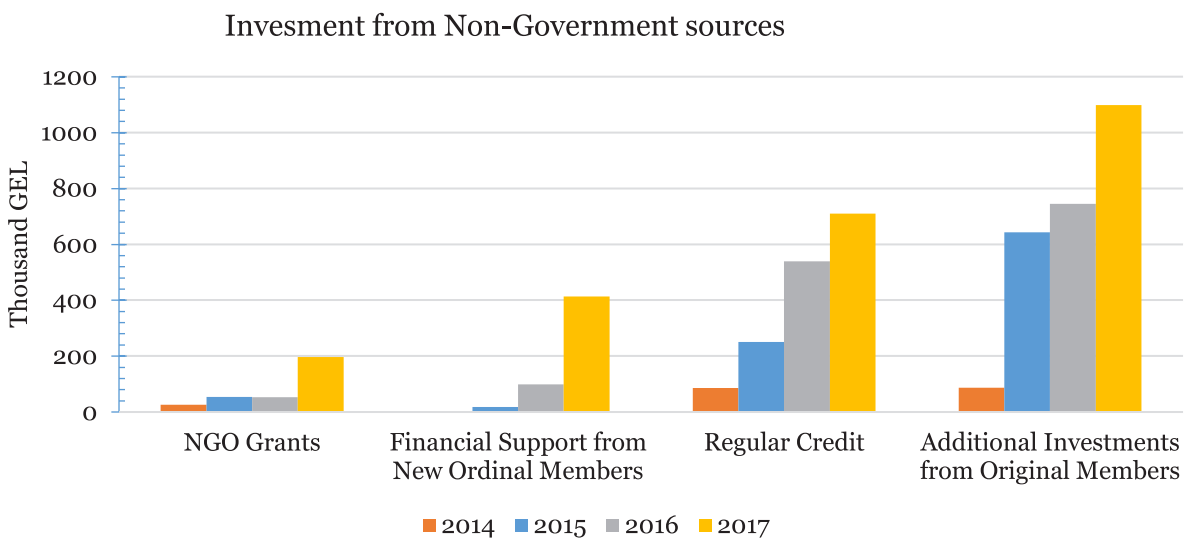
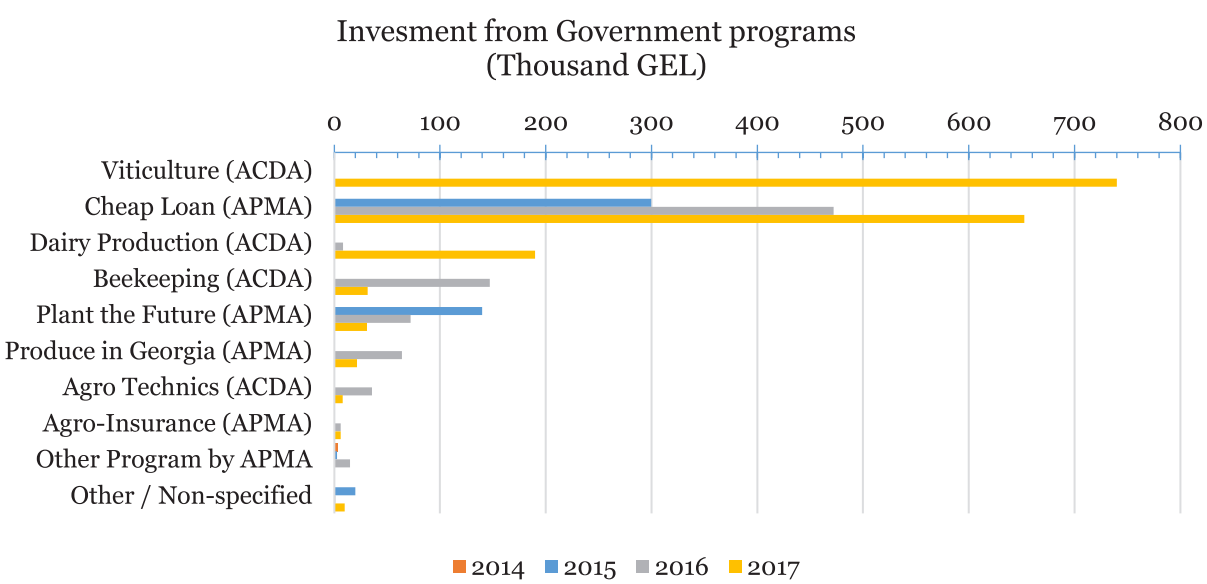


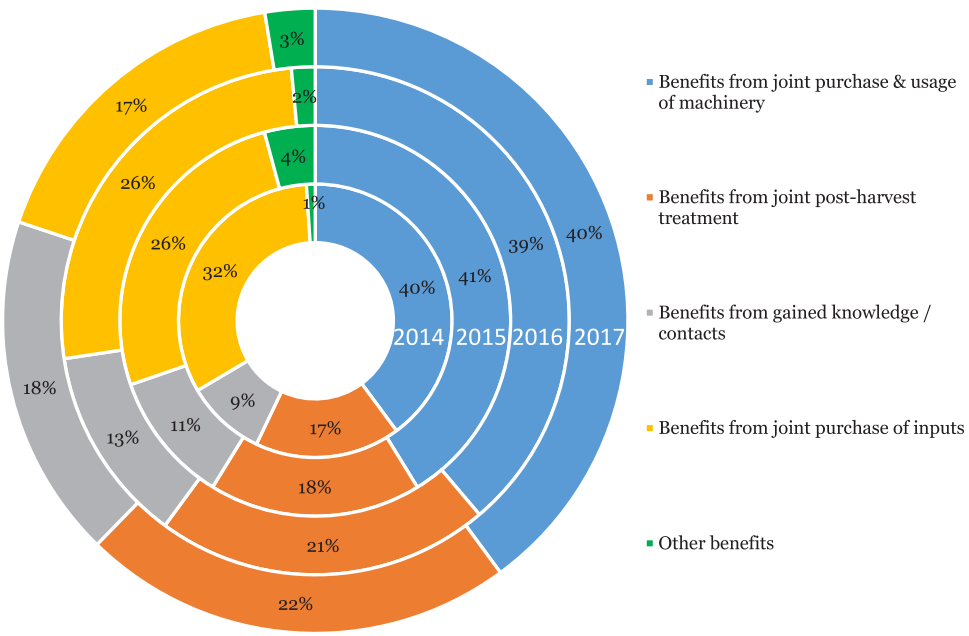
Figure 26: Additional Investments from Government Sources



Benefits from Cooperation

During the four-year period of development, cooperation has provided different types of benefits to the cooperatives. However, the benefits stemming from the joint purchase and usage of machinery has always been most important. On the other hand, as more and more cooperatives are able to afford (or provide themselves) post-harvest treatments for their products, the relative share of benefits from joint post-harvest treatment has been rising. On the contrary, the benefits from joint purchase of inputs has lost relative importance and fell behind the benefits gained from knowledge and contacts. The relative importance of the latter doubled within the four years, demonstrating that the experience of the cooperative pays off after some time. More detailed information on this subject is provided in Figure 27.

Figure 27: Benefits from cooperation



Size and Sector Effects in the Performance of Agricultural Cooperatives

Currently, the Georgian government is facilitating an increase in the number of cooperative members. In addition, some sub-sectors of agriculture have higher support from the government — there are special support programs for dairy, beekeeping, hazelnut and wine producing cooperatives (ACDA, 2017). The objective of this analysis is to identify whether there are important size and sector effects in the financial performance of agricultural cooperatives in Georgia. The methodology we used is based on Lerman and Parliament's study (1991), however we adjusted it to accommodate the data limitations of this research.

Data and Methodology

Cooperatives are created to provide services to their members and the focus is not really on the earnings received on the investment; however, financial indicators are still the best measure of a cooperative's performance, because there is a lack of globally-accepted measures of cooperative performance. This analysis focuses on cooperatives as business entities and does not capture the possible additional benefits attained by members of the cooperatives.

In order to measure the financial performance of cooperatives, we calculated financial ratios measuring efficiency and profitability.[23] For measuring efficiency, we used the *turnover ratio* and for profitability we used *return on assets* (ROA) (see Table 4). The asset turnover ratio measures how cooperatives utilize their assets to generate revenue. The return on assets ratio is the indicator of how profitable cooperatives are in relation to their assets.

