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The European Union
for Georgia

ENPARD: Support to Agriculture
and Rural Development

The European Union is supporting rural development in Georgia through its European Neighbourhood Programme for Agriculture and Rural Development (ENPARD). Implemented since 2013, with a total budget of EUR 102 million in 2013-2019, 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 phase focuses on creating economic opportunities for rural population that go beyond agricultural activities. More information on ENPARD is available at: www.enpard.ge

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Content

AGRICULTURE AND RURAL DEVELOPMENT IN GEORGIA: A RESEARCH AGENDA

APRIL 11, 2014

Source: ENPARD Georgia (www.enpard.ge)

After many years on the back burner of policy discussion in Georgia, issues related to agriculture and rural development now seem to be at the forefront of debate. And for good reason, as these issues are incredibly complex and have important implications, not only for those residing in rural areas but also for those purchasing agricultural products in towns and cities.

Yet we still have much to learn about agriculture and rural development in Georgia and many questions remain, especially from a policy perspective. Are vouchers for those working in the agricultural sector the most appropriate way of reducing rural poverty or increasing agricultural productivity, for instance? Was the previously poor state of irrigation and drainage infrastructure across the country necessarily a binding constraint on productivity? How important is land registration for protecting individuals' property rights or providing investment incentives? Has the state gone too far in some directions, potentially crowding out private investment in the process, or not far enough in others, and not providing an enabling institutional environment for small scale agricultural producers and agribusinesses? These questions have yet to be adequately addressed (or even asked), even though the economic and fiscal consequences are significant.

Most recently, there has been much discussion about *agricultural cooperatives* in Georgia. Over the last two years, we've seen a new law come into effect (the "Law of Georgia on Agricultural Cooperatives") as well as the rollout of the European Neighborhood Program for Agriculture and Rural Development (ENPARD), which will seek to support the development of more than 100 business-oriented cooperatives and farmer groups across the country.

In case it's thought that these initiatives represent the second iteration of the *kolkhoz* movement, note that the Law of Georgia on Agricultural Cooperatives explicitly states that the main (ideal) principles of agricultural cooperatives include *voluntary* membership, *democratic* management, and economic participation of members (shareholders), and that they should promote social responsibility, fairness and mutual assistance. It remains to be seen, of course, whether or how well these ideal principles will be maintained in practice, particularly with regard to management and share contributions and distribution of profits among members.

Nevertheless, as a legal entity, an agricultural cooperative can, in theory, play an important role in agricultural and rural development in Georgia by enabling farmers to come together to take advantage of various business opportunities. For example, service cooperatives may help improve product quality consistency, which is seemingly a major challenge in Georgia. Cooperatives may also help to improve economies of scale in input and product marketing among smallholder farmers, ease credit constraints, or improve access to market information. Lastly, in addition to their economic benefits, agricultural cooperatives may help support vulnerable individuals like internally displaced persons.

At the same time, many challenges in supporting agricultural cooperative development may arise. Chief among these challenges may be the difficulties faced by cooperatives in forming and sustaining market linkages, the role of trust and social capital *within* cooperatives and *between* cooperatives and other market players, cooperative governance, or market risks and constraints

elsewhere (e.g., slow improvements in the land registry, political instability in Ukraine, etc.). There are also specific legal, tax, and charter-related issues that need to be addressed.

A RESEARCH AGENDA

It is with these questions and challenges in mind that we are launching a new research agenda about agriculture and rural development in Georgia, with primary emphasis on the contribution of agricultural cooperatives to key development outcomes. Our hope is that the knowledge produced through this research will be practically useful, both for policy formation and project implementation but also for thinking about how cooperatives are structured, their operations undertaken, and their market linkages developed. This research agenda is part of a new project with CARE International in the Caucasus and the Regional Development Association (RDA) under the European Neighborhood Program for Agriculture and Rural Development (ENPARD Georgia).

In order to ensure that our research and these discussions are evidence-based, we are currently conducting a baseline survey—in partnership with Georgian Opinion Research Business International (GORBI)—across the seven districts/municipalities in western Georgia (Chokhatauri, Lanchkhuti, and Ozurgeti in Guria, Abasha, Khobi, and Senaki in Samegrelo-Zemo Svaneti, and Tsageri in Racha-Lechkhumi and Kvemo Svaneti) of focus in this project. We will also be conducting qualitative research across these districts/municipalities beginning this summer, primarily in the form of a farmer diary questionnaire, but also by holding semi-structured interviews and focus groups with households primarily engaged in agricultural activities, and key informants across the project target region.

We will consider a wide range of topics related to agriculture and rural development, from legal and tax issues and the incentives faced by small-scale producers, to issues related to access to credit and the role of the Ministry of Agriculture's preferential credit program for producers and processors. We will also examine issues directly related to cooperative formation, like charter development, market linkage formation, cooperative governance and management, and business plan development. Lastly, we will take a critical look at the efforts of our own consortium and other consortia under the ENPARD project.

Our goal is to bring some findings from micro-level data into discussions about agriculture and rural development in Georgia. That being said, any evidence base has its limitations, and should be critiqued accordingly. We hope you'll find this research insightful and we invite your commentary and dialogue on this blog.

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Agricultural Cooperatives Fishing for Competitiveness

NOVEMBER 21, 2014

Source: ENPARD Georgia (www.enpard.ge)

Located in a beautiful gorge between Nabeghlavi and Bakhmaro, Chkhakaura village is home to tough Guruli trout fishermen. The village is difficult to reach even in a sturdy 4x4 SUV, but this does not prevent locals from taking advantage of dilapidated Soviet infrastructure and unique natural conditions to grow trout.

They are five men, ages 20 to 45, who have been in joint trout farming business for more than 4 years, selling fish, roe and fry in the nearby Nabeghlavi and Bakhmaro villages. Nabeghlavi and Bakhmaro happen to be premier Georgian mineral water brands belonging to Tskhali Margebeli ("Healthy Water"), and plentiful supply of 'healthy water' is perhaps the only locational advantage of the guys from Chkhakaura. The last stretch of the road from Nabeghlavi to Chkhakaura is unpaved, and in winter time fish has to be carried by sledge.

For all the talk about the Georgian farmers' chronic inability to cooperate, what the fishermen from Chkhakaura have created over the years is a real farmer cooperative. They would not have been able to survive, let alone be successful, without helping each other in every aspect of their difficult business – growing fish in the middle of nowhere and bringing it to the market. For them, cooperation is a way of life.

WITH A LITTLE BIT OF HELP FROM EUROPEAN FRIENDS

Responding to a unique opportunity provided by recent changes in Georgia's legislation, the group has decided to formally register as a farmer cooperative, "Samegobro 2014". Moreover, they have applied – and have been selected! – for funding and technical support by the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD). A recoverable grant (essentially this is a zero interest loan to be eventually 'recovered' by the Georgian Farmer Association in order to finance future loans) of about GEL 70,000, will allow the group to renovate and expand their facilities, and buy a pick-up truck to distribute trout and deliver feed and other supplies to the farm. Their business plan (which they had to develop in order to qualify for EU funding) talks about development of agritourism – construction of a small B&B facility for visitors interested in healthy water, trout fishing and breathtaking mountain scenery.

The story of the "Samegobro 2014" is part of a big EU-supported push by the Georgian government to establish business-oriented farmer groups across the country. More than 250 agricultural cooperatives have registered with the Agricultural Cooperatives Development Agency (ACDA) to date. Many of these (as well as some other farmer groups) will be incubated through the Eur 40 mln ENPARD-Georgia program, which gives farmers a great opportunity to explore economies of scale in the procurement of inputs and services, agricultural production and marketing.

The road to effective farmer cooperation in Georgia is not likely to be an easy one. To begin with, fledgling farmer groups will have to learn the basics of cooperation management – how to make collective decisions, how to reward good performers and punish slackers. Strong leadership skills and ability to work in a team – standard job interview topics – might prove a binding constraint for groups lacking in prior experience.

While cooperation management may be less of a challenge for more or less experienced groups, such as our Guruli fishermen, farmer coops may go bust like any other business if they fail to achieve a competitive position in their market. Failure can be a result of poor raw material supply management (crucial for processing cooperatives) or competition with larger scale and more efficient producers (like the large trout farm right on the road to Bakhmaro). In the absence of insurance and cash reserves, a potentially successful farmer coop could unravel even as a result of a one-time crop failure.

THE CHALLENGE OF ACHIEVING ECONOMIES OF SCALE AND COMPETITIVENESS

A cursory examination of the list of farmer groups registering with the Agricultural Cooperatives Development Agency (ACDA) and applying for ENPARD support suggests that – perhaps contrary to some expert assessments – most Georgian farmer groups are tiny '*production coops*', that is groups trying to scale up production by consolidating their assets and jointly acquiring a piece of equipment or machinery.

As previously discussed on the ISET Economist Blog, the distinction between production and service coops is crucial.

"Smallholders are often too small to independently access markets, and can be easily exploited by middlemen and local monopolies. *Service cooperatives* can increase the bargaining power of smallholders versus banks, service providers, input suppliers, processors and … government. This light form of cooperation is quite effective and relatively easy to manage and sustain, which explains its prevalence in North America and Western Europe.

A more ambitious (and far more demanding) form of cooperation is about pooling fragmented smallholdings into larger farms. Examples of such production cooperatives are the Israeli kibbutz and Soviet collective farms. These are said to benefit from economies of scale in primary agricultural production."

The main raison d›être for *production cooperatives*, of which "Samegobro 2014" is a good example, is, indeed, the opportunity to reduce costs and gain lucrative contracts with other players in the relevant agricultural value chain, such as large processors, retail and hotel networks. Unfortunately, most newly registered farmer groups are very small, consisting of 3-5 members (often close friends or relatives), which diminishes the scope for achieving economies of scale in production, at least in the short term.

For *processing cooperatives* (a specific form of production coops that is quite common among newly registered farmer groups), cooperation is typically about undertaking investment in expensive equipment that no single farmer would be able to afford individually. Given the small size of processing cooperatives currently registered with the ACDA, however, their main challenge will be to ensure stable supply of raw materials (be it tea leaves, nuts or milk), and thus justify the upfront investment in processing equipment, storage units, and the like.

(As many processing businesses learn the hard way, managing raw material supply is never easy in Georgia given the short planning horizons of smallholder farmers and lack of forward markets. In other words, there is a real danger here that donor-financed equipment will be eventually rusting in the corner of a field, to use Tim Stuart's metaphor.)

Finally, for all types of startup production cooperatives, a real issue is competition in the product market. Instead of cooperating on input and service procurement or marketing, they will be competing with each other, with smallholder farmers (delivering product to the market at prices which undercut more formal players), and with larger commercial operators (large-scale family farms or LTDs) enjoying economies of scale in production and/or marketing which cannot be matched by startup agricultural cooperatives.

A possible way out for small-scale producers (e.g. wine cooperatives) will be to develop highly differentiated products (a specific grape variety, qvevri wine, locally branded churchkhela, etc.) and invest in their branding and marketing.

Many startup farmer coops will undoubtedly fail to deal with these challenges. Nevertheless, the Guruli fishermen example suggests that farmer cooperation should be given a chance in Georgia. With a bit of support from our European neighbors and the Georgian government, cooperation could give hope to many Georgian households who are willing to help themselves.

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What Happens When Institutions Are Designed to Provide Bullet-proof Protection against Fraud?

26 MARCH, 2015

To date, our library is not equipped with an expensive security system. Its doors are wide open 24/7, under students' own supervision. And, as could be expected, a few books get lost (or maybe stolen) every year, which I consider to be a modest price for having an effective institution. (Photograph: Koka Kalandadze)

DESIGNING LIBRARIES

"Shock and awe" is a US military term describing the use of overwhelming power to demoralize the enemy, as applied by the American military in Iraq. "Shock and awe" would also aptly describe my emotional state when I entered, at the age of 23, the magnificent reading room at the Bodleian Library in Oxford. This was the moment when I – a former paratrooper and an officer with one of Israel's security services – understood how badly I want to acquire an education. Not technical knowledge or skills, but an education.

Bodleian Library. University of Oxford.

"Shock and awe", albeit of a different kind, would also aptly describe my feelings when inspecting, back in 2007, the space designated for ISET's library. Previously occupied by a Soviet planning institute, our 7-story building on Zandukeli 16 was being remodeled, as befitting Tbilisi State University's (and Georgia's) flagship education program. Yet, what I saw was utterly uninspiring.

Whoever "designed" the library, simply connected a series of small offices on one side of a long corridor. All walls were left intact. All office doors but one – designated as the main entrance - were permanently blocked, creating a cul-de-sac situation, with not even an emergency exit. An unusually narrow door, only 60cm wide (barely enough for a healthy Georgian guy), led to the registration desk, located right by the main entrance. An image of the three-headed Cerberus popped on my mind, -- "to prevent the dead from escaping and the living from entering."

"We want to make sure that precious books don't get stolen from the library", I was told by my new Georgian colleagues.

I was not convinced that preventing theft should be the main purpose of a library's design. It took another 3 months of wrangling with TSU's byzantine bureaucracy (nobody wanted to take responsibility for tearing down walls) and $50,000 to remodel the floor and create an effective institution. An institution where students spend all their free time, to study and socialize. An institution that demonstrates the spirit of ISET – modernity, openness, and dedication to learning.

To date, our library is not equipped with an expensive security system. Its doors are wide open 24/7, under students' own supervision. And, as could be expected, a few books get lost (or maybe stolen) every year, which I consider to be a modest price for having an effective institution.

DESIGNING FARMER COOPS

The law on agricultural cooperatives, passed by the Georgian parliament in July 2013, provided, for the first time since 1991, the legal framework for farmer cooperation, making it very easy for farmers to come together and register a joint legal entity.

All members are expected to be directly involved in agricultural activities of the group, but the minimum number of members is purposefully set a very low level – 5 farmers in the lowlands and 3 in the sparsely populated mountain areas.

The law does not restrict the kind of activities farmer coops are allowed to engage in – these can range from production and processing to transportation and marketing of agricultural products.

While required to operate subject to a fairly detailed charter, coop members are given considerable freedom in designing internal policies and procedures, including the rules for (democratic) decision-making and distribution of profits and losses.

A special legal entity, Agency for the Development of Agricultural Cooperatives (the "Agency"), was created under the Ministry of Agriculture, to facilitate the creation of agricultural coops, monitor their activities, and implement government support measures.

Anticipating a spate of benefits, including preferential credit and grants, tax privileges and training, more than 600 farmer groups registered with the Agency between July 2013 and February 2015. This could be considered a great success, except that registered farmer groups consist of only 6-7 members on average. Thus, the total number of households involved in the coop movement so far stands at less than 5,000 (or about 1% of Georgia's rural households).

The small size and weakness of registered farmer coops is a cause of concern for the Ministry of Agriculture. Speaking to a group of stakeholders earlier this week, Minister Otar Danelia indicated that "time has come to shift from quantity to quality", i.e. to make sure that registered farmer coops are real farmer organizations.

RE-DESIGNING FARMER COOPS

The purpose of the meeting, organized by MoA and the Agency in cooperation with the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD), was to discuss a number of amendments to the law on agricultural cooperatives. These amendments roughly fall into two categories: those seeking to **strengthen** new and existing farmer groups ("positive") and those seeking

to **prevent** others (individuals or commercial operators) from creating businesses disguised as farmer coops in order to take advantage of whatever tax breaks and support measures offered by the government and international donors. Naturally, the two sets of measures are at odds with each other.

Belonging into the first type are proposals to:

- increase the minimum size of a coop from 5 and 3 members (in low- and highlands, respectively), to 11 and 5 (and impose this size requirement on the already registered groups, many of which, it is claimed, are consist of close relatives)
- allow a class of "associated members", including businesses or individuals (both Georgian and foreign!), who would not be directly involved in agricultural production activities, but would help get farmer groups off the ground, assist with their organization, technology, skills, market linkages and access to finance, etc.

The second type of amendments includes provisions to:

- limit the opportunities for "associated members" to receive dividends (capped at 30% of a coop's annual profit) and influence the coop's decisions (by denying them voting rights).
- limit the opportunities for coops to purchase agricultural products from, or provide services to, non-members beyond 30% of the cooperative's annual turnover. The fear is that businesses will be set up disguised as coops in order to purchase machinery and process agricultural products taking advantage of subsidies, preferential loans and grants.

There are three problems with these amendments.

First, while the goal of increasing coops' size is generally consistent with international practice and common sense, by retroactively imposing the new size restrictions on already registered coops' the new law would result in artificial inflation of membership size or, much worse, disqualification of existing groups. Having smaller coops in the system (at least for the time being) would be a small price to pay to avoid a major crisis in the budding coop movement.

Second, the notion of "associated members" certainly addresses an acute need of new farmer organizations. Yet, coming with so many extra requirements and caveats – meant to prevent "abuse" and "theft" - this proposal is very unlikely to achieve its stated objective: create the conditions for cooperation between nascent farmer groups and external market players. A little bit of "theft" and "abuse" may be a reasonable price to pay for the chance to sustain farmer organizations beyond the scope of ENPARD, which is what "associated members" can help achieve better than anybody else.