Table 4: Ratios Measured

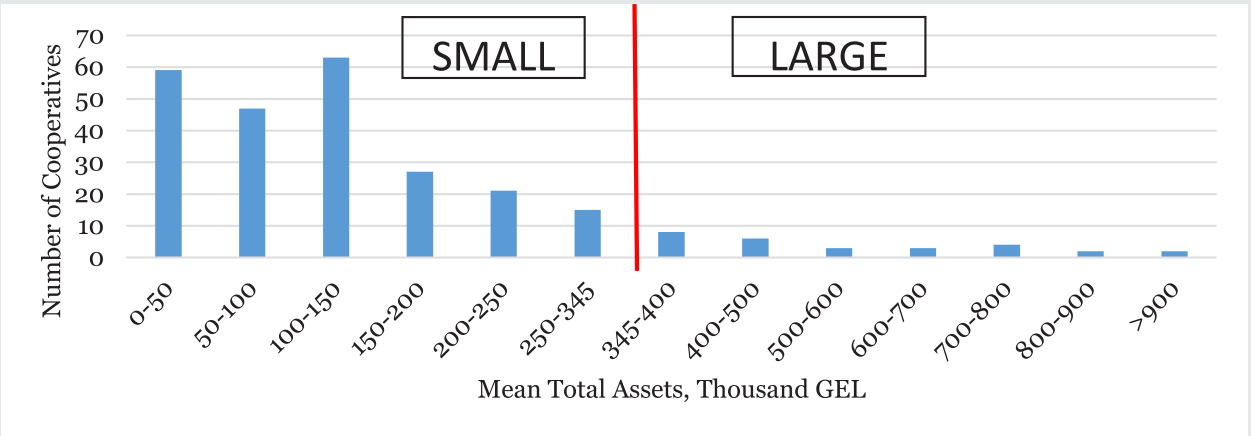
Performance criteria	Ratio	Definition
Efficiency	Asset Turnover	Total Income / Total Assets
Profitability	Return on Assets	Net Income / Total Assets

Not all of the 281 cooperatives that received support (financial and technical) under the ENPARD project were usable for our analysis – data was missing on the financial performance of some cooperatives (mainly because they were recently established). We used average figures from 2014-2017 in order to evaluate cooperatives' behavior over the four years. For each observation year, we calculated the median (as it is more resistant towards outliers) of both financial ratios across size and sector categories.

For size analysis, we used the data from 260 cooperatives that had at least one observation during 2014-2017. We clustered the cooperatives into two groups based on asset values: 'small' (89% of the cooperative sample) and 'large' (11% of the sample). As a threshold, we used the mean value of total assets calculated by agglomerative cluster analysis, according to which 345,000 GEL was the verge between the groups (see Figure 28).

23 Besides these two criteria, Lerman and Parliament (1991) measured *leverage* and *liquidity* ratios according to debt to equity and quick ratios. Unfortunately, our data did not allow us to calculate those two ratios and we ended up relying only on efficiency and profitability ratios.

Figure 28: Distribution of Average Value of Assets



Moreover, we divided these cooperatives into 'small' and 'large' categories according to the number of their members – again this was done with agglomerative cluster analysis. Here, the threshold lay between ten and eleven members, meaning that cooperatives with fewer than or equal to ten members are considered 'small' (67% of the sample), and cooperatives with more than or equal to eleven members are considered 'large' (33% of the sample).

For sector analysis, we only observed the top sectors that cooperatives are involved in. This included eight agricultural sub-sectors: apiculture (48 coops.), cereals (25 coops.), potatoes (21 coops.), hazelnuts (20 coops.), viticulture (20 coops.), vegetables (18 coops.), dairy (17 coops.) and berries (16 coops.). The remaining cooperatives were involved in various sub-sectors that were disregarded during this part of the analysis because of the lack of available observations.

For the analysis, we used a nonparametric Kruskal-Wallis test that detects "significant differences among sector and size categories" (Lerman & Parliament, 1991). Moreover, we performed size analysis within the sectors and divided the cooperatives in each sector into the 'small' and 'large' groups based on the value of their assets and number of members to see if there were any significant differences between their financial performances. Detailed information about cooperative distribution in the small and large groups (by asset value and number of members) within each sub-sector is shown in Figures 29 and 30.

Figure 29: Distribution of Cooperatives by Sector and Size (by Asset Value)

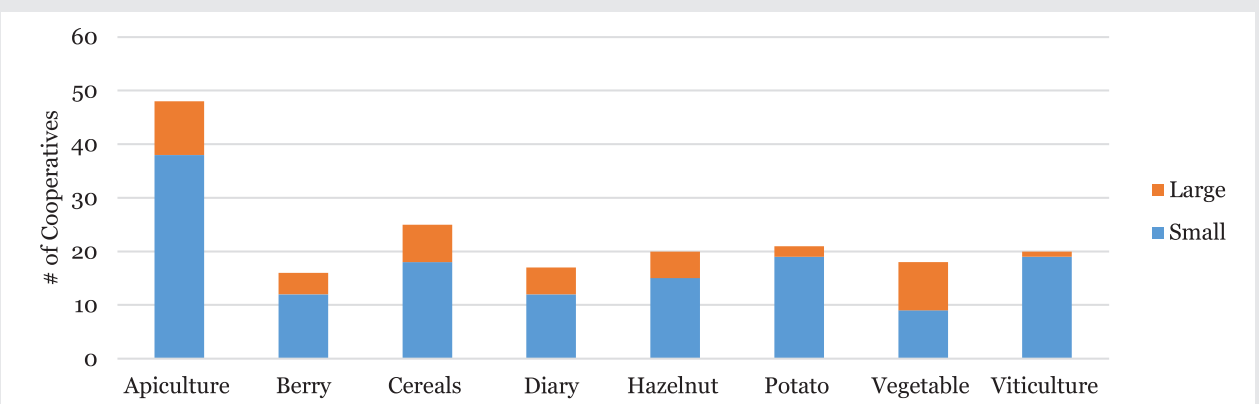
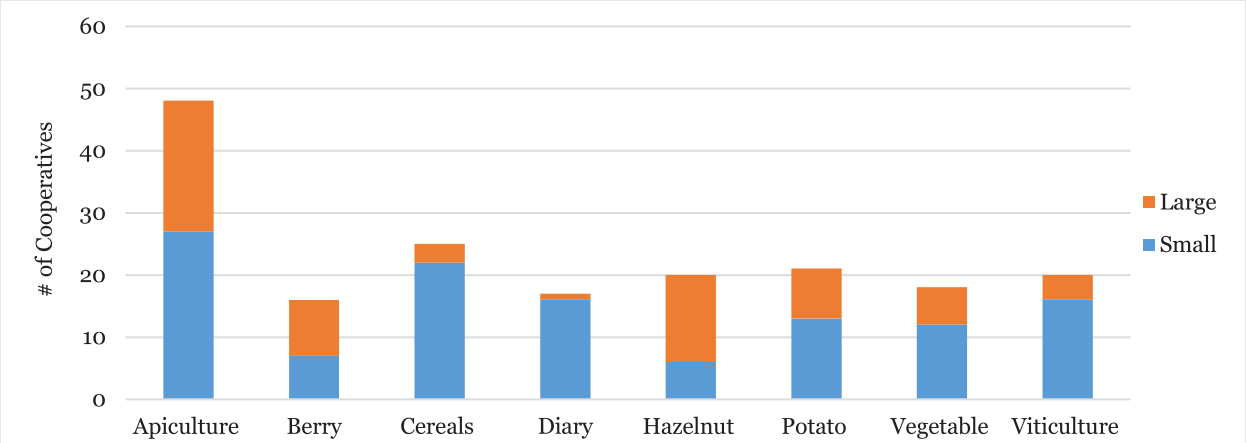


Figure 30: Distribution of Cooperatives by Sector and Size (by number of members)



Size Effects

Significant size effects were observed between 'small' and 'large' cooperatives when the entire sample was classified by **value of assets** (see Table 5). We found that 'small' cooperatives are performing better than 'large' ones in terms of both efficiency as well as profitability. The results are significant at a 5% significance level.

Based on this analysis, we found that the "small firm effect" works in terms of profitability – small cooperatives are more profitable than large ones. This result is in line with the findings of Lerman and Parliament (1991); however, the finding that smaller cooperatives are more efficient than larger ones does not correspond to those findings. Lerman and Parliament (1991) found that large cooperatives are more efficient because they enjoy "economies of scale". This discrepancy might be related to the fact that large cooperatives in Georgia are not yet fully utilizing their assets to generate sales and there is room for improvement.

Table 6 shows the results of the comparison of 'small' and 'large' cooperatives classified by **number of members**. In this case, there is no significant difference between the groups; however, according to the mean scores, 'small' cooperatives (of fewer than 11 members) are doing better in terms of efficiency as well as profitability.

Table 5: Results – Size Effect by Assets

Kruskal-Wallis rank test of mean financial ratios of cooperatives by size					
		Mean Score		Chi-square statistic	Prob. > Chi-square
		Small	Large		
Efficiency	Turnover Ratio	**6.5**	2.5	**5.333**	0.0209 *
Profitability	Return on Assets (ROA)	**6.5**	2.5	**5.333**	0.0209 *

**at the 5% level of significance by the Kruskal-Wallis test;*

Table 6: Results – Size Effect by Members

Kruskal-Wallis rank test of mean financial ratios of cooperatives by size					
		Mean Score		Chi-square statistic	Prob. > Chi-square
		Small	Large		
Efficiency	Turnover Ratio	5.25	3.75	**0.750**	0.3865
Profitability	Return on Assets (ROA)	5.75	3.25	**2.083**	0.1489

Sector Effects

For detecting sector effects, the results of this analysis for the eight sector groups is given in Table 7. For both ratios, the results were statistically significant at a 5% significance level. In terms of **efficiency**, the top three sectors revealed are potatoes, apiculture, and vegetables. On the other hand, berries, hazelnuts and viticulture cooperatives were the worst performers. The latter sectors include cooperatives that invested in building greenhouses and started cultivating new varieties of berries (strawberries, blackberries, and blueberries), developing processing lines (hazelnuts) and expanding their vineyards and/or started bottling and storing wines (viticulture), thus they are not yet fully utilizing their assets to generate sales. The dairy and cereal cooperatives lie in the middle.

In terms of **profitability**, the top sub-sectors were apiculture, vegetables and dairy. It seems that their return on assets was higher than for value chains such as berries, hazelnuts and cereals, which had the least return on assets. Potatoes and viticulture lay in the middle.

Besides general sector analysis, we conducted size analysis inside each sector. The results mostly show that there is no statistically significant difference within most of the sectors, besides *hazelnut* and *potato* cooperatives, where remarkable results were found. In the case of hazelnuts, we found that large cooperatives (with an asset value of no less than 245,000 GEL) are more efficient than small ones. In the case of potatoes, large cooperatives (of more than 10 members) are more efficient and profitable than small ones.

Table 7: Results – Sector Effect

Kruskal-Wallis rank test of mean financial ratios of cooperatives by sector											
		Mean Score								Chi-square statistic	Prob. > Chi-square
		Apiculture	Berry	Cereals	Dairy	Hazelnut	Potato	Vegetable	Viticulture		
Efficiency	Turnover Ratio	23	4.75	16.5	16.75	9	28	20.5	13.5	17.907	0.0124 *
Profitability	Return on Assets (ROA)	26.75	7.75	12.75	18.75	10.25	17.75	24.75	13.25	14.599	0.0415 *

**at the 5% level of significance by the Kruskal-Wallis test;*

Conclusion

One of the obvious trends observed in Georgian cooperatives is their growth of members and assets. The findings of this study indicate that even though some empirical evidence suggests that large cooperatives improve efficiency through economies of scale, this has not yet been confirmed in the Georgian context. This suggests that the benefits of raising the number of members and assets in an already existing cooperative may be overemphasized. This might be a signal to let cooperatives grow naturally, via a bottom-up approach.

Nevertheless, the sector effects revealed in this study do not provide a clear conclusion: out of the eight sub-sectors examined, only two – potatoes and hazelnuts – revealed that larger cooperatives are better performers. Hazelnut and potato cooperative members are cooperating mainly at the service or value addition level and gain from economies of scale and from the higher bargaining power downstream or upstream in the value chain. Thus, it would be better to focus more on the development of service cooperatives and value chains; however, it should be made sure that members are well aware of the cooperative's organizational structure, its management and the benefits of cooperation.

As a conclusion, we recommend further research, including a comparison between cooperatives and investor-owned firms in order to identify *sector-specific* and *cooperative-specific* factors. At this stage, cooperatives are still nascent and have difficulties in managing even small groups, and things will become much more difficult when it comes to large cooperatives. Larger cooperatives might have to consider hiring experienced agro-business managers to overcome management challenges and improve both efficiency and profitability by gaining from economies of scale and increased bargaining power.

Discussion

Today, Georgian agriculture faces a number of complex problems. One approach to solving these would be to develop agricultural cooperatives (but these are not a panacea). Proper cooperation is beneficial for mainly small and, in some cases, medium-sized farmers, because of the absence of economies of scale and weak bargaining power upstream or downstream of the value chain. The number of such farmers is very high in Georgia, which was a major reason for the ENPARD program starting in the first place.

It is too early to speak about the results of the cooperatives created with the support of ENPARD for several reasons. First, it takes time to obtain results in agriculture – it should be noted that the cooperatives were not registered or given support at the same time, it was a stage-by-stage process and some cooperatives are already 4 years old, some were first registered in 2017 and others are start-ups. The second reason is related to the first: the development of agricultural cooperatives is a novelty for Georgian farmers and it takes time to learn the advantages and disadvantages of such organizations. In addition, agriculture, more than any other sector, depends on weather conditions and the spread of disease. This causes volatility in both the quality and quantity of produce. Moreover, volatility affects the revenues received from this sector. Taking all of these issues into consideration, it is only possible to discuss the broad development trends of the ENPARD-supported cooperatives.

If we look at the financial indicators and consider the difference between the revenues of the 281 cooperatives – as revealed in the large gap between the minimum and maximum values of the indicators – it is evident that the median of the production value has steadily been increasing over the past four years. This indicates that cooperatives with small turnovers continue to increase the value of their produce.

The majority of the cooperatives have positive financial indicators; however, there are certain cooperatives that have encountered losses in certain years for various reasons. In 2017, the hazelnut cooperatives had

noticeably poor performance due to the Asian stinkbug outbreak and diseases that affected hazelnut production.[24] This had a significant impact on the total performance of the surveyed cooperatives (as well as on Georgian agriculture in general). There were failures in other sectors too. In some cases, failures were caused by the "agricultural year", in other cases by a lack of experience. The latter is especially true in the case of cooperatives that started the production of new crops.[25] If we take a look at past years, there is a general trend of improvement; however, the support from ENPARD, which finished at the end of 2017, really needs to be underlined in this context. Cooperatives will now have to continue their operations based on their own efforts. This will reveal exactly how sustainable they are in the future.

The sustainability and viability of the cooperatives is a question asked by all stakeholders today. In order to answer it, we focus on four factors that most affect the sustainability of the cooperatives (based on international experience and on case studies conducted on Georgian cooperatives). These factors are:

1) The leadership and management of the cooperative. According to a recent study by Kasungwa and Moronge (2016), "managerial skills have the strongest positive influence on sustainability of agricultural cooperatives". Moreover, it was found that managing cooperatives is more challenging than managing private firms because of the complicated decision-making process in cooperatives – in particular, the one-member one-vote system (Cook, 1994). Strong leadership is necessary to make cooperative members more enthusiastic towards collective action. In addition, a strong leader can attract more investment for the cooperative's development.[26]

2) Active participation of the members in the operations of the cooperative. As Munkner (2012) notes, "co-operatives are as good as their members make them". However, membership, loyalty and commitment depend on cooperatives' abilities to meet their members' needs and demands. In addition, an understanding of the principles and values of cooperatives is essential for the successful performance of cooperatives. "Members that understand or are familiar with the co-operative values are more likely to promote the inclusion of, often marginal, groups such as women and youth within cooperatives" (Smith, Puga & MacPherson, 2015; Majurin 2012).

3) Access to finance. As this study revealed, cooperative members perceive access to finance as one of the main challenges towards their development. In general, finance is viewed as more than just another resource, such as labor, land, equipment or raw material (Rahji, 2000). As a Spanish priest noted at the beginning of the 20th century, "I cannot see any use [for the cooperative I have set up] if I cannot find anywhere willingness to lend us money" (cited in Garrido, 2007). We can conclude that access to finance is crucial, especially for nascent cooperatives like those in Georgia.

4) Enabling environment. This component includes many things, but the most important are government policy (legislation, taxation policy, programs, etc.); value chain development; product and market diversification; and the introduction of high technologies and innovative approaches in order to succeed in the modern market economy. As one of the main benefits of cooperation is increasing bargaining power in the value chain, via cooperation, farmers could benefit from the joint purchase of inputs and/or from selling products together to supermarket chains, restaurants or hotels with a guarantee to supply a substantial quantity of their produce continuously.[27]

Today, Georgian cooperatives face challenges in each of these four main areas, and more discussion about the topic is provided in Annex 4. Some cooperatives can overcome these barriers, but others might face difficulties. If a cooperative is successful in these major components of sustainability, then it can be viable in the long run.

24 See: http://iset-pi.ge/index.php/en/iset-economist-blog-2/entry/asian-invasion-stink-bug-in-georgia
25 See: http://iset-pi.ge/index.php/en/iset-economist-blog-2/entry/the-shortest-road-to-strawberry-field-isn-t-always-the-sweetest-or-quickest
26 See: http://iset-pi.ge/index.php/en/iset-economist-blog-2/entry/strong-leader-successful-team
27 See: http://iset-pi.ge/index.php/en/iset-economist-blog-2/entry/joint-marketing-a-key-to-success

Recommendations

Based on the constraints discussed in this study, we have formulated recommendations for overcoming existing challenges and accelerating the development of agricultural cooperatives in Georgia. First, we recommend continued **research** into cooperatives in order to observe cooperatives in the long run and to develop further conclusions into what works in the Georgian context and what does not. It is also necessary to identify truly exemplary cooperatives and to prepare case studies that pinpoint the key drivers of their success. In addition, it is necessary to study unsuccessful cases. The research component should be undertaken by the ACDA with the help of research organizations. The government and non-government sector should plan future programs based on the respective findings of such research.

Capacity building for the ACDA and members of cooperatives is another important recommendation. The ACDA should work in close cooperation with local and international experts on a national strategy for cooperative development with a long-run vision for Georgian cooperatives.

It is desirable that more initiatives come from farmers who understand the benefits of cooperation and are eager to jointly overcome challenges in order to achieve success. In general, much depends on the management team of the cooperative (including a **strong leader**). Hence, for the successful continuation of the cooperation processes, it is extremely important to first identify and then take care of the **development of such human capital**. Cases (successful as well as unsuccessful) revealed in research should be utilized and discussed in training sessions as it is best to learn from real examples. It would be valuable for a representative of an exemplary cooperative to appear in any such training, so that he/she can share his/her practical experience with the audience and show trainees the barriers and advantages of cooperation, and explain how to create a successful cooperative and manage it properly.

Successful cooperation, in the first place, needs the right people. Cooperatives should be unions based on **trust, diligence, professionalism and a business-oriented approach**. It might be difficult to find such people, but correctly planned training, teaching programs and study tours can all improve the skills necessary for successful cooperatives. Spreading information on exemplary cooperatives via various sources (including the media) will also increase the interest of farmers in cooperatives. Highlighting the benefits that they can bring might encourage farmers to establish a cooperative or join an existing one (thus improving trust among farmers).