Third, the cap on purchases and services to non-members is indeed a common way to encourage growth in coop membership. While somewhat true (non-members may decide to become members in order to gain access to processing machinery, storage, or distribution channels), the cap will have two detrimental effects. It would reduce the coops' initial investment in processing or storage capacity (given limited own land property and agricultural production potential). A smaller investment, in turn, will reduce the coops' ability to fruitfully absorb new members in the future. Additionally, the need to comply with the cap would create a huge headache for the coops (and the government agency in charge of monitoring compliance), reducing the attractiveness of farmer organizations for inexperienced smallholders.

LEAVE THEM KIDS ALONE AND LET A HUNDRED FLOWERS BLOSSOM!

The contradictions inherent in the proposed amendments are the result of trying to kill too many birds with one instrument, the law on agricultural cooperatives. At this early stage, it might be beneficial to keep the law as simple and as non-restrictive as possible. Farmer organizations are still a rare and exotic flower in the Georgian realities. Rather than restrictions, they need all the support they can get: from government, donors and, most importantly, private sector companies buying and purchasing agricultural products.

The focus of government policies should be, indeed, on the creation of private-public partnerships involving foreign and domestic businesses and groups of smallholders, letting hundreds of flowers bloom, and further nurturing those flowers that show potential for growth and replication. The fear of "theft" and "abuse" may be justified, but it is the wrong time to think about restrictions and caps. Some of the new coops will surely be set up to avoid taxes or benefit from preferential loans or grants, but even these will contribute to the country's food security, as well as job creation and development in Georgia's rural areas.

As suggested by Juan Echanove, EU's Agricultural Attache in Georgia, the law is an important policy tool, but it is not the only tool available to policymakers. Access to government and donor support programs can be much more effective is achieving the policy goal of "shifting from quantity to quality", with which we all agree.

Changing laws is a delicate matter, as Georgia is learning the hard way. If need to be, laws should be changed based on facts and analysis, and in consultation with those working in the affected sectors.

Let's not rush.

Author: Eric Livny

Tea: a Potential Gold Mine of Georgian Agriculture?

JULY 17, 2015

Photo: Teona Makatsaria. Tea harvester lady from Guria (July, 2015)

The first tea bushes appeared in Western Georgia in 1847, and since then tea production has played a significant, yet widely unknown, role in Georgia's history. The humid and subtropical climate of Western Georgia in the regions of Guria, Samegrelo, Adjara, Imereti and Abkhazia are ideal for harvesting tea, and this was a fact eventually recognized by businessmen outside Georgia. With a commission to produce tea in the country, Lao Jin Jao, an experienced tea farmer, arrived from China in 1893. By 1900, the tea he was producing was world-class in quality, winning the gold medal at the Paris World Expo, a competition in which all countries producing tea (apart from China) participated. Since that peak, the history of tea in Georgia has been tumultuous, moving from the emphasis on quality to overproduction and exploitation, and finally to practical abandonment. However, the prospective Georgia has of once again producing tea of the caliber achieved in 1900 is an important fact to keep in mind when thinking about what potential tea has in Georgia today.

THE GEORGIAN TEA INDUSTRY IN SOVIET TIMES AND TODAY

In the early 1920s, Georgia's new status as a Soviet Socialist Republic led to the government taking an active role in the development and exploitation of the tea industry. The volume of tea produced was ratcheted up, and by mid-1900s Georgia was a leading producer of tea within the USSR, providing approximately 95% of the produce distributed across the Soviet Union (Nakhutsrishvili, 215). High production yields came at a high cost: the compromise of quality. Traditional hand plucking methodology that emerged in the 1890s was replaced by mass mechanical harvesting. The harvested quantity peaked in 1985 at 152,000 tons, a colossal volume of production compared to the 1,800 tons produced today (Hall 61; Geostat data 2014).

Between the fall of the Soviet Union and today, the tea sector in Georgia has practically collapsed for both political and politico-economic reasons. With the fall of the USSR, the government could no longer play a supervisory and organizational role in tea production. Neither was it fit for the task of helping re-orient the Georgian tea industry to new markets. The war of 1993-1995 in Abkhazia, a key tea-harvesting region in the northwestern corner of Georgia, also led to plummeting production levels, and, many of the abandoned tea factories were robbed, with their capital exported out of the country (mostly as scrap metal).

Due to the protracted halt in harvesting, tea plantations became overgrown. Re-cultivating them is costly, approxi-

Photo: TeaTerra

mately 7-8 thousand lari per hectare. The meager incomes of local farmers (about 495 lari a month on average (Geostat, 2013)) are insufficient to finance rehabilitation efforts. Farmers' uncertain and low income in combination with relatively high interest rates set by private banks are key barriers for farmers' access to credit. Moreover, banks do not accept tea plantations or processing equipment as collateral, and the overwhelming majority of small-scale farmers are unwilling to risk losing their private property to take out a loan.

Due to these financial constraints and the lack of necessary resources to rehabilitate overgrown plantations, the amount of land fit for harvesting tea is plummeting. According to Tengiz Svanidze from the Tea Producers' Association of Georgia, approximately 20,000 hectares of land were still suitable for tea harvesting in 2013; in May 2015 this quantity was halved to about 10,000 available hectares. Compare this to the 67 thousand hectares under tea plantations in the 1980s, and one sees the extent to which this sector has shrunk. Disorganization has led to practical abandonment, and the main challenge nowadays is to keep intact whatever knowledge and capital still remain.

THE SOCIAL AND ECONOMIC SIGNIFICANCE OF TEA PRODUCTION

In many villages of Western Georgia tea harvesting was a way of life. It formed the social fabric that towns such as Tsalenjikha in the Samegrelo region were built upon. Tea production is a labor intensive art, and in the 1980s about 180,000 people were involved in the tea value chain. The collapse of tea production has had the most detrimental effect on these tea farmer communities. As a consequence, many families fell into poverty. The most able among tea farmers migrated to Turkey, mostly for seasonal work in the Turkish tea sector.

The glorious past of the Georgian tea industry suggests that reviving the tea sector could bring huge economic and social benefits to Western Georgia's rural communities. It could be key to alleviating rural poverty by providing families with steady jobs and income generation opportunities. The art and science of tea production would continue to be passed down from generation to generation, keeping intact Georgia's social and cultural uniqueness.

Revitalizing the tea sector would also help diversify Georgia's agricultural production and thus help insure farmers against price fluctuations of alternate crops, such as hazelnuts and blueberries, while also promoting bio-diversity and food security. This is a serious issue given the current tendency, observed in Guria and Samegrelo, to uproot tea plantations and plant hazelnut trees instead. Triggered by an exceptionally good season (and very high international prices) for hazelnuts, this tendency runs the risk of putting too many eggs in one basket.

The relatively low risk of tea due to its ability to withstand relatively severe weather conditions is an additional benefit, safeguarding farmers against bad harvests. Moreover, high quality teas that can be produced in Georgia would be competitive on world markets. According to the Ministry of Agriculture and private stakeholders, Georgian tea could fill the niche market of bio-clean produce that is in demand in advanced economies.

THE YET-TO-BE-REALIZED POTENTIAL OF GEORGIAN TEA

Georgia is one of the Northern-most tea harvesting regions in the world. Perhaps surprisingly for some, cool weather conditions at night and during winter months serve as protection against diseases – greatly reducing the need in pesticides. At least for the time being, Georgian tea is ecologically clean also because Georgian farmers rarely use (expensive and difficult to access) herbicides.

The combination of cool climate and acidic soil provides Georgian tea with a unique chemical composition, particularly fit for green tea: given these conditions, tea leaves mature more slowly, eliminating any bitterness in the tea's aftertaste. Georgia is already producing high-quality tea that is exported to countries like Germany, but, production volumes not sufficiently large for large-scale export.

It is dumbfounding to think that Georgia is currently a net importer of tea given the industry's history and potential. In terms of trade volume, 357 more tons of tea is imported than exported (2014). In value, (negative) net exports totaled more than 6 million USD in 2014.

Top 5 Countries for Imports and Exports of Tea (By Total Volume of Production in Tons in 2014*)			
Imports	Volume	**Exports**	Volume
Turkey	554	Mongolia	435
Iran	514	Turkey	315
Sri Lanka	462	Germany	291
Azerbaijan	436	Russian Federation	233
United Arab Emirates	135	Kazakhstan	229
Other countries	169	Other countries	410
Total	2,270	Total	1,913

*Source: National Statistics Office of Georgia (2015). *Preliminary figures for 2014.*

In light of the above trade figures, it is easy to see that Georgian tea producers have not be able to capture their own domestic market. Why this is the case? Why should Georgia import tea when local production potential can fully meet domestic demand?

Some answers are provided by a study of the tea value chain which has been recently undertaken by ISET's Agricultural Policy Research Center within the EU-financed ENPARD project. A key issue for the sector, so it appears, is the lack of appropriate linkages between producers and other actors in the value chain. According to the Ministry of Agriculture, Georgia's has about 15,000 small-scale tea growers, cultivating less than 1 hectare of land. While constituting the overwhelming majority of tea producers in Georgia, these farmers face major problems in the "sorting, packaging & branding" department. As a result, most of them cannot get their product to any market outside of their respective villages. Not having long-term contracts with buyers further down the value chain, small farmers have no incentives to invest in the quality of their products, and, moreover, are looking for opportunities to shift to other crops (such as hazelnuts).

MOVING FORWARD

Broadly speaking there seem to be two ways forward in reviving the tea sector. First, those small-scale farmers who are willing and able to adjust their product to the requirements of the already-established Georgian tea brands, such as Gurieli, could be integrated into their supply chains. However, this would require a sustained effort on the part of the farmers to ensure consistent quality.

Another way forward, currently supported by the ENPARD project, is the creation of farmer cooperatives that could join forces in sorting, blending, packaging and branding unique tea varieties. In contrast to the rest of Europe, in Georgia, modern agricultural cooperatives – as opposed to Soviet era collective farms – are a relatively recent phenomenon. Perhaps one of the reasons farmers drug their feet on formal cooperation is the (wrong) association of this concept with the forced collectivization experience under the USSR.

The Tea Forum, which ISET-PI organized in Kutaisi early July 2015, was instrumental in dismantling such an association. The majority of farmers appear to understand the benefits of operating as a cooperative. The CARE consortium under the ENPARD project (which ISET is part of), is currently supporting two tea cooperatives. Other proposals will be reviewed in the coming months. Most of these are micro factories specializing in the production of high quality tea. The money granted by ENPARD will be paid back into a fund to finance additional cooperatives, allowing to further expand farmer cooperation. Already today, 27 tea cooperatives are registered in Georgia (including one second-level cooperative, uniting several production-focused cooperatives), and the numbers are steadily increasing.

Georgia currently stands at a major crossroads as far as the future of its tea industry is concerned. If overgrown plantations are not systematically re-harvested, and appropriate supply-side linkages are not formed, small-scale tea farmers will shift to other crops, and the tea sector would suffer its final blow. The government could clearly play a role in deciding the future of the sector. The Ministry of Agriculture has recently formed a committee to develop a strategy for the tea industry, but, as yet, no concrete plans are available for professional review and public discussion.

Given the extent to which the art of harvesting tea is cherished and respected in Western Georgia, it would be a shame to let the sector fail. This is not a sentimental judgment. The benefits of reviving the industry are also plain when looking through a purely economic lens.

Authors: Tamari Giorgadze and Irakli Kochlamazashvili

Empowering Georgian Plow Mothers (Gutnis Deda)

SEPTEMBER 11, 2015

A female 'Plough Mother' and her child in the mountains of Georgia. Source: Wikimedia/Commons

"The lion's whelps are equal be they male or female".

Shota Rustaveli

Giving women voice in company management may prove beneficial for performance. For instance, according to an influential Catalyst report, The Bottom Line: Corporate Performance and Women's Representation on Boards, "companies that achieve [gender] diversity and manage it well attain better financial results, on average, than other companies." In particular, they find that firms with the most women board directors outperform those with the least on such indicators as return on sales (ROS), return on equity (ROE) and invested capital (ROI).

While the Catalyst focused on the role of women in the governance of very large (Fortune 500) companies, women are also known to be a leading force in microfinance. Founded by Muhammad Yunus to provide Banladesh's poor with micro loans, Grameen Bank's lending operations were heavily biased toward women – 97% of all credit recipients were female. In her 2013 book Twenty-Seven Dollars and a Dream, Katharine Esty argues that women are comparatively better at exploiting small loans than males. While men tend to waste at least some of the money on alcohol and tobacco, women use it for investment (in farm animals, etc.), resulting in better outcomes (revenue from agricultural activities, ability to repay the loan, improvement in personal hygiene and health).

If all this is true for Bangladesh, where, according to the CIA World Factbook, 47% of the labor force is employed in agriculture, why should Georgia be any different? It is therefore quite disconcerting that the role of female leadership has so far been overlooked in Georgia's agriculture. For instance, females are only one fourth of the membership in agricultural cooperatives that have been registered over the past couple of years by the Georgian government. Many of these are supported by the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) Initiative which seeks, among other things, to promote the livelihoods and productivity of Georgian smallholders. But, can this mission be successfully accomplished without fully engaging Georgia's heroic women?

WOMEN IN AGRICULTURE, AROUND THE WORLD AND IN GEORGIA

It is well established that women play a key role in the agricultural and rural economies of developing countries. Rural women manage a myriad of household and farming activities including housekeeping, food processing, caring for animals, producing and marketing agricultural crops. While these activities do not count towards "economically active employment" in the formal (statistical) sense of the term, they significantly contribute to the wellbeing of rural

households (FAO, 2011).

Georgia is no exception to this rule. Formal statistics may show that men have a leading role in the agricultural sector, but Georgia's reality looks quite different. A recent study by Mercy Corps documents the seasonal routines undertaken by rural women in the Samtskhe-Javakheti region. All year around, women look after the animals, including pigs, chicken, and milking cows. In spring, women help men in land preparation and cultivation, while also being actively involved in summer time weeding, hoeing and irrigation. In autumn, women help with harvesting. Additionally, after the harvest season is over, women make preserves by pickling, drying, and processing fruits and vegetables. Most importantly, they are the ones to take farm products to the market and have quite a bit of independence in deciding how to reinvest the money or use it for current family needs.

A recent survey ISET undertook in Western Georgia finds that there is only a tiny difference between the percentages of man and women involved in different farming activities (see table). Possible exceptions are application of chemicals and transportation.

#	Agricultural Activity	WOMAN, %	MAN %
1	Care of livestock	-	+6
2	Care of poultry	+4	-
3	Harvesting	-	+9
4	Clearing land	-	+9
5	Weeding	-	+7
6	Application of fertilizers, pesticides, and herbicides	-	+13
7	Irrigation and drainage of land	-	+3
8	Processing agricultural products (e.g. for consumption or sale)	-	+3
9	Transportation agricultural products to the market	-	+11
10	Selling agricultural products	-	+9
11	Planting and/or transplanting	-	+4
12	Fishing	-	+8
13	Gathering non-timber forest products (e.g. mushroom or berries)	-	+4

What this data mask, however, is that farming activities limit, if not completely eliminate, the leisure time of rural women in Georgia. Georgian men also work full time on their farms, yet they tend to specialize in seasonal works (ploughing, planting, harvesting, hay production, etc.), leaving all housekeeping chores and childcare to the women: their mothers, wives and daughters.

GEORGIAN PLOWMEN (AND PLOW MOTHERS) IN HISTORY

Rather symbolically, the Georgian term for 'ploughman' is gutnis deda, or 'plow mother' (gutani is Georgian for plough and deda for mother). According to a Caucasian myth in which this language originates, the ploughman was actually a woman driving a pair of plough bulls. This tradition is still alive in the Georgian highlands, e.g. in Tusheti. While men are herding the sheep, women would take over most other responsibilities, including ploughing.

As noted by the French historian Fernand Braudel, the roles of men and women in an agrarian society depend on the dominant farming technology. A key distinction is typically made between communities that adopt the heavy plough (which requires upper-body strength) and those that use the hoe. Moreover, there is empirical evidence (see Aleina, Nunn and Giuliano (2012)) that ancient agricultural methods have very enduring effects. For instance, women who are descendants of plough-users (as opposed to hoe-users) tend to work less outside of their homes.

The plough was not as prevalent in Georgia's ancient agriculture due to its mountainous relief. Not only linguistic analysis, but also ancient traditions suggest that Georgian women were extremely important in the country's agriculture. In Georgian villages, the beginning of the tilling season used to involve unique rituals and preparations in which women played a key role. In Tusheti, women would start by digging out a bit of soil to "wake up the land", and light candles on the right horn of the bull. Women also baked a triangular khmiadi (unleavened bread), a small piece of which was fed to the bulls. In some places, the bulls would be led into the fields by a pregnant woman – a symbol of fertility (Sikharulidze, 2014).

The Georgian agriculture has also gone through a process of technological change, triggering, among other things, a gradual masculinization of the 'plough mother' profession. This change was more pronounced in the lowlands, where the heavy plough was particularly useful. Yet, Georgian women continued to play a key role in Georgian agriculture and society. Too often in Georgia's turbulent history men

were called upon to defend (and die for) their homeland, leaving it up to the women to produce food, raise children and, ultimately, ensure the Georgian nation's survival.

THE WAY FORWARD: EDUCATING FUTURE (FEMALE) LEADERS

Despite the active role women play in agricultural production, their rights to employment and subsequent managerial decisions are questioned in those very Georgian communities that specialize in agriculture. For instance, according to a baseline survey ISET conducted last year in Abasha, Senaki, Khobi, Tsageri, Chokhatauri, Lanchkhuti and Ozurgeti as part of theENPARD project (ISET participates in the CARE-led ENPARD consortium), 63% of rural Georgians think that "when jobs are scarce, men should have more right to a job than women."

According to the 2013 count by GeoStat, the number of male-headed households is approximately twice as high as woman-headed households in Georgia's rural areas. Less than one third (about 30%) of Georgian farms were headed be women in 2012, 2 percentage points less than in 2009. Thus, instead of advancing we are going back.

There could be many ways to promote women to positions of decision-making and influence in Georgian agriculture and society. A good place to start is education and vocational training. There is considerable experimental evidence that, in traditional male-dominated societies, women typically shy away from the competition. The result is gender gap in education attainment and labor force participation, which is exacerbated by a negative male attitude towards female labor force participation ("the woman should stay at home"). The same body of research, however, suggests a number of effective ways to boost women's aspirations and professional qualifications.

For instance, female enrollment rates can be increased if one simply informs them about expected returns to vocational training. In a fascinating study, Beaman, Duflo, Pande, and Topalova (2012) report how female leadership can change young women's perceptions. In (randomly selected) villages where young women had an opportunity to observe female leaders as role models the gender gap in aspirations was reduced by one quarter and the gender gap in education attainment was completely eradicated!

It goes without saying that donor-financed projects, such as ENPARD, could greatly benefit by incorporating lessons learned from state-of-the-art development research on gender mainstreaming. For instance, female participation in the coop movement could be boosted by evidence on the success of women-led farms and farmer organizations. Women could be targeted with scholarships to acquire relevant managerial skills. Finally, female participation in the governance of coops could also be made a criterion for technical support and grants.

Hopefully, Georgia will once again find the ways to utilize the power of its gutnis dedas to the benefit of all. In the end, this is about changing existing stereotypes, which will require a broad and well-coordinated educational effort of which ENPARD cannot be but a small part.

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Georgian Farmers Playing Russian Roulette

SEPTEMBER 26, 2015

Instead of buying insurance, the vast majority of Georgian farmers prefer to play Russian Roulette with Mother Nature.

On August 20, 2015 a strong hailstorm hit Georgia, devastating crops and infrastructure in eastern Kakheti. In Kvareli alone, the hailstorm destroyed about 1,300ha of Saperavi and 1,000ha of Rkatsiteli grapes, affecting more than 500 families. This was only one in a string of natural disasters striking Georgian farmers in recent years. One of the worst calamities occurred in July 2012, when heavy rain, strong winds, hail and floods damaged thousands of hectares of arable land in Kakheti, ripping roofs and destroying vital infrastructure.

While natural disasters cannot be prevented, farmers can use technological solutions, such as hail nets or irrigation, to minimize crop losses. Not to put all eggs in one basket, they may choose to hedge against localized weather-related losses by diversifying crops and growing locations. While coming at a cost, such risk mitigation measures would help reduce income variability. Finally, crop insurance could be used as a complementary risk-mitigation tool in case of extreme weather events such as early freezes, floods, droughts and hurricanes.

Yet, until 2014, agricultural insurance was almost unheard of in Georgia. Instead of buying insurance, the vast majority of Georgian farmers preferred to play Russian roulette with Mother Nature. They did so being chronically short on liquidity, underestimating risks and … counting on a government bailout.

In 2014, the Georgian government started piloting a heavily subsidized crop insurance scheme in the hope of shifting the market to a new "equilibrium". Almost 21,000 policies were "sold" in that year at a symbolic price equal to about 6% of the actual cost (the government covered the remaining 94%, on average). Yet, one year later the number of policies sold plummeted to less than 3,500, as soon as the government reduced the amount of subsidy to 55% (see Table 1 below).

Table 1. Agricultural Insurance Pilots, 2014 vs. 2015

	2014	2015
Number of policies sold	20,952	3,439
Insured area (ha)	18,596	3,112
Penetration rates (%)	3.6	0.6
State subsidy (%)	94	55
State subsidy (GEL)	11,729,678	1,131,433

Source: Agricultural Projects Management Agency (APMA)

There were also other reasons for the dramatic drop in the number of policies sold in 2015. Not only was the subsidy reduced from 94 to 55%, but also it was made available only to smallholders (this also explains the even larger drop in the amount of land insured). And, of course, some more insurance policies may be sold until the end of 2015. Nevertheless, it is already clear that the pilot has failed to produce sustainable results.

Two questions must be asked: why more than 10mln GEL in taxpayers' money spent on subsidies failed to jump-start the agricultural insurance market? And, can the Georgian government do any better?

FARMERS AS BAREFOOT HEDGE-FUND MANAGERS

In their 2011 bestseller Poor Economics, two MIT professors Esther Duflo and Abhijit Banerjee argue that managing a poor rural household is akin to the responsibility of running a hedge fund, yet doing so in the absence of modern risk mitigation instruments, such as insurance, options, futures, etc. Moreover, while hedge fund managers (or people in the middle of the income ladder) can afford small negative income shocks, for poor households even a small drop in income would require cuts in basic food, housing, health and education expenditures.

According to Duflo and Banerjee, to manage risk, the poor engage in primitive hedging strategies that prevent them from specializing and achieving productivity gains. Examples of such strategies are: mutual help within extended families, plot and crop diversification (thus forfeiting any gains from economies of scale in production), and abstention from costly investment in (risky) innovations such as higher yield hybrid seeds. While essential in the presence of severe downside risks (e.g. related to weather events), these strategies are costly and keep the farmers entrapped in poverty.

Agricultural insurance could relieve poor farmers from the need to engage in primitive hedging and in this way help them to specialize in more productive activities. This being the case, the poor could be expected to flock to agricultural insurance, whenever available. Yet, as Banerjee and Duflo point out, the opposite is true. According to Robert Townsend and coauthors, when given the opportunity, only 5 to 10% of low-income Indian farmers insure themselves against drought, even though they identify precipitation as a major source of risk. According to Dean Karlan, farmers are often not willing to purchase insurance even when its price is close to zero and much lower than actuarially fair price. The natural question to ask is why there is such a low demand for insurance among poor farmers?

Banerjee and Duflo identify several factors. The first among these is what the authors call a "demand-wallah" argument, which very well applies to the Georgian situation. When hit by hailstorm and winds in July 2012 (just three months before the fateful parliamentary elections), Kakhetian farmers received around GEL 150 million in compensation, including GEL50 million in government funds and another GEL100 million from ex-Prime Minister Ivanishvili's foundation. In other words, Kakhetian farmers may have been playing *Russian Roulette* with natural disasters, yet they did so with a gun loaded with blanks!

Agricultural insurance is not a cheap proposition in Georgia. At the going rates, a Georgian hazelnut grower owning 1.5ha would be asked to pay an insurance premium equal to 2.4% of his/her income, if subsidized by the government, and 6.1%, if not. It is, therefore, not surprising that given an implicit bailout guarantee by the Georgian government, farmers have no strong incentives to purchase insurance, and, even more detrimentally, mitigate risk in their farming practices. On the other side of the coin, given the meager size of the agricultural insurance pie, insurance providers have little incentive to invest in research and data analysis or come up with innovative products that are a better fit for the Georgian market.

There are, of course, many factors standing in the way of an orderly insurance market. For example, farmers may not trust insurance providers and lack a proper understanding of the insurance concept. Moreover, they may be reluctant to commit their scarce resources given their experience in dealing with unskilled sales agents and loss adjusters. But, above everything else, the Georgian government's efforts to roll out agricultural insurance have thus far been undermined by its own (implicit) commitment to bail out uninsured farmers. Certainly in an election year!

WAY FORWARD: NUDGING GEORGIAN FARMERS TOWARDS THE USE OF INSURANCE

Despite their general unwillingness to purchase insurance, farmers might be nudged towards insuring themselves with the help of simple behavioral "tricks". For example, in an experiment conducted in the Philippines, randomly selected participants were asked to fill in a questionnaire about their health status. When subsequently offered health insurance, those who answered the survey, were significantly more likely to buy insurance.

Farmer cooperatives may also be an important instrument of nudging farmers to insure against risks. Miles Kimball was the first in 1988 to acknowledge and model farmers' cooperative as a self-enforcing body able to provide insurance to its members. In Georgia, the first steps have been already taken towards this end by the Georgian government and EU's ENPARD initiative. However, more can be done.

In particular, as has been shown by Karlan et al (2013), the best results could be achieved by combining grant incentives with the requirement to acquire insurance. While true in case of individual farmers, the same policy could be particularly effective in case of farmer cooperatives seeking to specialize and innovate in a competitive market environment. At present, the vast majority of ENPARD-supported cooperatives are not insured. By providing relevant training and grant incentives, ENPARD could complement the Georgian government's efforts to prevent the hollow *Russian Roulette* practice from stifling development in Georgian agriculture.

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Georgian Wine: Plan for the Worst, Hope for the Best

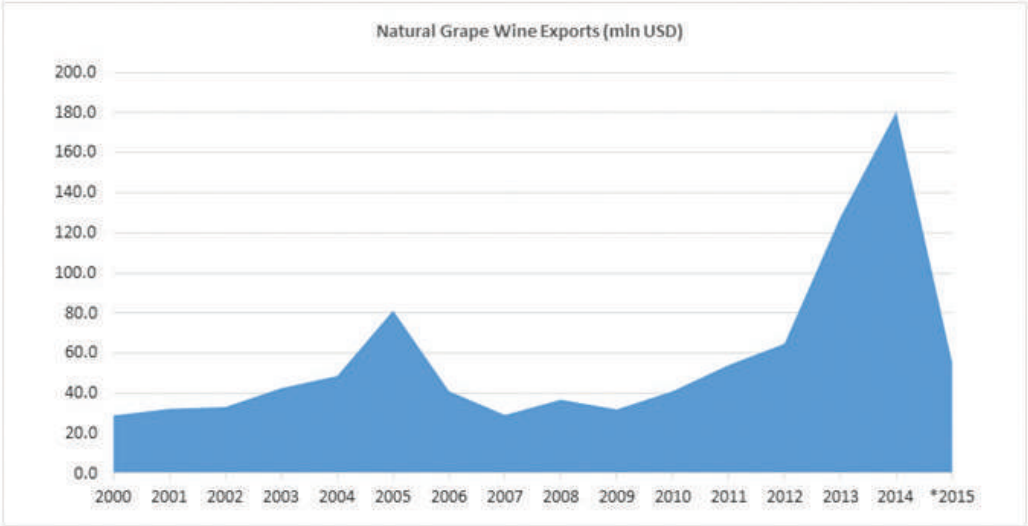
OCTOBER 3, 2015

Source: Wikimedia/Commons

"You mean there's a catch?"
"Sure there's a catch", Doc Daneeka replied. "Catch-22. Anyone who [claims he is crazy because he] wants to get out of combat duty isn't really crazy."
Joseph Heller, Catch 22
Пока гром не грянет, мужик не перекрестится.
Русская народная пословица

The Georgian wine industry had a couple of very good years in 2013 and 2014, following the opening of the Russian market. Exports skyrocketed, prices of grapes followed suit. For all the talk about diversification, within just two years, Russia's share in the total exports of Georgian wine shot up from 0 to almost 68%.

Chart 1: Georgian wine exports by value (current USD)



**Data include only the first 8 months of 2015 (Jan-Aug). Source: Geostat*

The red grape varieties – providing the raw material for semi-sweet wines that are particularly popular on the Russian market – soared to hitherto unthinkable levels. For example, as exporters vied to place Stalin's favourite Khvanchkara wine on the Russian supermarket shelf, the Alexandrouli grape variety, from which it is made, fetched a price of about 8 GEL per kg.

Needless to say, higher wine and grape prices provided powerful stimuli for additional investment in vineyards and processing capacity, putting even more eggs into the Russian basket. In just three years, grape production more than doubled from 144,000 ton in 2012 to about 290,000 ton in 2015 (expected harvest of this year).

With the Russian market sharply contracting in 2015, the amount of pain inflicted on the Georgian farmers and winemakers has been directly proportionate to the windfall gains they made in the previous two years. Grape prices fell to levels only slightly higher than prior to 2012. Saperavi, Georgia's main red variety, is currently trading at roughly 82 tetri per kg, well less than half of the peak value (1.94GEL, on average) it achieved in 2014.

Kakhetian farmers are once again taking it to the streets, protesting over the prices offered to them by the wineries, and lobbying for higher government subsidies. And given that Georgia is entering an election year, they are likely to be successful.

THE WRITING WAS ON THE WALL!

The fact that overexposure to the CIS and Russian markets carried with it significant commercial risks for the Georgian wine industry was on everybody's minds ever since the first shipment of Georgian wine crossed the Russian border in summer 2013. Initially, the main concern was that Georgia (and its wines) would once again fall out of favor with Russia, leading to the re-introduction of tariff and non-tariff restrictions on Georgian exports. But, even leaving politics aside, it was clear that having the entire industry depend on Russia subjected Georgia to the (uninsured) risk of a sudden downturn in that particular market.

Yet, despite these well-justified concerns, a paradoxical Catch 22 situation was created with the opening of the Russian market since most private actors in the value chain lost any incentives to invest in marketing their wines (and Georgia!) outside Russia and CIS. With every bottle of wine sucked into the Eurasian vacuum, they were busy celebrating and investing in additional grape growing and processing capacity. And, let's face it, private Georgian wineries would have been crazy doing anything else since, taken alone, none of them have sufficient size to engage in the kind of massive international campaigning that would be required to introduce the fabulous story of Georgia's winemaking to new markets.

While it is difficult to blame private companies for recapturing the Russian market, perhaps the worst mistake was committed by the Georgian government, which failed to seize on the opportunity to prepare for the rainy day (which came sooner than anybody expected).

Table 1: Grape Prices and Subsidies, 2013-2015

	2013	2014	*2015
Average subsidy per kg (GEL)	0.36	0.28	0.27
Average price per kg (including subsidy)	1.12	1.34	0.73
Average share of subsidy in price (%)	33%	25%	38%
Total volume processed (ton)	89,849	117,861	92,653
Total public funds spent (mln GEL)	32.0	33.0	24.8

**as of 1 October, 2015 (most of the grape harvest is finished). Source: Ministry of Agriculture and National Wine Agency*

Thus, instead of engaging the private sector and coordinating a well-targeted marketing campaign (that could be financed by some of the windfall profits) to promote Georgian wines to new markets, the government spent tens of millions of lari on subsidizing the industry at a time when money was its least concern. As grape prices soared, the government slightly reduced the subsidy from 36 to 28 tetri per kg (on average). However, the total amount of taxpayers' money thrown at wine producers and farmers (including, since 2013, not only smallholders but also large farmers cultivating more than 10ha) exceeded 30mln GEL in both 2013 and 2014.

What a waste!

THE WAY FORWARD: CHINA AND CHURCHKHELAS?

While not representing a very large share in Georgia's total exports (or GDP), the wine sector is of key significance for the livelihoods of the vast majority of Georgian farmers. At the same time, given how long it takes to go from grape seed to placing a bottle in a grocery cart, it is a sector that is extremely sensitive to changes in demand. Hence, the need for some sort of insurance.

Understandably, all governments in Georgia's recent history were eager to provide price support and subsidize smallholder farmers in order to prevent a social and political crisis. Such a policy is equivalent to spreading the risks that are specific to winemaking over all the other sectors of the economy.

What the Georgian governments have failed to achieve thus far, however, is to properly insure the industry against extreme demand fluctuations which have been plaguing it since Gorbachev's anti-alcohol campaign of 1985-1988. Such insurance can only be achieved through greater diversification of Georgian wine exports, on the one hand, and promotion of new and traditional products such as organic and kosher wines, Chacha, brandies, and even Churchkhelas, on the other. Risks could also be reduced by investing in locally branded products and agritourism through a Japanese-style "one village-one-product" policy.

Finally, what about China? Almost a dozen small Chinese companies are currently trying to bring Georgian wine to China and the results are showing. Yet, the challenge these companies are facing can be summarized in one word: information. The average Chinese consumer is simply unaware of a country called Georgia, let along its being at the origin of the world's wine history. As we have learned through interviews, one or two containers of Georgian wine may take a year to distribute (through friends and relatives) as large Chinese wholesalers would rarely take upon themselves the risk of placing a relatively unknown product.

The Georgian government has recently established an office in Beijing to promote Georgia's brand as a country. Such investment in international marketing is, of course, a great step forward, but many more (smart) steps would be needed. The government has 58 embassies (all of them in potential wine markets) across the globe. Mikho the winemaker from Kakheti does not have a single embassy. It would therefore be highly beneficial for the government to take some of the money wasted on subsidies and, instead, make use of its diplomatic infrastructure to promote Georgian wine-makers around the world. (Incidentally, in this way, the government will also buy its own image insurance against regular farmer protests in Kakheti.)

Authors: Irakli Kochlamazashvili, Ia Katsia, Charles Johnson

Georgian Tea: Finding New Strength in Unity?