Our research revealed that, at this stage, the small size (in terms of asset value and number of members) ENPARD-supported cooperatives are more profitable and efficient. Thus, increasing the size of cooperatives should not be the first priority. Instead, it is necessary that the cooperative members themselves realize a need for growth (consolidation) and understand its benefits. Nevertheless, based on international experience and our observations, we recommend focusing more on larger service cooperatives (or second-level cooperatives) in the future in order for them to benefit from economies of scale and increase their bargaining power in upstream and/or downstream value chains. However, strong leadership and capable management is essential for successfully managing such cooperatives.[28]

The benefits from cooperation differ among products and value chains; however, international experience shows that **service cooperatives** are more common than production cooperatives (Lerman & Sedik, 2014). In service cooperatives, farmers cooperate in purchasing agricultural inventories or work together in the storage, processing, branding and sale of their produce (see Annex 3).

In the ENPARD cooperatives certain steps were taken towards modernization and the improvement of standards. Any business-oriented farmer or cooperative should follow these steps in order to comply with tightening food safety regulations and thereby ensure their continued operations. The current shift

28 See: http://iset-pi.ge/index.php/en/iset-economist-blog-2/entry/strong-leader-successful-team

to modern standards and the production of safe products (that meet the necessary standards) can be achieved more easily through cooperation, because this process can be expensive and difficult for individual farmers. Cooperation also creates an opportunity to increase productivity, produce value added products, and develop vertical linkages[29] or value chains. This is often difficult to achieve for small-scale individual farmers, but cooperation creates opportunities to gain more benefits. However, not many cooperatives have the ability to realize these opportunities and thus require further support.

It is important to help cooperatives in establishing **market linkages**, **proper branding** and **promotion** for their products. In this regard, it would be interesting to expand and build upon the ENPARD cooperative database and their locations (mapped above) for further promotional campaigns. This would be a good start to let customers or agricultural product collectors establish direct business relations with cooperatives. It is also important to diversify cooperative incomes. This can happen through both on-farm and off-farm activities, such as producing value-added products, direct selling, and developing agritourism. Such cases already exist, and it is necessary for these to be spread. Cooperatives should continue to participate in various exhibitions. This will promote their products, help build linkages and support the growth of sales.

Legislation related to cooperation also needs to be improved. Experts in the field commonly acknowledge this need. It is important to regulate issues such as making amendments to a cooperative's charter. Currently, changing a product's code during the product processing phase is subject to taxation, but this hampers the operations of cooperatives and puts service cooperatives in an unequal position compared to production cooperatives. Some other legislative rules are also strict according to cooperatives, and this causes underreporting of shares, purchases from non-members, etc. It may be better for some period to have simple rules and regulations for new cooperatives[30].

Access to finance remains a major challenge for cooperatives. Improving this for cooperatives as start-up businesses requires providing assistance to both parties – cooperatives and financial institutions (including agro insurance providers). In particular, cooperatives have to improve their bookkeeping practices and farm budgets, improve their skills in managerial accounting and in developing viable business plans, as required by financial institutions while applying for loans. Meanwhile, financial institutions lack knowledge of cooperatives as legal entities and lack sufficient experience in the agricultural economy to properly evaluate risks related to particular value chains and the agricultural assets used for collateral.[31] Thus, technical assistance is also required for financial institutions to improve their knowledge on cooperatives and the agricultural economy in general.

As a concluding remark, it is important to continue providing technical and financial support activities to cooperatives. However, all such actions should be carried out with a more targeted approach, with a focus on the involvement of the youth and women living in rural areas and on supporting those farmers' groups that are characterized by features of a "true cooperative" – one that is able to overcome the challenges of modern agriculture, successfully manage the cooperative (with entrepreneurial spirit) and achieve success in a competitive environment. It is important that the start of the cooperative movement is successful, otherwise, we risk sharing the unfortunate destiny of several Western countries, where an unsuccessful start in cooperation approximately one century ago delayed the establishment of cooperatives for at least a decade in some countries. We repeat: although cooperation is not a panacea, its proper use can benefit Georgian agriculture.

29 See: http://iset-pi.ge/index.php/en/iset-economist-blog-2/entry/working-together-for-a-bigger-pie
30 See: http://iset-pi.ge/index.php/en/iset-economist-blog-2/entry/what-happens-when-institutions-are-designed-to-provide-bullet-proof-protection-against-fraud
31 See: http://iset-pi.ge/index.php/en/publications/policy-briefs/212-policy-briefs/aprc-policy-briefs/1647-access-to-finance-for-agricultural-cooperatives

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Appendices

Annex 1: PEST Analysis

PEST (Political, Economic, Social, and Technological) analysis describes the macro-environmental factors affecting the agricultural cooperatives in Georgia. It is better to conduct a PEST analysis before a SWOT (Strength, Weaknesses, Opportunities, and Threats) analysis as the former helps to identify factors for the latter. Although PEST and SWOT analyses offer two different perspectives, they can contain common factors.

Political factors:	**Economic factors:**
• The government still places a priority on agriculture, including the development of agricultural cooperatives. • There is a special Law on Agricultural Cooperatives; however, this does not suit service cooperatives and its review is necessary. • There are programs that focus on cooperative development; however, the ENPARD cooperative development component has finished. • Georgia has free trade agreements with numerous countries and unions of countries, which creates a great opportunity for exporting agricultural goods.	• The tax preferences that existed for cooperatives expired at the end of 2017; however, the possibility of prolonging the expiration date is being discussed. There are a number of issues regarding processing (when the product code is changed), which is subject to taxation. • Access to credit is one of the major problems facing cooperatives. Although the state offers a preferential agricultural credit program, it is difficult for cooperatives to get this credit. Instead, financial institutions prefer to give credit to a specific named member of a cooperative. • Agricultural insurance has started with subsidies from the state; however, the majority of cooperatives do not use it as it does not cover many sub-sectors of agriculture (e.g. beekeeping). • The volatility of the exchange rate affects cooperatives as Georgia highly depends on imported agricultural inputs and products (e.g. diesel, medicine, and tractors). • In 2017, inflation was higher than in previous years (approximately 6%) and it was even higher for agricultural products.

Social factors:	Technological factors:
• The negative experience from Soviet collective farms and holdings. • Involvement of the youth in cooperatives is low, most probably due to high levels of migration from villages to cities or abroad. This is also due to the fact that agriculture does not have a particularly good image and young people do not want to work in this sector. • In Georgian society, there is a hierarchical barrier between younger and older people. This can also be a reason why young people refrain from getting involved and being active in cooperatives. • There is a lack of knowledge of modern agriculture in Georgia. This causes low productivity. Entrepreneurial spirit is also low among farmers. • Trust between farmers and trust in state initiatives is quite low and this hinders the development of cooperation. • The media covers information on cooperatives quite actively; however, the number of exemplary cooperatives is still very low and it is not possible to promote many such cases.	• In terms of mechanization, the ENPARD program provided great support to cooperatives by enabling them to purchase machinery. • There are agricultural mechanization centers in the regions of Georgia where cooperatives can obtain relevant services. However, these institutions face several challenges: often small farmers find it difficult to get their services, the available machinery is often unsuitable, or there is a long waiting list. All of this can cause a deviation from the agricultural calendar. • The ENPARD project and state financed programs also made several steps forward in terms of new technologies, but these were not sufficient to change the overall picture in the country. • Numerous consultations and trainings were provided to cooperatives by the State Extension Service and private extension experts hired by ENPARD. In addition, study tours were organized within and outside the country. • Some steps were made towards the provision of market information, as well as e-commerce; however, the majority of the cooperatives do not use such technologies.

Annex 2. SWOT Analysis

This SWOT analysis considers the internal (Strengths and Weaknesses) and external (Opportunities and Threats) factors facing agricultural cooperatives in Georgia (based on the case of the ENPARD cooperatives) aiming to achieve viability and sustainability.

Strengths:

- The first wave of cooperatives has been established and there has been an increase in the level of commercialization of semi-commercial or commercial farmers.
- The existence of special legislations and tax preferences.
- Training sessions have been conducted for cooperative members and other stakeholders.
- The agricultural assets and knowledge accumulated by cooperatives via the ENPARD project.
- Market linkages have been built and brand awareness of the cooperatives has risen.
- Member-based organizations are governed under democratic principles.

Weaknesses:

- No experience in modern, Western-style cooperation, including inexperience in the management of a cooperative.
- Lack of trust between farmers, which causes a trend of the establishment of "one-person cooperatives" and "family-cooperatives".
- Low levels of knowledge concerning cooperative principles and the potential benefits of cooperation.
- Disorganized documents in the cooperatives (e.g. poor bookkeeping and farm budget).
- A focus on "production cooperatives" and a lack of "service cooperatives".
- Lack of youth involvement in cooperatives.
- Inadequate management and leadership.
- Lack of access to finance (especially operational/working capital) for various reasons (lack of highly liquid assets, members being on a "black list", the nature of start-up cooperatives, disorganized documentation, etc.).
- Lack of entrepreneurial spirit and a slow pace of adaption to the modern competitive economic environment. Low levels of knowledge about the market economy.
- Lack of modern technologies and approaches to agriculture (a lack of innovation).
- Lack of medium- and long-term development vision in cooperatives.
- Lack of contract-based relations with suppliers of agricultural inputs and buyers of agricultural produce.
- The slow pace of follow-up support programs and a lack of vision for the long-term development of cooperation.
- Land registration issues and occasionally unclear land ownership.
- Low levels of agricultural insurance.
- Lack of access to high-quality inputs and services.