07 NOVEMBER, 2015

Strength is in Unity. Photo by Irakli Kochlamazashvili

After many years of chaos and utter collapse, Georgia's once glorious tea industry is again showing signs of life. More and more individual farmers and businesses – mostly very small, but some quite ambitious, such as Geoplant (known for its "Gurieli" brand) – grow, process and pack tea. Despite competition from major producing countries and international brands, Georgian tea has great export potential because of the value attached to it all over the former Soviet Union.

While the potential is clearly there, it is not at all clear what strategy should Georgia pursue in developing the sector. The old Soviet model of large scale sovkhoz-based production is dead. What we have instead is a multitude of extremely fragmented plantations in need of recultivation and technological upgrading. The million dollar question is how one can integrate these plantations into a modern and internationally competitive value chain.

IN SEARCH OF THE RIGHT ORGANIZATIONAL MODEL

One alternative would be to have smallholders gradually replaced by large industrial farms. Yet, while perhaps 'efficient' in the narrow technical sense (particularly for low-quality teas that don't require many manual processes), this scenario carries very large social, economic and political costs associated with a massive dislocation of Georgia's rural population.

Another possibility is provided by the likes of Avtandil (Avto) Lomtatidze and Giorgi Trapaidze who are performing the critical aggregation function by collecting and processing tea leaves produced by Guruli smallholders. Avto and Giorgi live and operate in Kvenobani and Khidistavi, two neighboring villages in the Chokhatauri municipality. Among their suppliers are more than a hundred small farmers each owning between 1000 sqm to one hectare. In this way, they provide the link between these small guys and the market – local, national, and even international.

Against all odds, in part out of love of his profession and in part thanks to his Guruli character, Avto was among the first Georgian farmers to start a private tea processing business soon after the Soviet Union's collapse. He was fortunate to find a great friend and colleague in the person of Merab Dolidze – an experienced engineer who passed away in 2015. Merab was instrumental in assembling the tea processing line. Avto was a chemist by education and a tea technologist by training. His main responsibility was to operate the line and make sure that the final product met the desired quality standards. The small factory Avto

and Merab set up in Kvenobani processed and sold tea in the local market. Very far from breaking into the global markets, but good enough to help themselves and many of their fellow neighbors.

Their success inspired others. In 2005, a very similar processing operation was set up in the nearby Khidistavi village by Giorgi Trapaidze. Being new to the tea business (his prior experience was in wood processing), Giorgi relied on his friendship with Avto and Merab to acquire the necessary knowhow. The trio cooperated on many dimensions, sharing transportation and distribution costs and engaging in joint marketing abilities. As Giorgi knows to tell, *"If I had more tea leaves than I could process during the harvest, I could rely on Avto and Merab to process them to avoid waste. We were mixing each our teas and selling them together so as to cut distribution costs and exploit economies of scale."*

In 2007, Merab and Avto's business was lifted by the wave of new entrepreneurial activity which swept Georgia in the early years following the Rose Revolution of 2003. A partnership with Mikho Svimonishvili's newly established Marneuli Food Factory (MFF) helped them to the national scene. *"This was like infusing new blood into the company"*, recalls Avto Lomtatidze. Mikho agreed to purchase their tea and sell it under the MFF brand. By 2010, Lomtatidze and Dolidze felt the time was right to launch a private company. Lodo Ltd (combining the first two letters of the founders' names) was born that year. In 2012, while continuing their cooperation with MFF, Lodo and Giorgi Trapaidze agreed to package and sell their tea through Shota Bitadze – a tea broker selling tea locally as well as internationally, particularly in Ukraine.

REDISCOVERING FARMER COOPERATION?

Aggregation by tea processing and packing businesses, such as Lodo (and, on a much larger scale, by Gurieli), certainly helps small farmers to bring their product to the market. Yet, it does not solve the fundamental problem of low productivity and quality at the farm level. The lack of high quality raw material – tea leaves – is THE major constraint for Lodo and other Georgian processors as they seek to scale up and enter international markets.

To undertake additional investment and improve coordination at the processing stage, in 2014 Lomtatidze, Dolidze and Trapaidze, together with four other partners, formed an agricultural cooperative, "Guria Company 14", which was officially recognized by the Agricultural Cooperative Development Agency (ACDA) and received funding support from an NGO coalition led by CARE-International as part of EU's ENPARD program.

For lack of raw materials, the processing capacity of Guria Company 14 – 2 tons of fresh tea in 24 hours – is very far from being fully utilized. During harvest time, they employ up to 15 workers, who operate in two shifts, day and night. Yet, all they were able to process in 2015 was about 10 tons of fresh tea leaf (they bought an additional 2.5 tons of dry tea to fulfill obligations to their marketing partners). To make use of excess capacity, the cooperative would occasionally process tea leaves for other producers, charging for the service. That, however, is far from their ideal.

Just like its business parent, Lodo Ltd, the new cooperative is focused on processing. With all the new EU-financed equipment (an aroma oven, a tea drying and sorting machines, green tea fixation equipment, and a truck), Guria Company 14 is now well-positioned to produce large quantities of higher quality teas. Yet, as far as raw material supply is concerned, Lomtatidze and Trapaidze remain totally dependent on neighboring farmers, whose productivity is a major drag on their business. The cooperative's own tea plantations total a meager 5ha (fenced and recultivated with ENPARD's support) but what are these 5ha compared to the processing capacity of Guria Company 14, which is large enough to cater for hundreds of hectares?!

According to Giorgi Trapaidze, "with a bit of fertilizer, farmers would be able to harvest tea 6 instead of 3 times per year and thus double their yields." Yet, operating outside any cooperatives, lacking in skills and financial resources (access to credit is a major constraint given that the collateral value of a tea plantation is a miserable 500 GEL per ha), smallholders' attitude to innovation has been described to us as nihilistic. Instead of maximizing profits, they minimize inputs. Not spending and not investing, they fail to do well for themselves and supply the downstream industry.

Incidentally, this is not a problem that is unique to the tea industry or Georgia. As has been found in recent experimental studies, myopia or present-bias is a common smallholder malaise (see a seminal paper by Duflo, Kremer & Robinson, "Nudging Farmers to Use Fertilizer: Theory and Experimental Evidence from Kenya." American Economic Review, 2011).

MAKING COOPERATION WORK FOR THE POOREST

The manner in which farmer cooperation is being currently developed in Georgia is leaving the poorest Georgian farmers outside the fledgling cooperative movement. It is only natural that the most capable and entrepreneurial – such as Merab, Avto and Giorgi from our story – would be the first to get organized in small groups and prevail in the competition for ENPARD or government funding. It is only natural that they would have better business ideas, and the resources to hire grant proposal writers.

The fact that the more entrepreneurial and capable farmers get additional support is perfectly fine from the ethical point of view. After all, selection and survival of the fittest is what evolution is all about. The problem with this approach is that its leaves behind the large mass of Georgian smallholders who are badly needed as suppliers of raw

materials for the food industry. ***This is a problem of economic policy, not of ethics or morality.***

The latest proposed amendment in the Law on Agricultural Cooperatives is apparently aimed at addressing this gap. The lawmakers' idea is to NOT allow processing cooperatives to source more than 30% of raw materials from non-members. The choice to be faced by such cooperatives will be to either shift to the Ltd (business) mode of operation or expand membership.

Membership in a processing cooperative would provide smallholders with the long-term incentives to invest in skills and technology, thus helping overcome the chronic present-bias from which they suffer. It may also provide them with the resources (subsidized loans or grants) and knowhow (learning from other members or ENPARD) to undertake the necessary technological adjustment. Additionally, significant gains could be associated with better coordination and division of labor, resource sharing and mutual help.

But what about the founding members and initial investors in a processing coop? How are their rights to be protected in a larger cooperative?

It is quite obvious that what stands in the way of enlarging existing cooperatives is the prospect of new members outvoting the founders and stripping them of their assets. Therefore, if our goal as a society is promote inclusive farmer cooperation, cooperation that works for the poor while at the same time supplying the food industry with the raw materials that it needs, the Law on Agricultural Cooperatives would have to allow farmers like Giorgi and Avto to expand membership without losing control. This can be achieved by creating different classes of members (voting and non-voting) or making voting rights proportionate to initial investment and/or labor inputs.

Despite all the challenges, the future of Georgian tea looks quite bright. Local and international demand is an inexorable pull factor driving investment throughout the entire value chain. It is only a matter of time before the right organizational model emerges in a process of trial and error. However, it is in our hands to nudge the process in the direction of greater or lesser inclusivity, greater or lesser preservation of Georgia's rural traditions and landscapes.

Authors: Eric Livny, Lasha Lanchava, Nino Kakulia, Irakli Kochlamazashvili

Young Seedlings of Georgia's Agriculture

15 FEBRUARY 2016

Source: Wikimedia/Commons

Ancient Greeks' fascination with Georgia was not limited to the Golden Fleece. Legend has it that 'Georgia' comes from the Greek γεωργός (Georgios), reflecting the advanced land plowing practices of Georgian tribes, which distinguished them from their nomadic and yet unsettled neighbors. The Georgians (Colchians and Iberians, to be more precise) must have really made a formidable impression on the Argonauts to deserve such a recognition.

Fast forward to the 21st century. According to the CIA World Factbook, Georgian agriculture employs a mind-blowingly high share of the country's labor force (55.6%) with agricultural productivity remaining virtually stagnant over the past two decades. According to The World Bank data, Georgia's agricultural value added per worker is one of the lowest among developing countries and is way behind that of our European neighbors.

Baia's Wine. Can be found in Tbilisi restaurants and stores.

There are numerous reasons for the low productivity of Georgian farmers. The usual suspects are: endemic infrastructure problems; outdated technology and equipment; lack of professional skills and knowledge; and severe liquidity constraints – a key cause of underinvestment in the sector.

While these challenges are well-documented, the root cause of the problem (and its potential cure) maybe elsewhere. This view comes from an authoritative source: Nino Zambakhidze, a well-known (agri) businesswoman, and head of the Georgian Farmer Association (GFA). What is really crucial for Nino is the fact that the vast majority of Georgia's rural youth leave their villages and move to the cities.

"Most young people I meet on my trips in the countryside simply don't see their future in agriculture", says Nino. "They lack appropriate role models and have no idea how a successful farmer may look like. They don't understand what benefits they might derive from agriculture, and have no incentives to invest in those skills and knowledge that would help them become successful farmers and agricultural business managers. Yet, if there is any hope for Georgia's countryside it must be associated with those very youth. They are the ones who can breathe new life and bring the much needed efficiency to the agricultural sector."

While heartbroken, Nino was determined to turn the tide. As a first step, she resolved to find successful young entrepreneurs who work in agriculture and have the leadership skills to ignite hope in the hearts of many more young Georgian farmers. And it did not take long until Nino had the-one-who-seeks-finds moment, when Baia Abuladze – a 22 year old winemaker who recently stormed the Georgian cyberspace – knocked on the doors of GFA. Says Nino: "I met Baia on the GFA premises. Her eyes bristled with enthusiasm as she was telling me her story. What immediately struck me was a great sense of humor and an irresistible drive."

What followed was an incredible success story.

SHE CAME AND SHE CONQUERED

Baia was born and raised on her parent's farm in Obcha village (Baghdati region in Imereti). As a typical agricultural family, the family owns cattle, domestic animals, and cornfields. However, Baia's family owns the largest vineyard in the village, and winemaking has been its main business for years. While being an outstanding student at the local school, Baia did not hesitate to get her hands 'dirty'. From early spring to late autumn she helped operate the family farm. 'My father would not fit into a kvevri. I had to jump in and help him get it washed' – quips Baia with a radiant smile.

The hard work and dedication produced what is highly valued in business and cannot be acquired at any school or university – experience! "Baia took my breath away with her knowledge of winemaking. She spoke about the subject with the precision and passion of an artist paying attention to every stroke of her brush while painting a masterpiece."

Like many kids of her generation, Baia went to study in Tbilisi, majoring in political science at Tbilisi State University and continuing to a Master's program in public administration at Ilia State University. But she never severed ties with the village and her family farm. Although the family owns an apartment in Tbilisi, the only place Baia calls Home is her ancestral Imeretian Oda in Obcha. She remembers longing for the summer holidays when she would be able to come home and give her family a helping hand.

Baia slowly came to realize that her family's winemaking business had great potential for growth. Higher education and life in the capital helped her understand that in order to be successful in winemaking she had to create a brand and market bottled wine. She used her skills to secure a 5,000 GEL grant from the Micro- and Small – Sized Enterprise Promotion Program (MSSEPP). "The grant allowed us to buy everything we needed for bottling" – reflects Baia.

Then came the process of label design in which Baia also played a vital role. After a while, Baia's hard work and determination have finally paid off: Baia's Wine was born! Having secured contracts with five stores and two restaurants in Tbilisi, Baia was already planning to distribute her wine in Batumi. "It was such a pleasure when they called and told me that my wine was selling well. An amazing feeling of accomplishment' – notes Baia with pride.

However, Baia's life was to change once again. It all started when Baia came across a Facebook post about GFA. Curious, she wrote to Nino and requested a meeting. Two days later, Nino helped Baia write a blog article telling her story. From that day on, this story was all over Georgian TV channels, online media, newspapers and magazines. "I received 1,500 Facebook friend request and 500 messages in just a few days' – recalls Baia.

This was a defining moment. Baia fully appreciated the value of publicity that her acquaintance with Nino generated. As more and more people got to know about her family and village she felt proud for her accomplishments and finally came to understand that winemaking has always been the love of her life. "Without Nino's support," – says Baia, "I would have perhaps ended up becoming an academic. It is all different now. With so many people watching and supporting me, I feel responsible for upholding the name of my business, my family and village. This gives me a totally different motivation. I am 100% devoted to my business now."

FINDING STRENGTH IN UNITY

Encouraged, Nino continued her quest and found many other like-minded young farmers. She recounts the story of each and every one of them as a proud and caring parent. She knows to tell about Gurami from Bodbe who practiced butchery since he was 14. "Gurami's Meat" – a brand created by Gurami and his brother – enjoys great reputation all over Kakheti. And there are Melano, who grows mushrooms, and Nodar, who produces milk, cheese and other dairy delicacies in the Georgian highlands. There is Mindia from Samegrelo whose honey is beyond competition. And there is Giorgi from Samtskhe-Javakheti who owns vine terraces and produces traditional Meskhetian wine.

"They are all well-educated, have charisma and are good public speakers. They understand marketing 101 and have a passion for business. They know English and can go online to find anything they need for their business" – tells Nino with pride.

Nino was determined to make these young farmers known to a larger audience. "With publicity one can kill two birds with one stone" – says Nino. One the one hand, public recognition is a formidable incentive for these young guys to do their best and continue to improve their products. On the other, their example would be a signal to many others that going back to one's village and operating a successful agribusiness can be really 'cool'".

Baia›s wine (photo: Guranda Darchidze)

Nino very well understands that this is just the beginning of a long journey. In order for these well motivated young professionals to have an impact on the lives of their fellow young citizens, she decided to bring them together and create an organization - the Young Farmers Association (YFA), to be led by Baia. The main objective of YFA will be to advocate for youth in agriculture, to identify motivated young farmers in need of help and guidance, and provide them with the professional advice they seek. "They speak the same language and it will be easy for them to relate to their young friends. Their voice will be heard". – believes Nino.

YOUNG AND MOTIVATED

Baia and other YFA members are obviously the cream of the crop. And Baia, like Nino, does not underestimate the gravity of problems plaguing Georgia's agricultural sector. However she remains hopeful. "Agriculture is a priority for the government and donors. I receive many messages from young farmers who need advice on possible sources of startup capital, how to write grant applications, where to look for appropriate trainings." "All we want is nudge them in the same way in which I was nudged by the MS-SEPP grant of 5,000 GEL and Nino's help with publicity... We provide a little push and they will do the rest. They have sufficient ability and experience" – she proudly concludes.

* * *

Agricultural development is indeed a high priority item on the agenda of the Georgian government and international donors. Yet, so far, both government policies and millions of dollars (and Euro) spent by the international community in agricultural subsidies and grants have failed to bring about the needed change. Perhaps, they are betting on the wrong (old) horses?

Authors: Lasha Lanchava, Nino Zambakhidze

A Portrait of a Tushetian Farmer as an Entrepreneur

14 MARCH 2016

Swiss Saanen Goats in Gogi Elanidze's former pig house

We first met Gogi Elanidze in winter 2015, when interviewing farmers in Rati's village, Kvemo Alvani. Located in Akhmeta municipality, Kvemo Alvani and its twin, Zemo Alvani, are not your usual Kakhetian villages. The two serve as the winter base for the people of Tusheti, an isolated valley separated from Kakheti by the 3000m high Abano mountain pass.

Gogi Elanidze was born into an above-average Tushi family. His father, Daniel Elanidze, resigned from his job as director of the Telavi Cheese Factory in 1988 in order to establish, together with his sons, one of Georgia's first commercial farms. (These were early Perestroika days, and the family farm had to be disguised as a 'cooperative'.) This was a risky and difficult endeavor, but with Soviet rubles in plentiful supply, and consumer goods sold exclusively under the counter, the family's pig farm turned to be a lucrative business, allowing to quickly complete all major construction works and acquire farm land and machinery from the local sovkhoz.

Everything was fine until it wasn't.