Opportunities:

- Existence of a large number of small farms in the country, which offers a good basis for the development of cooperatives.
- Existence of the cooperative development agency and the support of state and donors for the development of cooperatives.
- To study and reveal exemplary cooperatives and promote them.
- Existing capacity to plan training, study programs and tours that are tailored to the needs of cooperatives.
- Knowledge on cooperative development that has been accrued in the state and NGO sectors.
- Diversification of revenue sources, e.g., by developing agricultural tourism.
- Production of organic and high-value products. Also, the opportunity to develop the value chain.
- Meet increasing demand on agricultural products on the local market and an opportunity to export produce.
- Increasing awareness among consumers via promotion campaigns started within the ENPARD project.

Threats:

- An unsuccessful start in the cooperative movement can build a negative attitude towards cooperation among farmers and thus impede their involvement in cooperatives. A loss of interest in agricultural cooperatives.
- Difficulties in complying standards after safety norms for agricultural products become stricter.
- Product losses due to disease, pests and weeds.
- Climate change and land deterioration. Cooperatives are highly dependent on external conditions, which can cause volatility in the quality and quantity of the produce year by year.
- Cancelling free trade zones and/or embargos set by certain countries.

Annex 3. Agricultural Production and Service Cooperatives[32]

Agricultural cooperatives can be classified into two types. In production cooperatives members jointly engage in the production process. In agriculture members jointly cultivate pooled or cooperatively held agricultural resources, such as land or farm machinery. Collective farms in the former Soviet Union and kibbutzim in Israel are examples of agricultural production cooperatives.[33] Production cooperatives sell their output to outsiders; yet their main function is to improve the wellbeing of their members by creating conditions for more efficient farming than what would otherwise be feasible in individual farms. It is often argued that by allowing members to pool their fragmented smallholdings into large farms, production cooperatives exploit economies of scale and achieve higher efficiency. Yet empirical studies in market economies show that economies of scale do not generally exist in primary agriculture and many researchers have in fact shown that agricultural production cooperatives are substantially less efficient than individual and family farms. As a result, production cooperatives in the world are a tiny minority among producers. According to International Cooperative Alliance (ICA) data, production cooperatives account for less than 5% of all cooperatives in the world. Service cooperatives, on the other hand, are the largest and most typical category of cooperatives in developed and developing countries: these are cooperatives that provide services to their members producers, who continue to carry out all production activities independently on their own land. Service cooperatives in many countries account for a large share of transactions, particularly in agriculture. For instance, agricultural marketing, processing, and supply cooperatives are major players in markets for farm products and farm inputs in North America, Western Europe, Japan, and South-East Asia. In the U.S., agricultural cooperatives handle about 30% of farmers' total farm marketing volume and 28% of farmers' total supply purchases. In the European Union, the share of agricultural cooperatives is even larger: in countries such as the Netherlands, Denmark, Ireland, and Sweden 70%-80% of farm products are marketed through cooperatives and cooperatives account for 50%-70% of all farm input purchases. Service cooperatives are usually subdivided into marketing cooperatives, processing cooperatives, input supply cooperatives, and farm machinery cooperatives.[34]

32 Lerman, Z., & Sedik, D., (2014). Cooperatives in the CIS and Georgia: Overview of Legislation. Policy Studies on Rural Transition No. 2014-2. FAO Regional Office for Europe and Central Asia.

33 Although collective farms are an example of a production cooperative, they were never accepted by the ICA as adhering to ICA cooperative principles.

34 Credit cooperatives are sometimes considered as a separate category of coops, because of their peculiarities as financial institutions. In this paper the term service cooperative is used to refer primarily to marketing/input supply cooperatives, which are quite typical startup cooperatives.

Annex 4. Agenda and Communique of the Discussion from the ENPARD I Closure Event

The European Union for Georgia
ENPARD

Joint Closure Event of Implementing Organizations of ENPARD

Small Holders' Cooperation Component (ENPARD I)

Venue: Hualing Tbilisi

Day 1: November 30, 2017

Agenda for the Policy and Strategy Panel Discussions

9:30 – 10:00	Registration of Participants
	Welcoming Remarks
10:00 – 10:30	- Cristina Casella, EU Delegation to Georgia - George Khanishvili, Ministry of Agriculture of Georgia - George Glonti, CARE - Irakli Kasrashvili, Mercy Corps
	Introduction and Presentation
10:30 – 10:40	Drivers of Sustainability of Agricultural Cooperatives (Worldwide Experience) Presenter: Irakli Kochlamazashvili, ISET Policy Institute
	Panel Discussions on Agricultural Cooperatives
10:40 – 11:20	Discussion Topic: Management and Leadership (moderated by Buba Jafarli) Panel Discussants: - Buba Jafarli, PIN - Kote Khutsaidze, ACDA - Lasha Gagoshidze, COOP "Natural Products of Racha" (Beekeeping, PIN) - Zaza Chikvaidze, COOP "Bekebi" (Viticulture, OXFAM)
11:20 – 11:40	Coffee Break
11:40 – 12:20	Discussion Topic: Access to Finance (moderated by Elisabed Tskhadaia) Panel Discussants: - Elisabed Tskhadaia, CARE - Koka Zhgenti, ABCO - Zaur Tsvariani, COOP "Mtis Nobati" (Beekeeping, CARE) - Mindia Kavtaradze, COOP "Tafli Sachino" (Beekeeping, Mercy Corps)

12:20 – 13:00	Discussion Topic: Member Participation (moderated by Giga Sarukhanishvili) <u>Panel Discussants:</u> - Giga Sarukhanishvili, Mercy Corps - Giorgi Misheladze, ACDA - Shalva Agumava, COOP "Darchelis Tkhili" (Hazelnut, Oxfam) - Zura Psuturi, COOP "Tsikara" (Mechanization, Mercy Corps)
13:00 – 14:00	Lunch
14:00 – 14:40	Discussion Topic: Competitive Environment and Taxation Regime (moderated by Levan Dadiani)
	<u>Panel Discussants:</u> - Levan Dadiani, OXFAM - Natalia Partskhaladze COOP "Kona" (NTFP, OXFAM) - Levan Khmelidze, COOP "Korenishi" (Beekeeping, CARE) - Givi Chubinidze, COOP "Meghvineoba Sazano" (Viticulture, PIN)
14:40 – 15:20	Discussion Topic: Gender and Youth Diversity (moderated by Nana Kashakashvili)
	<u>Panel Discussants:</u> - Nana Kashakashvili, GIPA - Tamta Mamulaidze, GFA - Magda Gugunava, COOP "Kalta Dzala" (Berry, PIN) - Aleko Meparishvili, COOP "Chkvishi" (Vegetables, Mercy Corps)
15:20 – 15:40	Coffee Break
15:40 – 16:20	Discussion Topic: Supporting Cooperative Development – Coordination & Cooperation for the Future (moderated by Giorgi Misheladze)
	<u>Panel Discussants:</u> - Giorgi Misheladze, ACDA - Marika Gelashvili, Ministry of Agriculture of Georgia (MoA) - Rusudan Dzidzishvili, Imereti ICC of MoA - Lasha Dolidze, FAO Georgia
16:20 – 17:00	Discussion Topic: Main Lessons Learned and Wrap-up of Today's Discussions
	<u>Panel Discussants:</u> - George Glonti, CARE - Buba Jafarli, PIN - Levan Dadiani, OXFAM - Irakli Kasrashvili, Mercy Corps

This event is financially supported by the European Union. The contents are the sole responsibility of organizers, and can in no way be taken to reflect the views of the European Union.

Communique

Opening panel on Lessons Learned within ENPARD

Participants in an open panel discussion: Giorgi Khanishvili (Deputy Minister of Agriculture of Georgia), Cristina Casella (Attaché for Agriculture in the EU delegation to Georgia), George Glonti (Mission Director of Care International in the Caucasus), and Irakli Kasrashvili (Mercy Corps Georgia director). Panel was moderated by Levan Dadiani (Oxfam representative).

Levan Dadiani opened the conference with a welcome speech. He started by saying that ENPARD had created a standard of coordination between organizations in the country. During the four years of the project, 17 organizations were involved in ENPARD I. Mr. Dadiani expressed his gratitude to the EU for this. He spoke about the importance of sustainability and the future development of cooperatives. He added that this day was cheerful and sad at the same time. On one hand, he said, we see established cooperatives; on the other hand, the project [ENPARD I] has come to an end. The speaker thanked representatives of the Ministry of Agriculture of Georgia and the Cooperative Development Agency for the productive work they have carried out, including the legislation drafting process (law on agricultural cooperatives). He emphasized that today the major challenge is to establish a long-term agricultural cooperative development strategy after the finish of the ENPARD program.

Levan Dadiani added that the ENPARD project had turned competitor organizations (CARE, Mercy Corps, Oxfam, PIN) into partners. This partnership was demonstrated in the coordination of research on methodology level, joint analysis, and cooperation on various issues. As Mr. Dadiani said, this jointly prepared closing event, one voice and position, and an opportunity to share findings and results, are also good examples of cooperation.

In her welcome speech, the Attaché on Agriculture for the EU delegation to Georgia, Ms. Cristina Casella, emphasized the huge amount of work carried out by the organizations and people involved in the first phase of ENPARD. The Attaché noted that in Europe, cooperatives did not develop all at once, and now Georgia is engaging in the cooperation development process under the difficult conditions that the legacy of Soviet Union has created. Even though current results have exceeded expectations, it is still too early to make final evaluations. Ms. Casella said that the development of cooperatives is only a part of ENPARD project, which is continuing; however, now the major focus has shifted to the rural development component.

The Deputy Minister of Agriculture, Mr. Gela Khanishvili, after his welcome speech, emphasized the importance of the support received in the framework of the EU Neighborhood Policy and the new approach in agriculture ENPARD has introduced. He expressed his regret at the fact that the project [ENPARD I] is nearing an end. However, he also expressed great gratitude for the benefits the project has brought: increasing awareness on cooperatives, financing cooperatives, delivering trainings to cooperators (cooperative members), support of the Agricultural Cooperative Development Agency, and more. As Mr. Khanishvili said, with the development of cooperatives, the country made significant steps toward reducing poverty. It is necessary to continue achievements and support cooperation. The government partially does this, and in particular, in 2018 compared to 2017, direct financing from Agricultural Cooperative Development Agency doubled. However, Mr. Khanishvili also encouraged donors to continue financing cooperatives, as funds allocated to this area by the government are not sufficient. In addition, Mr. Khanishvili encouraged everyone who is aware of the benefits of cooperatives to better share information on these benefits with farmers, so that more farmers believe that joining a cooperative will bring more benefits to them and to the country. This comment was followed by a discussion which revealed that there are not many applications in the cooperative development programs. This indicates that farmers still doubt the benefits of joining cooperatives.

A representative of a cooperative, Mindia Kavtaradze, made a comment in this regards. He reminded the audience that due to migration, the rural areas in Georgia are mostly populated by people who do not

have a very high level of education or qualifications. This impedes fast development of cooperatives. He recommended that everyone take this circumstance into consideration.

The Head of the Mercy Corps Georgia office, Mr. Irakli Kasrashvili, emphasized the four years of unique cooperation that has been established between donors, state entities, implementing organizations, and cooperatives, in the framework of ENPARD project. As he noted, stakeholders became actively involved in the process from the very first stage of preparation of the legislation (law on agricultural cooperatives), and they participated in the discussion of ongoing and interim results, preparation of recommendations and other subsequent processes. Mr. Kasrashvili said that the project offered the opportunity to numerous small farmers to receive actual income.

The Head of Care International in the Caucasus, Mr. George Glonti, emphasized the fact that in Georgia, 40% of the workforce creates only 9% of GDP, and the growth of cooperatives should improve this situation. In this regard, it should be noted that the government prioritizes the development of agriculture. Excellent coordination between ENPARD implementators, as well as the Ministry of Agriculture and other stakeholders, is also worth noting. As Mr. Glonti said, all this has created a good foundation for continuing the process (of development of cooperatives), however, it is necessary that stakeholders continue providing support to cooperatives in order to achieve ultimate goal – sustainability of cooperatives.

The Deputy Head of the Agricultural Policy Research Center and ENPARD Project Coordinator at ISET Policy Institute, Rati Kochlamazashvili started his presentation by expressing gratitude. In his speech, he thanked donors (especially the EU), representatives of the government, implementing organizations and cooperatives, for their cooperation during last four years. Mr. Kochlamazashvili noted that even though it takes time to see results in agriculture, the trend of how agricultural cooperatives are developing in the county is already visible. Observing, studying this process, and making respective conclusions, is a constant process, and happened throughout the duration of the project. One thing is clear: world experience tells us that if the initial stage of establishing cooperatives is impeded and turns out to be unsuccessful, then we will have to postpone this concept for at least ten years. Hence, in order to avoid such a result, it is necessary to make proper conclusions and create exemplary cooperatives that will convince other farmers that cooperation is beneficial.

Mr. Kochlamazashvili made a presentation where he focused on those issues that, as world practices have shown, ensure sustainability of the cooperatives. These issues are: management and leadership, member participation and involvement (including marginal groups such as women and youth), access to finance, and a competitive environment.

1. Panel Discussion on Management and Leadership

Panel discussion was led by ENPARD project manager from organization People in Need, Mr. Buba Jafarli. Panel participants also included: Kote Khutsaidze, Agricultural Cooperative Development Agency; Lasha Gagoshidze, cooperative Rachis Naturaluri Produktebi (beekeeping, PIN) and Zaza Chikvaidze, cooperative "Bekebi" (wine production, OXFAM).

Mr. Jafarli emphasized the four-year experience PIN consortium has acquired. In this period, problems that majority of the cooperative face became evident – they were mainly related to management issues. There is lack of leadership in cooperatives, leaders cannot delegate authority and duties, cannot unite and manage the team or solve conflicts in the team. There are problems related to finances, marketing, and risk management as well. Also, cooperatives lack vision, they cannot visualize how their company will develop in 3, 5, or 10 years.

Discussion touched issues related to management of cooperatives and solution to these problems:

- As leadership and management issues are important, trainings were delivered by ENPARD consortia, as well as Evoluxer, within other projects financed by the EU and members of many cooperatives were trained;

- In beekeeping sector, representatives of Rachis Naturaluri Produktebi cooperate with local (in Racha) college and regularly train the members;
- A good manager plays a big role in raising finance, this increases access to finance. Rachis Naturaluri Produketebi is a good example – they were given a credit by a bank for a second time;
- State support programs are mainly targeted at cooperatives with ten or more members. However, as the number of the members in the cooperative increases, its management becomes more difficult and it is clear, that existence of a strong leader and manager plays an important role in the success of the cooperative and achievement of medium or long term sustainability;
- Head of Agriculture Cooperative Development Agency (Giorgi Misheladze) and Deputy head (Kote Khutsaidze) emphasized the fact that cooperatives require specific management and it is important to deliver trainings specifically in cooperative management, in order to enable managers learn the principles of cooperation and become a real leader of a cooperative;
- It is important to reveal strong leaders and managers in the cooperatives and use them in promotion activities. Also, it is recommended to involve strong leaders in the trainings to demonstrate to other cooperators cases of cooperatives that are successfully managed;
- Head of agricultural cooperative Tapli Sachino, Mr. Mindia Kavtaradze said that strong leader and manager develop in parallel to the development (of cooperative), trainings help cooperators to achieve this. Peasants become business oriented farmers and there is specialization within the cooperative depending on who is good at what. It is very early to speak about smooth functioning of cooperatives due to the situation in the village - we have a situation when a developing country (Georgia) has developing farmers, Mindia added.

2. Panel Discussion on Access to Finance

Panel participants: Koka Zhghenti, ABCO; Zaur Tsvariani, Cooperative Mtis Nobati (beekeeping, CARE); Mindia Kavtaradze, Cooperative Tapli Sachino (beekeeping, Mercy Corps). Discussion was moderated by Elisabed Tskhadaia, representative of Care consortium.

Before opening the panel discussion, Elisabed Tskhadaia made a presentation, where she spoke about access to finance. She noted that even though the problem is characterized by a downward trend, it still remains one of the major challenges for cooperatives. This finding is backed by the annual cooperative survey. Financial sources, in addition to the banking sector, include ENPARD, other grants from NGOs, and additional shareholder contributions from regular and, in some cases, associated members. However, it should be noted the biggest challenge for cooperatives is a relationship with the banking sector. There are only few cases of bank credit being given to cooperative, and even this was the result of significant effort. Credit is mainly given to a member instead of a cooperative. At the same time, using the money received from the bank to contribute to shareholder capital is considered by the bank to be a change in the purpose of the loan. Another problem of financing working capital, which is related to members being on the "black list," should also be noted; in rural areas, there are no highly valued and/or liquid collateral to insure the risk for a bank. In addition, often documentation is incomplete and banks have legitimate concerns related to this flaw. As Ms. Tskhadaia says, the solution lies in dialogue and advocacy of cooperatives, and she sees that Georgian Farmers Association (GFA) has an important role in this regard. Also, it is necessary to consider the specifics of cooperatives and create banking products that suit them.

Koka Zhgenti said that the problem of expensive long-term loans is especially relevant in case of microfinance organizations. As for the banking institutions, the agricultural sector is a high risk sector for them, and it is not worth it for them to enter this market yet. For this reason, the creation of a loan guarantee fund is recommended – a model that was tested in Georgia ten years ago by Mercy Corps and ABCO in cooperation with microfinance organization Credo. In this model, a nonperforming loan was first covered

with a farmer's collateral, and next from a guarantee fund. Mercy Corps contributed large part to this fund, and ABCO also supported the fund with small amount. Because of the incentive, farmers knew that they were given a recommendation, however, they did not know that their loan was guaranteed. The fund was established mainly based on experience in Asia. It should be noted that at that time the interest rate was 25-27% (interest rate on the market at that time), despite this, out of 40 such loans none went into default.