Daniel Elanidze died, heartbroken, in 1994. Only 59 in his death, Daniel could not see his business fall prey to extortion by greedy mafia gangs in the chaos and lawlessness of Georgia's early years as an independent state.

During the next 12 years, in a desperate effort to fend for his family, Gogi tried himself in every possible occupation, moving from job to job and from country to country, in the best of Tushi shepherd traditions.

In 1994-5, Gogi drove a bus on the Georgia-Turkey line, but, having had his passengers robbed by the Mkhedrioni thugs, decided to get a much safer tax inspector job in Akhmeta (working for the state is not my thing, he knows to tell today). He continued his Odyssey growing watermelons and tomatoes in south Russia, and then sailing a fishing vessel in Poti.

In 2005, Gogi finally hit a jackpot, landing a risky but well-paid job as a truck driver carrying supplies for the American military in Iraq. In one year, he managed to put aside more than 10,000 USD – paid directly into his bank account in Telavi – enough to invest in a small factory producing plastic doors and windows.

Gogi's ability to win municipal contracts for the refurbishment of local schools and public buildings in Kakheti, gave him a stable source of income for the next 7 years. It also provided Gogi with the financial slack to start thinking about going back to his agricultural roots and what was left of his father's farm.

The first thing he tried, in 2009, was **beekeeping**. Honey was good business, but, perhaps more importantly for Gogi's Tushi soul, it gave him the opportunity to go back to Mother Nature, and the traditional way of shepherd life. Just like his ancestors migrated with their sheep between Tusheti, Shiraki and Alvani, Gogi would load his beehives (about 120 at peak) on a track and take them on a two-month tour of Kakheti: from the acacia groves of Lagodekhi in early April, to the lush wildflower meadows of Shiraki, and to the linden forests around Kvareli in late May. (Needless to say, Gogi's honey is really worth trying).

Two years later, in 2011, Gogi ventured into **horticulture**, planting 600 persimmon trees next to his father's farm. With a drip irrigation system added in 2015, he expects his persimmon harvest to reach 18-20 tons in just a couple of years, once trees grow to full size. This would make for a full truckload, he explains, making it easy to sell to Ukrainian buyers whose trucks circle Kakheti around harvest time, loaded with packaging materials, pallets and all.

Getting settled. Kvemo Alvani's rectangular shape and straight parallel streets betray a fairly recent, Soviet origin. Indeed, until well into the 20th century, the Tushi community's center of life remained high up in the mountains. The lands granted to them by Kakhetian kings in the Alazani valley have been traditionally used by the Tushi shepherds to park their sheep during the cold winter months, but the first permanent buildings appeared here only in 1920s. Kvemo and Zemo Alvani settlements acquired their central status as late as in 1950s, after the Tushi people had been forcefully resettled from their ancestral villages by the Soviet planners.

Traditions die hard but may take a peculiar twist. Unlike their laid back Kakhetian neighbors, the Tushi people are always on the move: to the next pasture, and to the next objective in life. Having settled in the lowlands and no longer able to wander after their herds, the Tushi came to appreciate the value of education as a means of moving up in the social landscape. As they joke about themselves, a Tushi is either a shepherd or an academician.

OK GOOGLE, HOW DO I START A GOAT MILK FARM?

In 2013, as his plastic windows business started winding down, Gogi hit upon a new idea: a goat milk farm. He's read about the health benefits of organic goat milk. He's heard of French goat cheeses. He was familiar with the myth that goats would eat almost anything from apples to bark to unsold Xmas threes and brooms. But how on Earth does one get started? Since goats and goat milk were anything but common in Alvani's sheep breeding community, there was little chance of getting expert advice or learning from the experience of others.

Luckily, Gogi had a computer connected to the World Wide Web, and so he was able to teach himself. When we met one Saturday morning on his father's farm, Gogi was using the drawings he's found online to refit the old pig house to accommodate the goats he's just bought on the local market. By then he knew that local goats are a lowly bunch, producing about 0.5-1 liter of milk per day as compared to 4-6 liters by the elite Swiss breeds. The simplest solution was to import male goats from Switzerland in order to improve the local breed, a process that would take 3-5 years.

Yet, transporting a small number of Swiss goats turned out to be a financial impossibility. After an extensive search, Gogi found another goat milk enthusiast in Natakhtari with whom he could join forces to save on delivery costs. A deal was struck, and in May 2015 five Saanen billy goats proudly stepped on the red carpet rolled for them in Kvemo Alvani.

A year later, 29 of Gogi's nanny goats (the best ones he could find) gave birth to 39 kids. While the little snow white babies are strikingly similar to their aristocratic fathers, Gogi knows that it would take a couple of additional generations and at least three more years for his goats to get to the original Swiss level of productivity.

Since Xmas trees and brooms are not an ideal long-term

source of animal feed, Gogi invested another $8,700 in a China-made hydroponic feed production plant. Incidentally, he was hoping to have at least a part of his investment financed by the Georgian government's "Invest in Georgia" program, for which he applied, but could not afford waiting 4 months for the review process to be completed. His goats had to be fed.

As Gogi knows to explain, hydroponics is an excellent solution for Georgian smallholders who are short on pasture land. His plant consists of five compartments, equal to the number of days it takes for barley seeds to grow to optimal size in a nutrient mineral solution. Each day, Gogi plants one compartment with about 30-40kg of barley. Five days later he is able to harvest up to 150kg of 100% organic green fodder, which is more than sufficient for his current needs.

Authors: Irakli Kochlamazashvili, Eric Livny

Gogi's pace is truly breathtaking. A partnership is already in the making between him and other goat farmers (yes, Gogi is no longer alone) on joint cheese production, meat goat farming and genetic improvement of their herds. Finally, he is in talks with Jean Jacques, a mythological Frenchman who settled in the nearby Argokhi village, on the possibility of learning French cheese recipes and marketing cheese, wine and other delicacies through Jean Jacques' Tbilisi shop and expat networks.

Very importantly for Gogi, his entrepreneurial successes may be reason enough for his son Levan (25), a civil engineer by education, to join the family business and continue in his father's footsteps. His daughter, Salome (21) is a 4th year student at the Tbilisi Arts Academy. A talented artist, Salome is not very likely to go into farming. Well, nobody is perfect.

XXI Century Arrives to Kakheti, with soplidan.ge

05 APRIL 2016

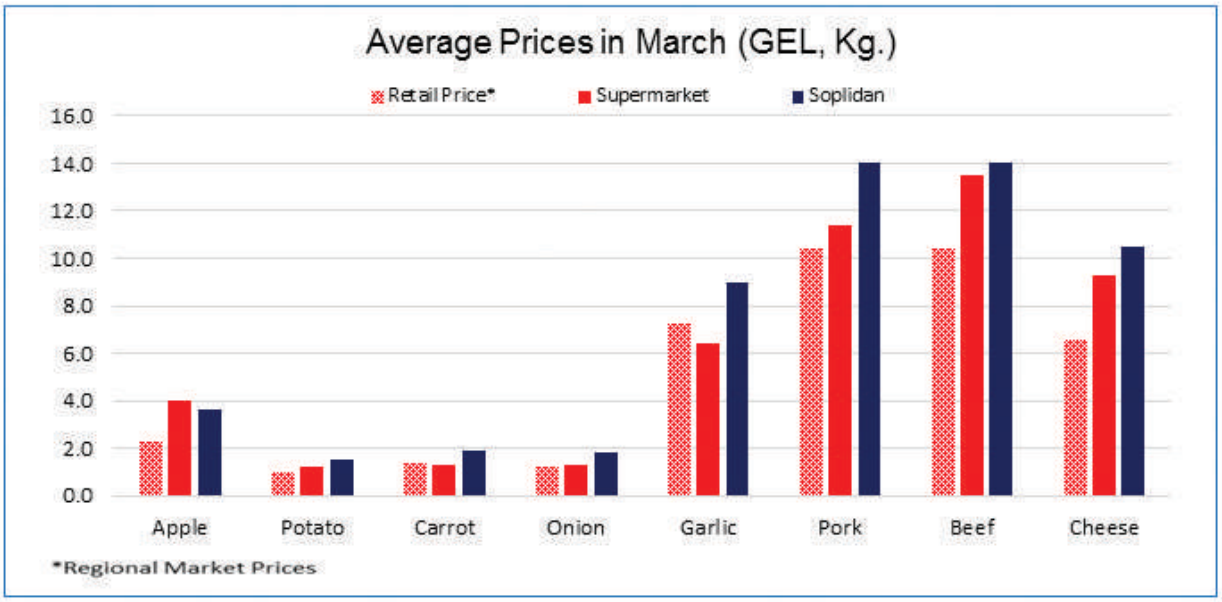
Have you ever had a problem of buying healthy products or being lazy to go shopping in open air bazaar? Wouldn't it be wonderful to be able to order natural and fresh food that gets delivered straight to your door that is not of the fast-food, take-away variety? There might just be reason for optimism with the story of soplidan.ge ("from the village").

This is a story of a small-business with an innovative idea. Soplidan is the first Georgian internet portal to offer online shopping for agricultural products. Consumers can choose goods they want to buy and it will take one day to reach the buyer. It offers a great way to get fresh, healthy, natural fruit and vegetables delivered straight to your door. Indeed, "Soplidan" was named as the best startup of 2015.

Two young ladies are behind this beautiful business idea. Nino Mgebrishvili and Natia Ninikelashvili from the Kakheti region have been friends for 10 years. As young mothers, both Nino and Natia faced the common challenge of shopping for healthy food products for their children. To find natural and healthy products they often had to travel to different villages or bazars—a time consuming exercise. They soon realized that not everyone has the opportunity to travel for a couple of hours and buy products from villages. They thought that if people can shop and buy clothes online, then why not to do the same for agricultural products? Thus their business idea was born.

Nino and Natia started with market and price research. They had contacts in various Kakhetian villages and could easily buy local products from different small and family farmers. They then registered soplidan.ge, created a very beautiful website for online shopping, and organized a delivery system that would bring orders directly to customers.

Understanding how important the appearance of their products is to consumers, Nino and Natia ensure that everything is washed, packed and branded properly. This gives them a distinct advantage over the option of bazar shopping, where there is a very little assurance as to the quality and origin of most food items. Despite this, the prices offered on soplidan.ge are not very different from those found in the bazars. This is because Nino and Natia are buying directly from the small farmers and not from intermediaries.



Source: APRC (Tbilisi supermarket price data); Ministry of Agriculture (agricultural retail market price data); and soplidan.ge

THIS IS NOT A GEORGIAN INVENTION!

Not surprisingly, online shopping for agro products has a relatively long history in Europe. In Germany, Veggie/Organic Boxes have been offered since the early 1990s by various regional suppliers. Nowadays this is a very popular business that supplies not only households, but kindergartens, schools, businesses and restaurants with organically-grown products. There are more than 110 such suppliers in Germany, with most of the products coming from regional farms. This is a popular business in India as well. 1.4 million farmers in India are selling their produce online – without worrying about middlemen.

In the US, in addition to the usual Veggie Boxes, there is a system called Community Supported Agriculture (CSA). This is a concept designed to encourage direct relationships between consumers and growers and for consumers to become more knowledgeable about the way their food is grown. Unlike many Veggie Box models, CSA involves consumers who support a farmer financially by paying for a share of the farm's production prior to each growing season. This arrangement allows farmers to buy the seeds, plants, and other inputs they need for the growing season, and pay their farm labor without waiting for the harvest to generate revenue.

WIN-WIN FOR FARMERS AND CONSUMERS

A central issue in food marketing is the so-called "value chain", a multitude of parties standing between the farmer and the final consumer. A value chain may consist of many "value-adding" parties performing such functions as collection, lab testing, (cold) storage, transportation, packaging, processing, wholesale and retail sales. In most cases, farmers, who only sell raw materials, stand at the lowest stage of the chain, and consequently have the lowest share of value added among all other actors.

The majority of Georgian farmers are smallholders who have a hard time bringing their products to the lucrative Tbilisi market. In many cases these farmers have no choice but sell their products in local bazars. The cost of transporting small quantities of agricultural products to Tbilisi may be prohibitively high. Moreover, the option of selling to Tbilisi-based wholesale traders is not all that great either.

Online shopping offers Georgian farmers the opportunity of capturing a higher share of the value by cutting out most middlemen and selling directly to the final consumers. The internet can be the key to marketing produce in-

stantly, and directly connecting consumers with farmers. When farmers hear the online shopping or "web marketing," they usually think of large businesses and fancy websites. However, many of Europe's online selling system are run by small farmers or group of farmers without the help of any intermediaries.

If expanded, the opportunity to directly market agricultural products to households, kindergartens, restaurants or supermarkets should incentivize many Georgian farmers to engage in commercial operations (and become real farmers in the process). For many of them becoming real farmers would indeed by a long process of learning how to improve both product and service quality, how to communicate properly, as well as getting used to the idea of delivering on time. The option of online marketing may also encourage farmers to create formal or informal cooperatives in order to co-brand their products, invest in critical pieces of equipment, and reduce post-harvest losses and transportation costs.

There are lots of people in Tbilisi who don't always have the time to make a weekly trip to a mall or an open air market to pick up fresh items for their kitchen. The advent of online agro shopping will save them the hassle of shopping, while providing access to healthy locally-produced goods. By connecting consumers with their food sources and vice versa, Nino and Natia from soplidan.ge, and other Georgian pioneers of online agro shopping, make all parties win: farmers, rural communities, urban consumers, and the Georgian nation as a whole. Better life starts with better, healthy food from the village.

Bon Appétit!

Authors: Ia Katsia

The author would like to thank Nana Moutafidou for her valuable insights.

To Bee or not to Bee?

12 SEPTEMBER 2016

Source: ENPARD Georgia (www.enpard.ge)

The economic significance of bees extends far beyond honey production. As the *National Resource Defense Council* writes in 2011 ("Why We Need Bees: Nature's Tiny Workers Put Food on Our Tables"), the value of the honey that bees produced in the US in that year amounted to 150 million dollars, while the value of the harvested crops that were pollinated by bees was 15 billion dollars, i.e., greater by a factor of 100! Having bees around is not primarily beneficial for the beekeepers, but even more for anyone else who grows crops, fruits, or vegetables.

Since almost 30 years, bee colonies all around the globe are under heavy distress. In the United States, calamities started with the spreading of *varroa destructor*, a parasitic mite that infects beehives and may lead to their entire annihilation. The mite began its global conquest in Japan and the Soviet Union in the 1960s, reached Western Europe in the early 1980s and the USA in the late 1980s. Today, Australia is the only continent where bees are not strained by this vicious parasite. In 1999, it was estimated that mainly due to this parasite the bee population of the USA had decreased by 25% since 1990 (*Chavarria in the Renewable Resources Journal* 17, 1999).

In the mid-2000s, another, somewhat mysterious phenomenon further endangered bee colonies worldwide: the so called "colony collapse disorder" (CCD). When CCD occurs, most of the worker bees – apparently in a coordinated manner – abandon the hive despite full stocks of food, leaving back the queen and the nurse bees. As bee expert Dennis van Engelsdorp explains in a New York Times documentary ("Colony Collapse – The Mystery of the Missing Bees"), it is now assumed that a multitude of stressors lead the bees to "feel sick", triggering a biological program which prescribes sick bees to leave the colony in order to prevent the infection of others.

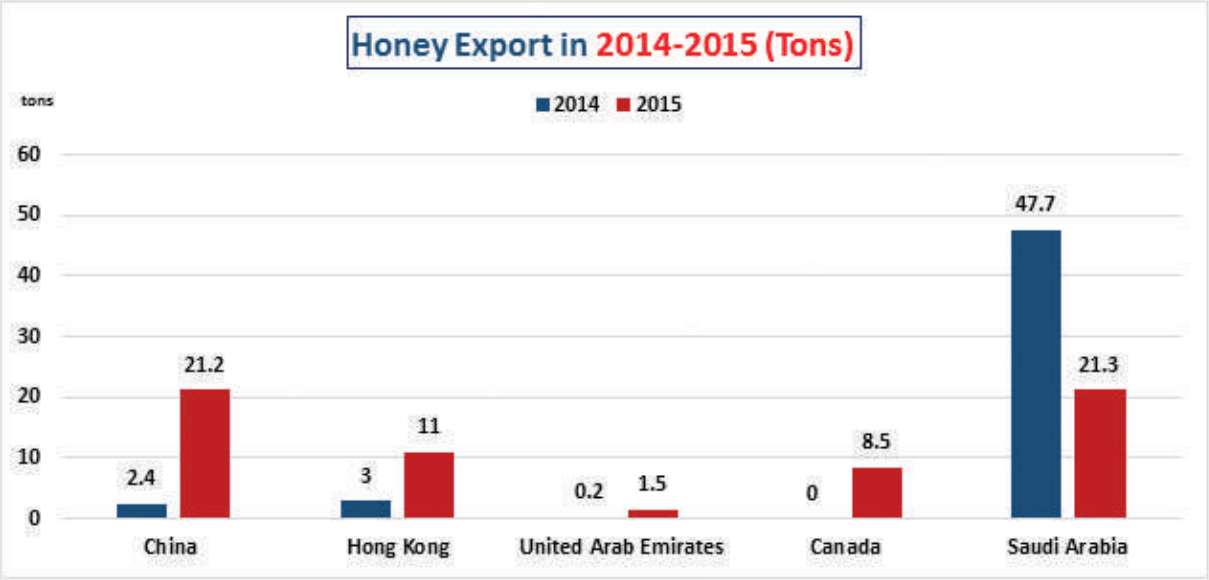
The problems that ensue go beyond pure economic costs. As the famous US biologist Edward Wilson once wrote: "Every third bite of food you take, thank a bee or other pollinator!", referring to the fact that one third of the world food production depends on pollination. In case bees go extinct, humankind faces a serious problem, and it is unclear whether the *RoboBees*, artificial pollination robots currently developed by a robotics team at Harvard University, will work sufficiently reliably and assiduously to replace living bees.

AN EXPORT NICHE FOR GEORGIA?

These adverse supply side conditions have affected honey prices worldwide. According to the US National Honey Board, average August prices of one pound of honey have gone up from $3.83 in 2006 to $6.88 in 2016. As bee populations are under distress all over the world, similar price developments can be seen on a global scale.

In this respect, it is important to see that it does not matter whether Georgian honey producers are experiencing the same problems – the higher price of honey improve its export potential in any case. By an old law, going back to the 19th Century Austrian economist Eugen von Böhm-Bawerk, the higher the value-to-weight ratio, the more likely it is that a commodity gets traded over long distances. This is very intuitive, as the transport costs are only determined by the weight, while the trading profit is likely to be proportional to the value. Hence, if two goods have the same weight, it is more profitable to transport the expensive one rather than the cheap one (this insight was inspired by Böhm-Bawerk's observation that the goods of the highest quality, e.g., the best tomatoes, are usually those that are exported, while those of lesser quality remain for the domestic market).

And indeed, as can be seen in the chart, just from 2014 to 2015, Georgian honey exports to the displayed target countries have gone up from 53 tons to 63.5 tons (an increase by almost 20%). However, it is most striking that there were no honey exports to the European Union, despite the DCFTA being established in September 2014 (while the DCFTA generally does not allow the export of any animal products, it makes an exception for honey). The existence of a DCFTA does not mean, however, that there are no standards that have to be met when exporting honey to the EU. As the Tbilisi-based Economic Policy Research Center writes in its 2016 study titled "Research of DCFTA Impact on Georgian Small-Holder Farmers", honey regulations "determine production, processing, packaging, hygiene and distribution requirements. […] One of the major problems was related to the fact that up until September 2015, it was not possible to conduct a full-fledged analysis of honey samples. According to the latest data, around 30 percent of the samples were problematic (with high levels of antibiotics) and did not comply with the minimum requirements, this figure is a good indicator of the scope of the problem. Apart from the level of antibiotics, most of the honey-makers are using aluminum or zinc centrifuge, the latter is strictly forbidden in the EU."



Source: Geostat

REMOVING BOTTLENECKS

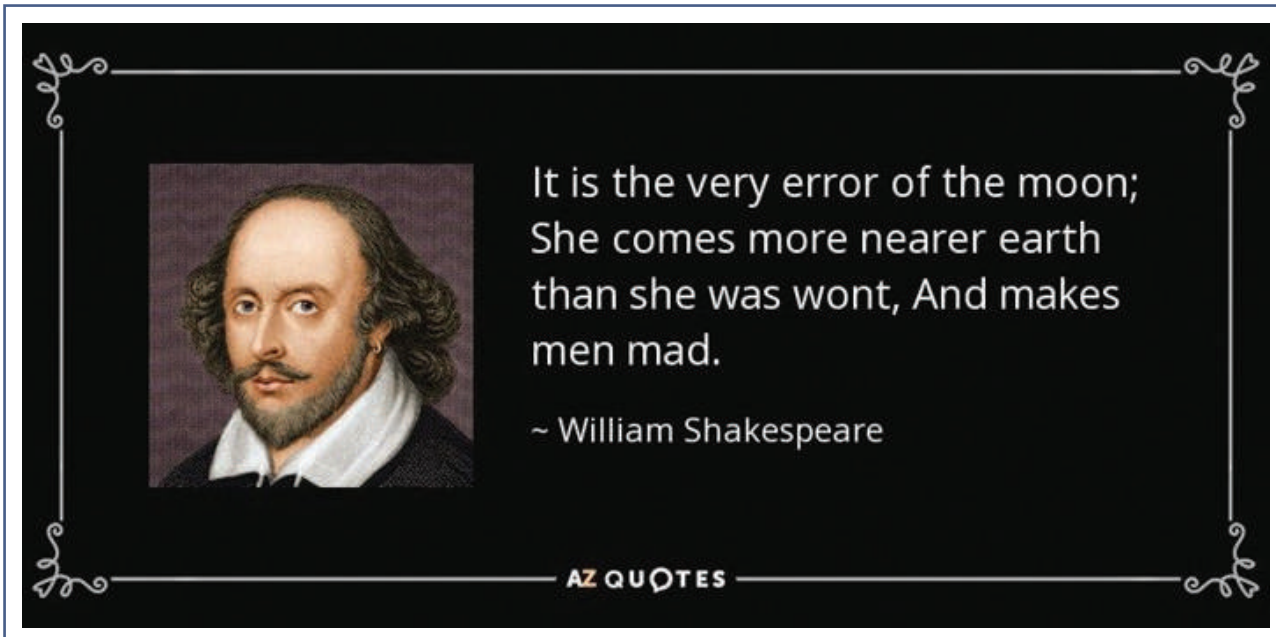
The above statement points out the factors preventing entrepreneurial Georgians to produce honey and sell it to Europe. However, all these problems are solvable within a limited time horizon. The necessary developments could be fostered by the government, in particular if a lack of production volume prevents the lucrative establishment of the necessary testing laboratories (a classical coordination problem – without sufficient amount of honey producers it is not profitable to establish a lab, while the absence of a lab prevents beekeepers to upscale their productions). Taking away some of the risk of the investors, both for the honey producers and the laboratories, may cut this Gordian knot. There may be other bottleneck factors too – a typical one, which could be addressed relatively easily, would be shortage of capital. Working in the right direction, the Government of Georgia has launched the *Apiculture Agricultural Cooperative Support Program* in 2015.

Authors: Ia Katsia, Eric Livny

The head of the *Georgian Beekeeping Association* George Kepashvili states in an article in *businesscontact.ge* that currently more than 50.000 people are involved in apiculture. According to him, approximately 99% of these are nonprofessionals, and there are only a few farmers who have more than 300 beehives. Kepashvili estimates that Georgia can export 2000 tons of honey per year if it fulfills all the EU requirements. Given the advanced average age of Georgian smallholder farmers of more than 55 years (UNDP/ISET study on knowledge needs among Georgian farmers), which makes modernization of the sector difficult, it is also interesting that according to findings of ISET (within the ENPARD project), apiculture attracts the youngest farmers within Georgian agriculture. Furthermore, 20% of 200 ENPARD supported cooperatives in Georgia are apiculture cooperatives, that makes it the top sub-sector of agriculture financed by ENPARD Georgia.

Back to the Future: Will an Old Farming Practice Provide a Market Niche for Georgian Farmers?

22 OCTOBER 2016



Back in ancient times, the moon was the center of everybody's attention. People worshipped the moon and believed that it had mystical powers. Since then, the lunar effect on human mood and behavior has been an issue for psychological and astrological research. Surprisingly, many economic papers are also concerned about the influence of the lunar phases on stock returns. Yuan et al. (2006) found that stock returns (defined as the change in the value of a stock market index) are higher during the new moon period than during the full moon period. This difference is independent from volatility, trading volume, bond returns and interest rates. Interestingly, this effect is not influenced by calendar-related anomalies: the January effect, the calendar month effect, the day-of-the-week effect, and the pre-holiday effect. Of course, it remains to be seen whether these results are related to the moon's mystical powers or human superstitions about them.

HARVEST MOON

While the correlation between the lunar phases and stock returns can make us question the market participant's rationality and even sanity, the notion of using the lunar calendar for farming wouldn't strike most modern people as odd. The well-known practice of moon phase farming dates back to the ancient civilizations of the Nile and Euphrates.

From the 18th century on, driven by the ideas of Enlightenment (the philosophy behind the Industrial Revolution), Europeans sought to improve crop yields and industrialize farming. By the mid-19th century, the use of chemical fertilizers in farming was widespread. In addition, the landscapes of Europe and Britain were changing dramatically, as more and more people were moving to the cities to work in dreary sweatshops and textile mills. It seemed that humans themselves were fast becoming automated extensions of the industrial process.

This "soulless" industrial approach to nature horrified many intellectuals. Thus, in the early 20th century, Rudolf Steiner championed the biodynamic method of farming (one of the first organic farming movements in Europe), often called the holistic approach to agriculture. The philosophy behind this approach is that all plants, animals and the astrological cycles live in inter-related spaces that affect each other.

The main idea behind the biodynamic method of agriculture is that a farm is perceived to be a self-sustaining organism that follows the rhythms of nature. Biodynamic farmers believe that every plant has its own character and energy, which are harmonized with nature and the astrological cycle. More specifically, the moon phases (new moon, first quarter, full moon, and third quarter) define the favorable time for sowing, planting, cropping, and harvesting any particular crop. A biodynamic calendar was created to assist farmers in planning their crop cycles. (You can even go to www.amazon.com and order the biodynamic calendar of 2017).

Biodynamic (BD) farmers make use of the same principles as Organic (ORG) farmers. Just like ORG farmers, BD farmers use manure and compost for soil fertilization. However,

BD is not the same as ORG; rather, it represents a narrower spectrum of organic farming. Use of astrological calendar is only one of the principles used in BD agriculture. Other principles call for the use of local breeds and varieties, and "strongly encourage local production and distribution systems."

Today, 5,091 farms are certified as biodynamic around the world (Demeter, 2016). Even though the scientific community in general is skeptical of biodynamic agriculture, some research studies have found positive environmental effects on energy use and efficiency from using biodynamic methods. Proponents of BD agriculture also suggest that biodynamic practices can help prevent the plant diseases which are prevalent in industrial farming.

THE ROLE OF THE MOON IN GEORGIAN VITICULTURE: COULD THE PAST BECOME THE FUTURE?

Could relying on century-old practices help Georgian farmers improve crop productivity and at the same time satisfy the strict rules for entry into the European common agricultural market? The moon has historically played an important role in Georgian agriculture. By observing the moon phases, Georgian farmers were able to identify the right time for cropping, harvesting, and storing agricultural products. This approach to farming is still used by older people in the rural areas of Georgia.

For example, my father uses particular days of the lunar calendar for harvesting grapes and bottling wine. He believes that harvesting should be done during the waxing phase (from new moon to full moon when the moon's visible size becomes bigger) because grapes are juicier, sweeter and they weigh more in this period. Furthermore, in order to prevent bottles from breaking, he believes it is better to bottle wine during the waning phase (when the moon's apparent size decreases).

The biodynamic viticulture movement has become very trendy, and has already received a substantial following in Europe and the United States. Georgia, with its long traditions of observing the lunar phases for wine production, can turn this knowledge into a business opportunity.

According to the National Statistics Office of Georgia, the share of wine in the country's export is 5% – quite a high figure for a small country. The problem with Georgian wine, however, is that at 12-15 EUR per bottle it is much more expensive than French, Italian, or German premium wines on the shelves of, say, German supermarkets. Therefore, Georgian winemakers find it challenging to compete on the European markets.

While Georgia does not have the scale to compete with much larger producers in the standard wine segment, it can gain share in special niche markets, such as biodynamic wines, which retail in Europe at an average price of 20 EUR.

There are a few successful examples of countries promoting biodynamic brands. For example, Switzerland, being unable to produce substantial amounts of wine, has focused on quality instead of quantity. On the Wine Traveler's Guide website, you can find a brochure that introduces the Swiss biodynamic viticulture: *"While large-scale winemaking is common, an undercurrent of small, like-minded producers are helping to elevate the offering from supermarket wines to a more tantalizing range of biodynamic and organic wines that speak of their pure alpine sites."*

Note that biodynamic production requires more labor resources than conventional agriculture. This can be good news for Georgian farmers, who have traditionally preferred to live on their ancestral lands, and have been reluctant to move to the cities.

In the age of computer technologies, it may seem that old traditions will inevitably be lost, as they hold back "economic progress." But the practice of organic and biodynamic farming may prove the opposite – old traditions don't have to hold us back. On the contrary – they can propel us into the future.

Authors: Salome Deisadze, Eric Livny

The Shortest Road to Strawberry Field Isn't Always the Sweetest, or Quickest

24 OCTOBER 2016

Source: ENPARD Georgia (www.enpard.ge)

Nino Kvirkvelia and her husband Irakli Todua are not exactly your typical Georgian smallholders. Both spouses are well-educated (both hold economics and business degrees from reputable Georgian institutions). More importantly in the context of Georgian agriculture, the couple owns 28(!) hectare of arable land in Georgia's horticultural heaven, Samegrelo, best known for its hazelnuts. This is a fantastic amount considering that the average size of agricultural plots in Georgia is only slightly above 1ha.

A natural born entrepreneur, Irakli was among the first Georgians to benefit from a government-subsidized loan in 2013, and venture into the then-new bay leaf nursery business, which has since become a Cinderella story of Georgian agricultural exports. It was only natural that Irakli and Nino did not think twice when a new opportunity presented itself at their doorstep in village Guriphuli (Khobi municipality) in the form of an ENPARD consortium representative.

ENPARD, which stands for European Neighborhood Program for Agricultural and Regional Development, sought to promote agricultural cooperatives as a means of bringing the badly needed scale and efficiency to Georgia's terribly fragmented fields. And, indeed, the opportunity was about getting some new business going in the form of an agricultural co-op, with the help of an ENPARD grant and additional support from the government's Agricultural Cooperation Development Agency (ACDA).

The opportunity was too good to pass on, but there was literally no time to think twice (or even once); the first ENPARD messenger arrived in Khobi in March 2014, with only a few weeks remaining till the deadline of ENPARD's "business idea" competition. The couple quickly agreed that the new business would be Nino's to develop and manage. A refugee from Abkhazia (her family escaped the war and settled in Samegrelo when she was 9), Nino remembered her love for growing (and gobbling) strawberries. And thus her business idea was born: a modern strawberry greenhouse to compete with low-quality imports that inundate the country in the off-season period.

To qualify for an ENPARD grant, Nino invited four locals to contribute their labor to the cooperative effort. The cooperative ("Shamatia") was formally registered with ACDA in the summer of 2014, after Nino's business idea passed the first stage of the ENPARD competition. Given Nino's clear leadership role and the fact that practically all assets in the cooperative's ownership (starting with land) were contributed by Nino and Irakli, the couple acquired a controlling stake (more than 2/3) in the business, with four other members sharing the rest.

SUCCESS HAS MANY FATHERS…

"Shamatia" was among the first ten cooperatives selected for ENPARD's funding and technical support. The latter included business training and expert consultations, but what mattered most for Nino, Irakli and their partners was, of course, ENPARD's financial contribution, a so-called "re-

coverable grant" of about 46 thousand GEL. The term "recoverable" suggests that the entire grant amount would have to be paid back at some point in the future, but given the lack of legal and procedural clarity (pay back when, how much, to whom; sanctions in case of non-payment?), the team could get the impression that a recoverable grant is just … a grant.

ENPARD funding and Shamatia's own contribution of 17 thousand GEL brought the total initial investment to about 63 thousand GEL, enough to build two state-of-the-art greenhouses (540 m2 each), equipped with a modern drip-irrigation system, ventilation, and heating ovens operating on hazelnut shells (as appropriate for a greenhouse built in Samegrelo). Complete with storage and drainage, a security booth, and even a mini-tractor (purchased at a 25% discount provided by ACDA), by April 2015, the two greenhouses were ready to receive the first seedlings of the "San Andreas" strawberry variety, four thousand of them.

And then the trouble started…

The locally purchased strawberry seedlings were doing just fine for the first 10 days, but then started to wilt. Many local "experts" offered their opinions and suggestions for treatment, but the four thousand San Andreas seedlings would not live another day. A post-mortem examination of the seedlings, as well as the local soil and water samples in a European laboratory, revealed that the seedlings were infected with a lethal decease. The cost of laboratory tests (€400) brought the total amount of damages to well over 15 thousand GEL, including the loss of six months' worth of income.

LEARNING FROM OWN MISTAKES

This could have been the end of Shamatia, but Irakli and Nino had the financial stamina for a fresh start, this time guided not only by sweet childhood memories, but also first-hand experience and advice arriving in the form of a qualified international expert provided by the Georgian Association of Berry Producers. The entire plot under the greenhouses was disinfected. Three thousand new strawberry seedlings, about 50% of total Shamatia capacity (to reduce the risk of another grand failure), were ordered from Spain at the rather attractive price of 1.2 GEL per seedling. The second round of planting took place in October 2015, following proper preparation of the soil (mixing it with straw).

Currently, the future of Shamatia seems to be bright. The productivity of San Andreas strawberry plants peaks after two years, but the plants may last 4-5 years, allowing the team to accumulate sufficient financial resource for replanting and additional investment. While the first harvest, in February-March 2016, was rather modest, the next one, planned for March-July 2017, may reach 2 tons, i.e. about 0.5gk per seedling (compared to the maximum capacity of 1.2kg for the San Andreas variety.). Another harvest is expected in November and early December. Achieving higher productivity would require continuous harvesting during 10 off-season months through the use of heating. This, however, does not (yet) make sense in Georgia's specific strawberry market situation.