Discussion was had on the following issues:

- ENPARD and ACDA support programs mainly help cooperatives to purchase long term assets, and the majority of them currently face problems in obtaining financing and working capital.
- As for financial products, the underdevelopment of agricultural insurance should be noted. Government started active work in this direction several years ago, but it is still very far from being perfect. Participant beekeepers said that their hives were damaged by bears (in the case of one cooperative, Rachis Naturaluri Produktebi) and by floods (in case of the other, Tapli Sachino), however, as the state program of agricultural insurance does not cover beekeeping, their farms were not insured and they saw major losses. It was also recommended to divide insurance coverage by regions, in order to consider specific regional characteristics.
- Giorgi Misheladze said that the number of cases where cooperative got loans has increased; the number of associated members is also increasing. Agricultural insurance, which unfortunately does not cover beekeeping, is an essential institution. It is worth noting that Aldagi has expressed interest in insuring beekeeping cooperatives. Currently there is only one beekeeper application, however if there is a demand on the insurance, supply will follow. Also, one of the reasons a bank can reject a cooperative's credit application includes cases where even one member of the cooperative is black- listed. We should find out whether this is a genuine reason for rejecting a loan application, or whether it merely serves as a formal excuse used by financial institution?! Mr. Misheladze said that it is important that cooperatives are ready for cooperation with the banks; most of the time, this is not the case.
- Giorgi Khanishvili says that it is important to work on self-development and find internal resources. A beekeeper cannot trust a person who they doubt will pay them money. The banks have same attitude. The bank knows that in reality, it is one person who applies for the loan, not the cooperative. Often the financial/managerial accounting of the cooperatives is not meeting acceptable standards for the government, as well as for the banks.
- In addition, it was also said that it is important to create alternative sources of finance, whether it is associated members, a revolving fund (which is being introduced by the Care consortium), a credit union, etc. This requires adaptation of legislation; the experience of other countries can also be used. Only seven credit unions are left out of 150 financed by the World Bank in 2000s in Georgia, and this happened mainly due to the legislative base - the law on credit union became regulated by the National Bank of Georgia. It is important to start to think about credit cooperatives.
- Some cooperatives are ready to cooperate with financial institutions, and some are not. This relationship should be mutually beneficial. Today there is not a high level of trust and cooperation. The bank's goal is to maximize profit received from a farmer, and the farmer aims at taking as much money from the financial institution as possible. It is notable that a 2017 study of access to finance shows that banks do not have sufficient information on cooperatives. Mr. Kochlamazishvili reminded the audience that there is a four-year database of annual cooperative survey results carried out within the ENPARD project. Financial institutions can use this information and it will help them know more about cooperatives, including financial information, which saves their resources.

3. Panel Discussion on Member Participation

Giga Sarukhanishvili, a Mercy Corps representative, led the panel. Participants in the panel discussion were Giorgi Misheladze (ACDA), Shalva Agumava, Cooperative Darchelis Tkhili (nut production, Oxfam) and Zura Psuturi, Cooperative Tsikara (husbandry, Mercy Corps).

In his introduction speech, Mr. Giga Sarukhanishvili talked about the involvement of its members in cooperatives, and the importance of knowledge of cooperative principles as a determinant of success and sustainability of a cooperative. Mr. Sarukhanashvili noted that not all out of 1,500 cooperatives are successful. Currently Georgia has three types of cooperatives: 1) „one person cooperatives" – pseudo cooperatives created around one person; 2) „family cooperatives" – which mainly unite family members and 3) „real cooperatives" - members come from different families and understand the benefits cooperation can bring to their activities. Hence, it is important to focus on quality instead of quantity.

As Mr. Misheladze said, farmers do not fully understand what membership in a cooperative implies. What is important is not a participation in a grant program, but fulfilling elementary obligations. The status of cooperative was terminated for 530 cooperatives, as they did not fulfil the obligations determined by the law – according to which a member should be a citizen of Georgia, should be involved in agricultural activity, and have contributed capital/ share to/in the cooperative. Today, the main idea is to focus on the growth of the number of members, and not the number of cooperatives (it is allowed to form cooperatives with 5 members, however, it is desirable that members come from 5 different families). There are such examples in other countries – in Japan up to 900 cooperatives unite about million members, and there are 700 cooperatives with 50,000 members in Greece, whereas in Georgia there are 1,400 cooperatives that unite only 13,000 members. Misheladze also said that cooperatives supported by ENPARD depended on consortium, and it is therefore important to observe how these cooperatives will proceed after the project is finished.

Discussion revealed that these issues should have been analyzed in more depth during the legislative drafting process (requirement that there should be minimum 5 members in the valley and 3 – in the mountainous areas), and that this would have prevented the creation of family cooperatives.

The Chairman of Cooperative Korenishi, Mr. Levan Khmeldze, said that it is important that a cooperative has many members, and that an individual who wants to join cooperative should also understand this. It is hard to convince a person without demonstrating results. For this reason, he stated, we need to consider the situation we have today. „In fact, if I present the idea of cooperative to 20 people, only three will agree, and in the end, it is even doubtful that one person will join it," said Khmelidze. He recalled his personal story, when he was just starting to establish a cooperative. In the beginning, he found only four like-minded people, and two of them were a couple. Mr. Khmelidze added that regional differences should also be taken into consideration in this regard. The focus should be placed not on adding passive members, but on "having members who realize and know the principles of cooperatives, even if such members are few." Mindia Kavtaradze, head of the Cooperative Tapli Sachino, agreed with him. He added that cooperatives have to bring in pseudo-members in order to meet grant program criteria. He regretfully said: "Sometimes we are ashamed of the lies we have to tell to the state and NGOs," It was also noted in the discussion that, according to state regulations, there is a chance that a member who provides services to the cooperative, such as tractor driver, accountant, marketing specialist, etc., might not be considered a member. This should be definitely corrected in the legislation.

Mr. Shalva Agumava, head of one of the biggest hazelnut cooperatives in Georgia, Darchelis Tkhili, started his speech by speaking about the problems the hazelnut sector faced in 2017 (pest Asian stink bug and diseases) which put nut producers, as well as their cooperative, in a very difficult position. Even though joining the cooperative increased the income of the members by 18-22%, there is a problem of lack of working capital in hazelnut cooperatives. This implies that when members harvest hazelnuts and need money, the cooperative does not have money to pay for the hazelnuts collected from the members. As a result, only 15-20% of the members supply hazelnut to the cooperative, and the rest sell their harvest at a relatively lower price to collectors, processors or exporters (side-selling is in place). As we see, mobilizing working capital is vital for the operation of the cooperative. For this reason, they contacted the bank. The bank required all 520 members of the cooperative to visit the bank and sign a consent. This was impossible to fulfil. With the help from the state and donors, consignments are being introduced in the hazelnut sector, however, we do not have success stories yet.

Mr. Psuturi said that there are 12 people in Cooperative Tsikara. They own and cultivate 150 ha of land. The cooperative mainly focuses on mechanization, and members have divided areas of activities between

themselves, such as accounting, maintenance of equipment, etc. In addition, Psuturi said that cases of bad cooperatives play a negative role, as they damage the image of cooperatives. As a result, farmers are less motivated to join cooperatives. However, study tours resulted in positive evaluations. For example, with the support of the ACDA and ENPARD implementing consortia, representatives of the cooperatives visited Europe, where they saw how cooperatives work. This increased the knowledge of the cooperative members. In addition, active members of the cooperatives try to encourage passive members and serve as an example.

4. Panel Discussion on Competitive Environment and Tax Regime

Panel was led by Levan Dadiani (OXFAM). Members of the panel included: Natalia Phartskhalaze, Cooperative Kona (non-timber forest products, OXFAM), Givi Chubinidze, Cooperative Meghvineoba Sazano (wine production, PIN), Levan Khmelidze, Cooperative Korenishi (beekeeping, CARE).

Mr. Dadiani opened the panel with a talk on importance of market competitiveness and of branded products in certain cases. He expressed his concerns regarding the lack of economies of scale, which is a barrier to exporting products abroad. He also emphasized the importance of improving the legislative base.

Ms. Natalia Partskhaladze said that it is important to share views with each other. She said that, like democracy, cooperatives are hard to manage, and due to economic circumstances and mentality, it is not easy to convince people to form them. The representative of Cooperative Kona expressed her dissatisfaction with the fact that when a product moves to the processing stage, its product code is changed and it becomes subject to taxation. In such cases, cooperatives are deprived of the small tax advantage they have. It was once again noted that legislation related to service cooperatives needs improvement in Georgia.

Mr. Givi Chubinidze thanked Juan Echanove and European people, and said that as a result of the ENPARD project, the country received equipment and technological knowledge, which might not be visible in numbers. He also emphasized the need for tax preferences in the wine-making sector, and the importance of establishing a marketing cooperative together with other cooperatives. In addition, he said that those people who are mainly farmers lack knowledge of market economy.

During the panels, participants also covered the issue that the ability to carry out tests in existing laboratories in Georgia is limited. For example, Europe requires 27 tests for honey and in Georgia it is possible to carry out only seven of them. For this reason, samples are sent to Europe, which is an expensive step. Kona had to behave likewise and test its herbal tea in Bulgaria.

Giorgi Misheladze says that it is necessary that honey cooperatives follow existing regulations and that Georgian honey is promoted, as was the case with the wine sector. He also said that it is necessary to have homogenous honey in large quantities and a stable supply to achieve competitiveness. He also said that it is very important to control counterfeit honey. He also spoke on the importance of branding and uniting Georgian honey under a state name, as this will create even more export opportunities for the country.