COOPERATION IN MARKETING?

A very important business dilemma facing Shamatia is the choice of the harvesting period. Strawberries fetch the highest prices (up to 10 GEL) in winter time, yet producing during the cold season would require switching on expensive heating. Unfortunately, Shamatia's modest production volumes do not allow it to sell through modern supermarket chains, most of which will only work with suppliers able to deliver 80-200 kg of standardized strawberry on a daily basis. Thus, Shamatia's only choice is to sell in the local markets (Khobi, Senaki and Zugdidi) at the much lower price of 3.5-5 GEL. At this price point, there is no reason for Shamatia to switch on an expensive heating system and expand the harvesting period.

Importantly, a small farming enterprise may be locked into this kind of "bad equilibrium;" in the absence of resources to expand production volumes to meet modern retail (and certainly export) requirements, small farms (and small production cooperatives) may be forever doomed to supply only the local markets, competing with each other rather than with importers.

Given the sheer size of their agricultural holdings, Irakli and Nino may be able to break out of this vicious cycle. To this end, they plan to add two more greenhouses (including a hydroponic one!) and plant open field strawberries to keep themselves busy during the warm seasons. As far as their smaller competitors are concerned, the only way out is to come together in the form of a regional marketing cooperative. For the moment, the ENPARD is supporting four strawberry production cooperatives, including Shamatia, in the Samegrelo and Guria regions, for a total of nine greenhouses. If/when all of them reach full capacity, they may be able to produce 15-25 tons of strawberries, enough to qualify for a lucrative, long-term supply contract with Georgian supermarket, hotel or restaurant chains. Making this dream become a Georgian reality will require a lot of planning and coordination, not to mention real agronomical expertise and business calculation.

Authors: Irakli (Rati) Kochlamazashvili, Norberto Pignatti

To Cut or Not to Cut? Shifting Government Priorities and the Uncertain Future of Georgian Agricultural Cooperatives

31 OCTOBER 2016

Source: ENPARD Georgia (www.enpard.ge)

"I cannot see any use [for the cooperative I have set up] if I cannot find anywhere [someone] willing to lend us money" Spanish Priest – 1908 (Cited in Garrido, S. 2007[1])

THE GEORGIAN AGRICULTURAL SECTOR AND THE POTENTIAL ROLE OF AGRICULTURAL COOPERATIVES

The Republic of Georgia was among the fastest Former Soviet Union countries to implement a large scale land reform and land redistribution plan, starting in 1992. Land redistribution resulted in the formation of hundreds of thousands of small family farms, replacing large-scale collectives and production cooperatives (Sovkhozez and Kolkhozes). The main purpose of this land individualization process was, arguably, to help a large part of the population survive extremely hard times. The goal was achieved, and the Republic of Georgia managed to contain the drop in agricultural output in a period in which it experienced one of the sharpest declines in economic activity in recent history, with GDP per capita falling by more than 70 percent between 1990 and 1994.

Today, however, the Georgian agricultural sector is perceived more as a missed opportunity than a success story. While employment in agriculture still absorbs 47% of the employed (2015 data, Geostat), the share of agricultural output in total GDP is now down to 9.2%, much smaller than it could be. Land fragmentation is always indicated as one of the main culprits of the low productivity characterizing Georgian agriculture. According to the census conducted by the Ministry of Agriculture in 2014, there are 574.1 thousand agricultural holdings (with land) in Georgia, of which 99.6% are held by households (with the average farm size of 1.2 ha).

Small average farm size, however, does not necessarily imply low productivity. Around the world, small farms have been found to be highly productive (sometimes more so than larger ones). Small farms, however, need a supportive environment to flourish, even more so than larger ones. In particular, small farmers are hampered when – as is the case in Georgia – access to credit, marketing and technology is limited.

1. Garrido, Samuel (2007). "Why Did Most Cooperatives Fail? Spanish Agricultural Cooperation in the Early Twentieth Century." Rural History, 18(2): 183-200.

The development of agricultural cooperatives has been identified by both international donors and the Georgian government as a promising way to encourage the development of the Georgian agricultural sector. The potential advantages for small farmers joining a cooperative are numerous. By pooling their resources, small farmers can gain better access to credit markets, better physical capital, achieve economies of scale, and improve their bargaining power in the value chain.

However, Georgian farmers seemed historically reluctant to spontaneously aggregate into cooperatives. Among the main reasons identified by those who studied the issue a few years ago was the lack of trust in such institutions, associated by most farmers with the Soviet Kolkhozes. Another reason was the lack of a coherent legislative framework regulating agricultural cooperatives.

ENCOURAGING THE BIRTH AND DEVELOPMENT OF AGRICULTURAL COOPERATIVES: A BOLD START

This was taken into account by the European Union when it designed a special project - European Neighborhood Programme for Agriculture and Rural Development (ENPARD) – aimed at fostering agriculture cooperative development in Georgia during from 2013-2017. With the support of ENPARD, the government of Georgia elaborated the Law on Agricultural Cooperatives (July, 2013) and established the Agricultural Cooperative Development Agency (ACDA) under the Ministry of Agriculture to support the development of agricultural cooperatives throughout the country. Since March 2014, when the first agricultural cooperative was officially registered by ACDA, more than 1600 agricultural cooperatives have been registered, exceeding initial expectations.

Both ENPARD and the government have worked quite hard to support the newborn cooperatives. Since early 2014, ENPARD selected and assisted about 250 cooperatives, with a total budget invested (by ENPARD) of GEL 11.3 million (Annual Cooperative Survey, 2016). ENPARD assistance took a number of forms, such as support for the purchase and installation of machinery and equipment, training, support of the creation of linkages with input and output markets, etc.

Over the same period (from 2014 to-date), ACDA introduced several supporting programs for cooperatives, such as: a) a state program fostering hazelnut production development through promotion of agricultural cooperation; b) a state program to support beekeeping agricultural cooperatives; c) a state program to support dairy production agricultural co-operatives; and d) a co-financing program for purchasing agricultural machinery for cooperatives. In total, ACDA has spent GEL 6 million on these programs (ACDA, 2016).

Theoretically, cooperatives could also benefit from other public support programs targeting the agricultural sector (such as “Plant the Future,” “Cheap Loans,” “Produce in Georgia,” “Georgian Tea,” etc.) but in reality very few did, as the programs were not tailored to the specific needs of cooperatives. This reduced both the potential benefits from participation and the probability of qualifying for support.

…AND A LESS BOLD FOLLOW UP

Just a few years after the introduction of the Law on Agricultural Cooperatives and the related initiatives to encourage their birth and development, the government drive to support agricultural cooperatives seems to have lost its momentum.

About a month ago, the government issued the first draft of the state budget for 2017. According to the published document, the Ministry of Agriculture’s budget will decrease by 25% compared to the last year. ACDA’s funds are expected to decrease by 26% (GEL 1.9 million). This means that, unless the Government changes its announced plans, ACDA will find itself with significantly less funding to support the birth and development of agricultural cooperatives at exactly the same time as its responsibility for cooperative support increases (ENPARD will end next year).

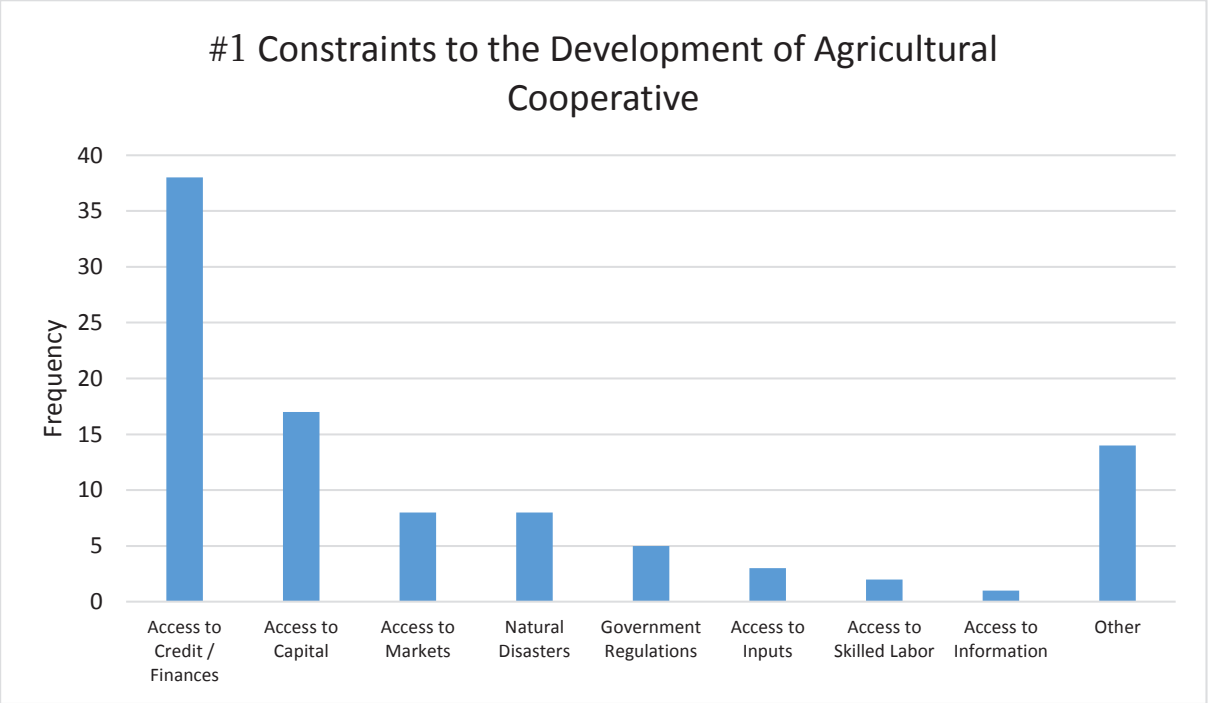
In practice, cooperatives are going to experience a quite remarkable and sudden reduction in the amount of support they could have hoped for. This may not be a problem, if market conditions allow agricultural cooperatives to cope with the challenges they are facing (mostly) on their own. But … is this the case?

CHALLENGES STILL FACED BY AGRICULTURAL COOPERATIVES

The ENPARD implementer community, working closely with the supported cooperatives, is highly skeptical. According to them, even the already established cooperatives are still in the embryonic stage of development (including ENPARD-supported cooperatives, which are considered to be relatively better positioned than others), and market support services are still underdeveloped. This implies that most cooperatives may not survive without additional financial and technical support for at least a couple more years.

A recent survey (self-assessment) conducted among one hundred cooperatives supported by ENPARD (Figure 1) confirms that there are still a number of critical factors constraining their business development, ranging from access to credit and capital to access to markets, to government regulation, difficult access to inputs and to information. In particular, the top constraints for business development seem to be “Access to Finance/Credits” and “Access to Capital.”

Figure 1. Constraints to the Development of Cooperatives



Source: Annual Cooperative Survey, ENPARD consortia, 2016

TO CUT OR NOT TO CUT (AND WHERE)?

Now, to the main question. Does it make sense for the Georgian government to cut the ACDA budget? As often happens, giving an answer to this question is not easy. On one hand, it is not clear where the saved resources will be spent, which makes the assessment of expected benefits of such a cut extremely difficult. On the other hand, the costs associated with these cuts are anticipated to be high. In other experiences (such as the Spanish one, to which our quote refers) insufficient support for young cooperatives resulted in setbacks and in the delay - lasting decades - of the development of the whole cooperative movement and, arguably, of the entire agricultural sector.

This is something no one wishes for Georgia. This is why policy makers should think very carefully about whether to cut or not, how much to cut and where, even in a moment of shifting political priorities. At the very least, even if the need to cut ACDA funds was to be confirmed, particular attention should be given to ensure that the remaining resources are spent, after a thorough analysis of cooperatives' needs, on the most needed support activities. This means, if the results of the survey results presented above are confirmed, to start with helping cooperatives getting better access to finance and capital.

Authors: Irakli Kochlamazashvili, Norberto Pignatti

Professionals for Georgian Agriculture

26 NOVEMBER 2016

Recently, the ISET Economist Blog wrote about the cooperative "Shamatia." Their strawberry seedlings started to fade soon after planting. The cooperative consulted with different experts in the country to find the reason, and the solution for the problem, without success. Only after sending sample seedlings abroad was the cause of the problem revealed. In the meantime, however, the cooperative experienced losses of 15,000 GEL.

Such cases are not rare in Georgian agriculture. Recent value chain studies conducted by the ISET Policy Institute indicate the lack of professionals in different disciplines of agriculture. For instance, during the interviews for recently conducted tea value chain analysis[1], tea producers and processors often pointed out the lack of agronomists and technicians with the specific knowledge required for this sector. The results from the trout value chain study[2] were no different; lack of experience and knowledge of disease control and the absence of qualified ichthyo-pathologists were revealed to be important bottlenecks for the development of this sector. Mr. Goderdzi Goderdzishvili – an expert in agriculture from Care international in the Caucasus – has also named the lack of specialists as one of the biggest problem in Georgian agriculture.

FAILURE ON THE MARKET OF AGRICULTURAL PROFESSIONALS

It seems that there is a failure in the agriculture specialist market in Georgia. Most Georgian farmers do not know how to take care of their plantations or livestock, not to mention having almost no clue about recent advances in agricultural technology. The demand for different specialists such as veterinarians, agronomists, technicians and technologists is there, but the supply is not sufficient.

This problem is particularly acute for small farmers. While large agricultural producers hire non-local experts (either full-time or on-demand), accessing international experts for consultations is not affordable for most Georgian farmers. As Georgian agriculture is rapidly developing in recent years, experimenting with various forms of institutional innovation (contract farming, cooperatives, etc.), the demand for professionals is expected to further increase in the future. Today, however, neither quantity nor quality

1 Kochlamazashvili, Irakli, and Kakulia, Nino (2015). The Georgian Tea Sector: A Value Chain Study. ISET Policy Institute. Study prepared in the framework of ENPARD project - Cooperation for Rural Prosperity in Georgia.

2 Kochlamazashvili, Irakli, and Kakulia, Nino (2016). The Georgian Trout Sector: A Regional Value Chain Study. ISET Policy Institute. Study prepared in the framework of ENPARD project - Cooperation for Rural Prosperity in Georgia.

of professional knowledge are on the path to satisfy this demand.

WHAT HAS BEEN DONE TO ADDRESS THIS PROBLEM?

The government, as well as the donor community, acknowledge this problem and are trying to change the situation. In recent years, agriculture-related specializations such as agronomy, veterinary, animal husbandry, food technology, and forestry have been exempt from tuition fees. In addition, the government has created and popularized vocational and educational training (VET) colleges throughout Georgia, where agriculture related modules are well represented. Moreover, the project "Modernization of the Vocational Education and Training System Related to Agriculture in Georgia," financed by the Swiss Agency for Development and Cooperation (SDC), and implemented by the United Nations Development Programme (UNDP) in Georgia, is developing dual learning practice in vocational colleges. The idea is to combine theoretical courses at colleges and practical trainings at farms/agribusinesses, with a clear emphasis on the latter.

Significant effort has been put into creating Regional Information and Consultation Centers (RICCs), which have been established in every municipality in Georgia. These RICCs are under the Ministry of Agriculture (MoA), and help in spreading information regarding agriculture programs. They also provide on-demand consultations to all interested farmers. However, recent experience has shown that the specific information and consultations required by farmers could not be provided by the staff of RICCs. A recent investigation [3] by the Association of Young Economists of Georgia pointed out that, whereas farmers are in general satisfied with the effort of RICCs, the capacity (both in terms of quantity and quality of specific agronomic expertize) is far from the desirable level. Mr. Goderdzishvili's (expert in agriculture from Care international in the Caucasus) view is also in line with the results of the mentioned research: "There are only 4-5 working personnel in each municipality's RICC, and this is not enough. One or two persons cannot be specialist in all specific fields. There are a lot of new diseases, insects, bugs, etc., and these all need specialists/professionals."

Finally, there is a great initiative by the National Parliament Library of Georgia to create a "corner for agriculture" in different libraries in Georgia. This agriculture corner will include not only existing Georgian publications, but also modern agriculture literature translated into Georgian. The first corner has already been opened in the 5th block of National Parliament Library in November 2016.

THE WAY FORWARD

To wrap up, the problem of the lack of agricultural specialists in Georgia is twofold. First, there is the need to generate a hub of experts with different specific knowledge required for agricultural production. Despite several motivating and encouraging attempts, the current situation is still far from being sufficiently addressed. Of course, all the initiatives described above are new, and more time is needed to see the results. However, it is clear that the government and donors should continue with their efforts to address this problem. Georgia, as a small country, does not require a very large number of experts. Also, it might not be necessary for every type of expert to be available in all the regions; setting up a centralized hub of experts might be enough. In different countries, centralized expert hubs often use different technology to serve farmers in remote regions. For example, a farmer may take a picture of a plant disease and send it to the central hub, or, a farmer sends questions and receives answers per SMS. Such practices are cost-efficient and often provide promising results.