The representative of Elkana, Ms. Elene Shatberashvili, also joined the discussion. She said that image of the country plays important role in export. However, it should be noted that the branding strategy should be consistent with the sector. For example, in the hazelnut sector, consolidation and joint sales are important, as the price of Georgian hazelnuts is lower than the price of Turkish hazelnuts. As for the consolidation of tea, honey, wine and other premium products, their consolidation only lowers their price, as "mass production will not deliver high value, it will result in cheap products," she added. In such cases, the focus should be on the specifics of the region or municipality, its unique nature, etc. Ms. Partskhaladze agreed with Ms. Shatberashvili. She does not support the idea of product consolidation, as she thinks that the unique features of Cooperative Kona's products will be lost if consolidated.

Mr. Rostom Gabisonia said that the goal at each stage of ENPARD is to overcome poverty in the country. In this regard, only wine production and beekeeping will not take us too far. For sustainability, it is necesary to develop other sectors, such as non-timber forest products, etc.

The discussion also revealed that it is important to focus on education, especially those business skills that are necessary for achieving success in market economy. In this regard, the representative of Cooperative Sazano emphasized the necessity to throw away the experience of collective farming (Sovkhozes and Kolkhozes) and give a way to new ideas and youth. It was also mentioned that the introduction of a land tax will contribute to the land consolidation process.

5. Panel Discussion on Gender and Age Diversity

Panel was led by Nana Kashakashvili from GIPA. Participants of the panel discussion included – Tamta Mamulaidze, GFA; Magda Gugunava, Cooperative Kalta Dzala (production of berries, PIN); and Aleko Meparishvili, Cooperative Chkvishi (vegetables, Mercy Corps).

In her welcome speech, Ms. Nana Kashakashvili said that gender equality is a broader topic than "oppressed women" and that there are no female and male professions. Female farmers are actively involved in agriculture. Also, she said that existence of an information bank is very important for youth.

Ms. Magda Gugunava said that Cooperative Kalta Dzala was established in order to demonstrate that woman can achieve success in agriculture. There are ten women in the 11-member cooperative. In the beginning, 21-year old Magda found it difficult to convince members of the cooperative that she can do the same job. She also said that, after several attempts in agriculture, young people move to other sectors to get income.

Ms. Kashakashvili added that the role of successful cases is huge, and people like Magda break stereotypes that exist on youth and gender. It is necessary to involve women in agriculture and in economy, in general, as much as possible. This will contribute to the development of the country. She stated that media has also drawn a wrong line between feminism and gender equality. Assigning excess privileges to women is the same, as it touches men's right in this case. It is important to note that the Georgian language does not differentiate between gender; in a strong civil society, women are strong and there is no need to give privileges to women.

Ms. Tamta Mamulaidze presented her own story on how she was inspired by her schoolmate and famous young wine maker Baia Abuladze. Tamta purchased an incubator and joined Georgian Farmers Association and became a member of Georgia's Young Farmers Association; it is important to make the sector younger, and the goal of this association is to find and connect with each other such young people and support them. Many things can be taught to young people and they are more enthusiastic, this will make the sector stronger and hence, contribute to the strengthening of the country's economy. Also, it is important to deliver trainings to vulnerable groups, such as IDPs in Samegrelo-Zemo Svaneti and Imereti.

6. Panel Discussion on Support and Coordination of Development of Cooperatives and Future Cooperation

Panel was led by Giorgi Misheldze (ACDA). Participants included – Marika Gelashvili, Ministry of Agriculture; Rusudan Dzidzishvili, representative of Imereti office of Ministry of Agriculture (ICC); and Lasha Dolidze, FAO Georgia.

Giorgi Misheladze spoke about the past four years, and said that this time is neither a small nor big period. Not everything is in ideal condition, but the state could not achieve these results alone. The cooperation of consortia demonstrated to the farmers that state and other organizations are ready to cooperate. It is very important to share acquired experience after the project is finished. In this period, ACDA, the consortia, and

the cooperatives grew. Many programs began, and they are still being implemented. Information support played important role in this process. There were programs for motoblocks, beekeeping, the diary and hazelnut sectors, vine growing, and programs to provide mountainous regions with pastures. A livestock program is planned for 29 municipalities, however, there are municipalities that did not even submit an application. In addition, three instead of four projects were implemented in the vine growing program, which means that farmers are less active despite the information campaign that was supported by ICC representatives, which strongly supports for ACDA to work in the regions.

Ms. Marika Gelashvili talked about the role of international cooperation and importance of cooperation within the Ministry. She also emphasized the reason why it became necessary to develop cooperatives in Georgia. As the population owned small areas of land, there was a need for land consolidation. Development of cooperatives was accompanied by various problems during these years – the difficulty of fighting the communist mentality; problems related to management and working with banks; the level of education of the farmers; the aging of the sector (when recruiting personnel for ICC, it was extremely hard to find young candidates, 80% of the applicants were 40-50 years old and older), dissemination of knowledge in the regions, etc.

Ms. Gelashvili also said that the project is finished, however, we should find a positive aspect to this: the donor has given a start to the development of the cooperatives and now, this work needs to be continued by the state and other donors, and the EU will continue to support the country with other more necessary projects.

Ms. Rusudan Dzidzishvili, based on her Imereti experience, spoke on the important role ICCs and consortia play in the development of cooperation, and the improvement of accounting and other types of documentation. In addition, she noted that in the future, focus should be placed on education; in many of the cooperatives, there are business-oriented people who do not know the specifics of the sector. They need more knowledge of the field.

Mr. Lasha Dolidze said that in 2013 ENPARD had a modest goal. However, now the success of the cooperatives has been proven. Monthly meetings that hosted hot debates were held; it should be noted that the legislative base was reviewed soon after the start. Currently, the legislative base has some flaws, however it is generally satisfactory. Mr. Dolidze said that ENPARD will have some cooperative development component in its future stages.

After the end of the discussion, Giorgi Misheladze said that in order to successfully continue cooperation, the Agency plans to establish a Union of Cooperative Supporters, and will invite ENPARD implementer organizations to join, in order to create a platform where experience is shared on regular basis.

Closing panel: Experience Received and a Summary of Today's Discussion

Panel participants: George Glonti (CARE); Buba Jafarli (PIN); Levan Dadiani (Oxfam); Irakli Kasrashvili (Mercy Corps).

Mr. George Glonti spoke on the necessity of supporting cooperatives in the future. The first stage was a pilot, in reality, and now it is necessary to develop it, see the results, analyze problems, and provide support where necessary. Business consolidation is important, however, it is also important to produce niche products. It is impossible to achieve the Soviet level, for example, in tea production due to lack of a market. Certification and quality control are necessary, which require the existence of laboratories. For example, honey producers need labs, other than that, they can take care of themselves.

Mr. Irakli Kasrashvili said that in the beginning, cooperatives were seen as a revival of collective farming. However, this impression is slowly disappearing. It is natural that the project has a start and an end. However, support of cooperatives started in the 1950s in Europe, and it still continues. Georgia only has four years of history of such support. An additional 3-4 years of support are still necessary. Mr. Kasrashvili said that involvement of youth in the sector is very important, as the sector is aging. He stated,„no business

has a future without involvement of youth." As for women's involvement, it happens naturally. In addition, the legislative changes targeted at increasing the number of members is not necessary any more. Last, cooperatives should be taxed as individual farmers and if they are taxed more, they will hide cooperation to avoid taxes. It is important to make national strategy of cooperative development.

As Levan Dadiani said, a four-year program is a very short time, as it took Japan more than a century through subsidies, and Europe 150 years to develop cooperatives in a natural environment. A conceptual analysis of the process sometimes requires a period of 50-60 years. Mr. Dadiani also covered such issues as identification of leaders and increasing their understanding of the topic; improvement of insurance packages; support of loan guarantee funds or support of leasing packages; solving the issue of working capital; a federation or association of cooperatives according to extension, veterinary or even managerial accounting services; legislative barriers related to processing or changes in the charter; documenting activity of cooperatives - even though cooperatives do not pay taxes, this can be regulated by law.

Mr. Dadiani also said that it is very early to evaluate sustainability of the cooperatives, but the dynamics are very interesting. He added that the role of Union of Cooperatives' Supporters in the advocacy and influence on policy is important, and he encouraged the idea.

Buba Jafarli said that 1.1 million euro from a 3.2-million-euro budget was allocated to the education of the cooperative members, and numerous cooperatives or trainers were trained. However, it is necessary to institutionalize trainings, as tomorrow new people will come, some will leave, some will not retain their knowledge, etc. This component can be outsourced, and the private or NGO sectors can get involved in this component. Mr. Jafarli also spoke about the ENPARD rural development component, which covers only 8 municipalities. He mentioned that the budget allocated for cooperatives is very small.

Giorgi Misheladze spoke about tax issues, and said that a preferential tax period will probably be postponed to 2023. The tax system does not recognize cooperative systems; for instance, hazelnut supplied to a cooperative by a shareholder is considered to be a supply. However, a cooperative is defined by its members, according to the law. Cooperatives cannot have their land registered based on cooperative's application, as one of its members might be citizen of a foreign country. Mr. Misheladze stated that „I myself understood what cooperation was only after joining the Ministry," He thanked everyone for productive cooperation within the ENPARD's four-year milestone.