Secondly, the government should think about how to keep these experts working in the country and the sector. After first part of the problem is solved and a hub of experts exist, the government should further promote the development of skills of these experts, and also continue to have a mediator role between farmers and experts. After some time, experts will understand that their expertise is desirable and properly remunerated. At the same time, farmers will know where to search for affordable and good quality experts.

Preparing and further developing experts should happen not only in the colleges and the universities, but in addition, regular trainings should be provided to the current staff of RICCs. Moreover, Agricultural Projects' Management Agency of MoA should also address this important issue, by providing trainings and consultations to farmers (some of them might soon become extension workers) as part of all their programs.

Authors: Nino Kakulia, Pati Mamardashvili

3. AYEG (2016). Report on the Assessment of Services Provided by the Information and Consultation Service Centers of the Ministry of Agriculture of Georgia. Association of Young Economists of Georgia (AYEG). Study prepared for People in Need (PIN) as part of PIN's ENPARD activities (in Georgian).

Joint Marketing – A Key to Success?!

APRIL 03, 2017

Source: Wikimedia/Commons

COOPERATIVES IN GEORGIA: AN OVERVIEW

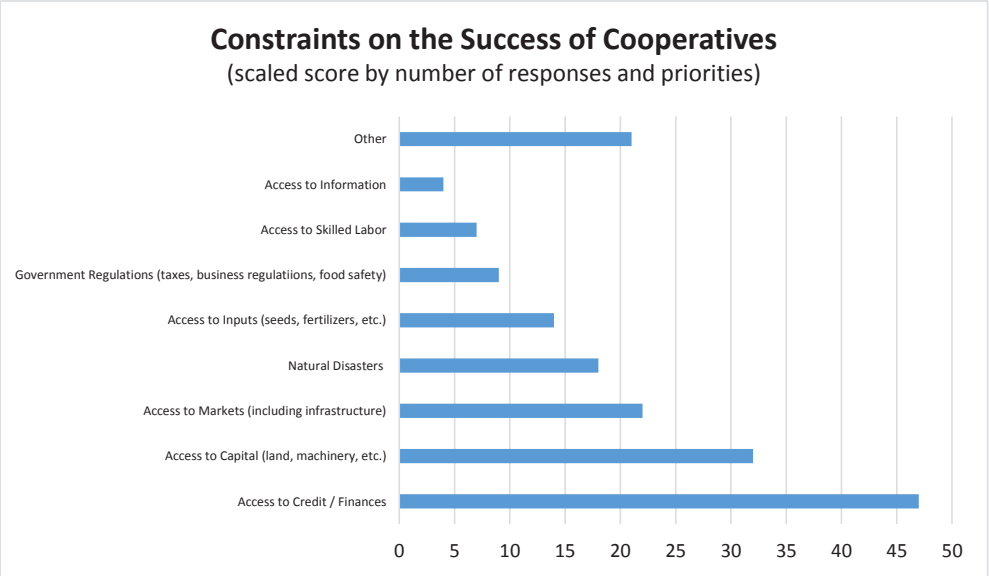
Back in 2013, the Government of Georgia (GoG) approved a new law entitled "On Agricultural Cooperatives." The primary goal of this legislation was to support agriculture and rural development in the country by strengthening agricultural cooperatives. Since then, agricultural cooperatives have been springing up like mushrooms; 13,000 farmers have already been registered in 1,500 cooperatives. In order to strengthen their capacity, donors led by the European Union have been providing financial assistance as well as trainings and advisory services to cooperatives and their members. According to ENPARD (European Neighbourhood Programme for Agriculture and Rural Development) 250,000 people have received advice on farming through 59 information and consultation centers, and more than 8,000 farmers have received EU-funded training in agriculture and business administration. Moreover, the ENPARD cooperative development component, implemented by five consortia led by CARE, Oxfam, Mercy Corps, PIN, and UNDP, has allowed 260 cooperatives to benefit from direct EU funding. To track the development of these 260 cooperatives, an Annual Cooperative Survey is conducted by the Monitoring and Evaluation working group led by ISET (a partner within CARE consortium). The most recent year's development of these cooperatives has shown a positive trend in profit generation. In particular, compared to 2014 (the baseline year), the profit of cooperatives increased by 21% on average in 2015 (ENPARD annual cooperatives survey).

While these numbers are impressive and the primary goal – the quantity (big number of agricultural cooperatives have established) is achieved, agricultural cooperatives in Georgia still face a lot of challenges. This is the final year of ENPARD support for cooperatives (as we have already discussed in a previous blog), which gives rise to the question: who will survive in the long-run?

CONSTRAINTS ON THE SUCCESS OF CO-OPERATIVES

According to the survey, the progress of Georgian agricultural cooperatives is mainly constrained by lack of access to credit, to capital and to markets. While access to finance and capital is the most discussed problem related to farmers' cooperatives, little attention has been paid to the issue of access to markets and the constraints that farmers face with product branding, selling and realization.

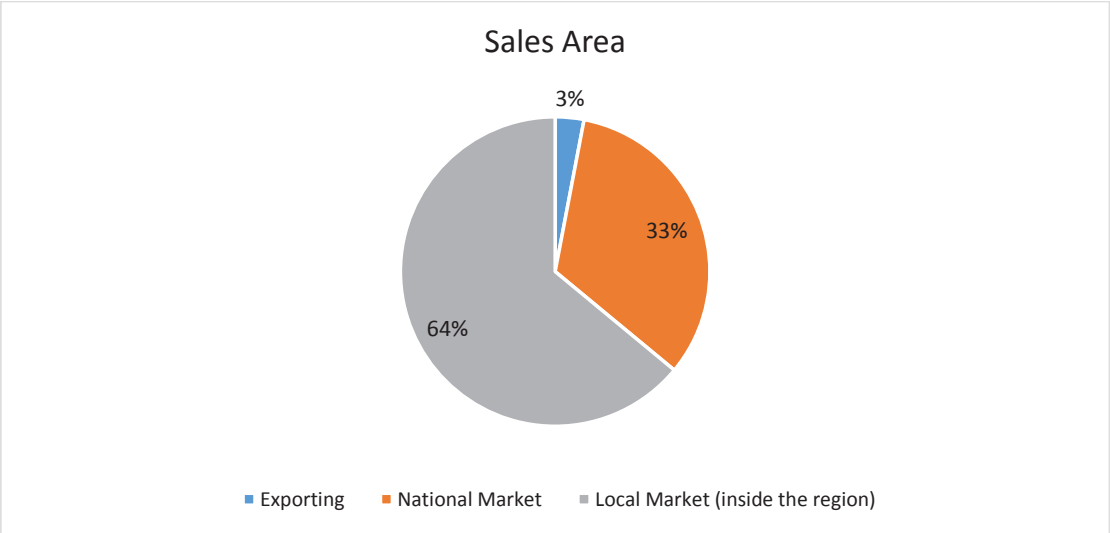
Figure 1. Constraints on the Success of Cooperatives (Scaled score by number of responses and priorities)



Source: Annual Cooperative Survey, ENPARD consortia, 2016

Returning to our question, a cooperative, like any other business, first of all will survive if it is profitable. In order to survive as a business, one of the important component is to have access to markets and sell products. According to the ENPARD annual cooperatives survey, 64% of surveyed cooperatives sell their products inside their region at local markets, 32.5% sell outside of their regions, and only 3.5% export (directly or via exporter). In addition, there are two main channels of marketing: cooperatives sell their products to wholesalers or/and to local consumers (directly).

Figure 2. Geographical Area Where the Cooperatives Sell Their Products / Services



Source: Annual Cooperative Survey, ENPARD consortia, 2016

Buyers often face problems interfacing with small farmers because of their small sizes, the heterogeneous quality of supplied products, and poor organization and communication, leading to high transaction costs. The absence of institutions (like groups) and services deter farmers from overcoming these challenges and creating a win-win situation. From a business standpoint, weak vertical coordination can be a pre-determinant for a cooperative's market failure that will probably be transmitted through the value chain and adversely affect farmers.

WHERE ARE THE GEORGIAN COOPERATIVES NOW?

Nowadays, the most common types of agricultural cooperatives in Georgia are production cooperatives. This is not very surprising, as at the very beginning of the cooperative movement, the main emphasis was on production; farmers were given mini-tractors and inputs such as beehives. In contrast, most of the western-style cooperatives that are successful examples operate in the service sector (agricultural service cooperatives), not in the production sector. In a service cooperative, members carry out their production activities independently, and the cooperative provides them with a range of services - machinery, input purchasing, packaging, distribution, marketing, etc. (Lerman, 2013). Through economies of size, service cooperatives manage to achieve lower costs in input purchasing (they make bulk purchase of inputs) and members benefit from the service cooperative, as they have a price advantage for the integrated sale of members' products.

The difference between those two types of cooperatives were not well-understood in the beginning of this movement, starting with policy-makers (neither the law about agricultural cooperatives reflects it) and moving down the line to farmers. In the meantime, the first steps towards forming service cooperatives has already made: ACDA has started to support the sector's specific and targeted initiatives (though the implementation of such programs are still questionable); furthermore, the main emphasis is moving from production cooperatives to service cooperatives.

MARKETING COOPERATIVES, MAYBE?

How can Georgian cooperatives overcome the constraints they face with selling their products and have better access to markets? One solution could be to establish marketing cooperatives (these are subcategory of service cooperatives): *"Cooperatives that collect and prepare members' produce for sale, truck it to the market, and arrange for actual sale at prices that are higher than what would be normally attained by the farmers themselves." (Lerman, 2013)* Cooperation in marketing allows farmers, who produce the same or similar products, to cooperatively market and sell their products.

In Georgia, the marketing system has a largely informal character; most cooperatives cannot reach the markets, as they do not have sales channels for market products (some cooperatives also lack transportation equipment). In order to sell the produced products, informal markets are established after the harvest. The creation of well-functioned marketing cooperatives will present agricultural producers with the opportunity to create more possibilities on the market, and they will be better integrated in the value chain. As a result, the farmers will improve their bargaining power against processors, traders and other actors in the chain; they will have greater control over the own products, and their gain will also be greater. Furthermore, through marketing cooperatives, farmers could get contracts with large supermarket chains, hotels and restaurants to supply a substantial quantity of their produce on a regular basis. Marketing cooperatives give producers the opportunity to obtain market authority, and aid them in the equal distribution of risks and expenses. Such cooperation effectively utilizes available resources for satisfying consumer requirements, and therefore, cooperative members will have stronger incentives to collaborate.

Thus, providing incentives for farmers and cooperatives to create marketing cooperatives (either first or second level of cooperation) would be a good strategy to be considered for further development of cooperatives in Georgia. Perhaps farmers will perceive marketing cooperatives as a business opportunity (not as a legal entity that can bring to them grants and subsidies) and see the benefits from cooperation. And, again, who will survive in the long run? Apparently, only cooperatives with a strong business spirit will manage to pass through the fire.

Authors: Salome Deisadze, Irakli (Rati) Kochlamazashvili, and Phati Mamardashvili

Working Together for a Bigger Pie

APRIL 24, 2017

Source: http://www.pir.sa.gov.au/valuechains

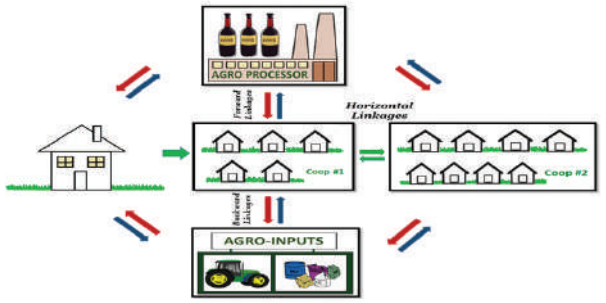
The village of Chkhakaura is located en route to the famous Bakhmaro resort in the Gurian Mountains. This settlement is not only in a picturesque environment, but also the home of hard-working people, some of whom we introduced in our success story about the agricultural cooperative "Samegobro 2014". Since their registration as a formal cooperative back in 2014, this group of fish farmers is becoming increasingly successful. The cooperative is well-linked to local markets, both with regards to purchasing equipment and inputs (a "backward" linkage), as well as with restaurants, hotels, wholesalers or local customers (a "forward" linkage).

As illustrated in a short documentary, the ENPARD-financed cooperative "Samegobro 2014" is both contributing to and benefiting from local market development as a result of forming their cooperative. The cooperative members started to become known by other actors of the value chain and form persistent links with them. As one member of the cooperative, Otar Giorgadze, mentioned: *"No one knew me... now, they know us, and the cooperative looks more reliable"*. Today, the cooperative is regularly selling trout to one of the most popular supermarket chains in Kutaisi, "Gurmani". The well-established connections are one of the crucial factors as to why the "Samegobro 2014" cooperative became a sustainable business model.

LINKAGES ABOUND

Decades ago, the economist Albert O. Hirschman highlighted the importance of linkage effects in encouraging economic growth. Modern agricultural value chains are increasingly characterized by well-developed **horizontal** and **vertical linkages**. Farm cooperatives are a good example of horizontal linkages formed between actors at the same level of a chain. Vertical linkages, in comparison, are formed between actors at different levels of a value chain (e.g., between farmer and processor). The literature distinguishes between two types of vertical linkages – the backward and forward linkages. A **backward linkage** is developed when there is a new demand for intermediate inputs for the production of final outputs. For instance, when an agricultural cooperative is producing strawberries in a greenhouse, members of the cooperative may procure greenhouse construction materials, drip irrigation, seedlings or fertilizers. This further catalyzes the development of these input markets, hopefully leading input suppliers to achieve greater economies of scale in production or distribution, thereby lowering costs (lowering production cost which in turn might reduce input expenditure for farmers). A **forward linkage** is developed when the product itself serves as an intermediate input downstream. An example of a forward linkage would be the business linkage between a grape-producing farmer or a cooperative and a winemaker who purchases these grapes and produces wine for the local or export markets. The graph below illustrates horizontal and vertical (backward and forward) linkages.

Graph: horizontal and vertical linkages in the value chain.



Source: authors' own

ON THE CHALLENGES OF LINKAGE DEVELOPMENT

However, forming linkages is not an easy task.

Horizontal linkages (e.g. cooperatives) are faced with many challenges, including trust among farmers, the cost of cooperation (coordinating meetings, making decisions, etc.), and a free riding problem, among others. As for challenges in developing ***vertical*** linkages, there are search costs of finding potential input suppliers or product buyers. In some cases, credit constraints may prevent the formation of a backward linkage, especially for start-up agricultural cooperatives as are common in Georgia (due to a lack of collateral, ill-prepared bookkeeping, etc.). There are also other transaction costs related to the formation of contracts as well as complying with some new regulatory environments. Examples of the latter are various food safety and traceability requirements found in modern agricultural supply chains around the world. In developing countries, such regulations are often too costly for value chain actors to comply with. On the other hand, such requirements are the main drivers of linkage developments, because they imply higher interdependence among value chain actors. Lastly, regardless of the regulatory regime, many customers require a certain quantity of products supplied on a regular basis for the products they purchase and sell to final consumers. In developing countries, most small-scale farmers are not up to these challenges. However, while one farmer in isolation can hardly develop business networks and meet the increasingly high quantity and quality standards for agricultural products, some of the challenges may be overcome through collective action such as forming agricultural cooperatives.

LINKAGES IN GEORGIAN AGRICULURE

For more than three years, the government of Georgia and donors led by the European Union have been supporting the development of agricultural cooperatives across the country, an initiative we have previously discussed in detail in several blog articles. While many agricultural cooperatives were formed in the country and some of them already overcame the main challenges of forming good horizontal linkages, the main challenge of making these cooperatives sustainable still remains. One of the key success factors for this is having good vertical integration in the chain.

Several successful cooperatives in Georgia have already managed to form stable backward and forward linkages. In some cases, such vertical linkages are even formed inside of cooperatives when a cooperative is involved in several stages of a value chain. The formation of second level cooperatives will further contribute to developing sustainable linkages in Georgian agricultural value chains.

The successful business model of the "Samegobro 2014" cooperative could be summarized as follows:

- **The strong value chain linkages (both horizontal and vertical) that are based on win-win economic relationships.** This is definitely the case for our trout cooperative, wherein each and every member is benefiting from being a member of the cooperative, be it in purchasing inputs or selling trout together.

- **Seek to access higher-value markets and more profitable functions within the value chains.** Although the trout sector has a short value chain in Georgia (and mostly ends at the "plate size" trout consumption, being either fried or boiled), besides the increased production volume, the cooperative also diversified its income source. Namely, they started making their own roe and fries and selling the fries to other farmers. In addition, the cooperative members are building cottages around the trout ponds and plan to offer visitors touristic services, including delicious trout dishes for lunch.

In conclusion, horizontal linkages such as farm cooperatives are a good start, but not enough. Having good vertical linkages and adding higher value in the chain are essential for the development of sustainable business models in Georgian agriculture. The modern value chains are not about competing on their own, but about being more integrated in the chain and working together for "a bigger pie".

Authors: Irakli (Rati) Kochlamazashvili, Nino Kakulia, and Pati Mamardashvili

Georgian Wool: Can It Become the "Golden Fleece" Again?

JULY 03, 2017

Source: oknews.com

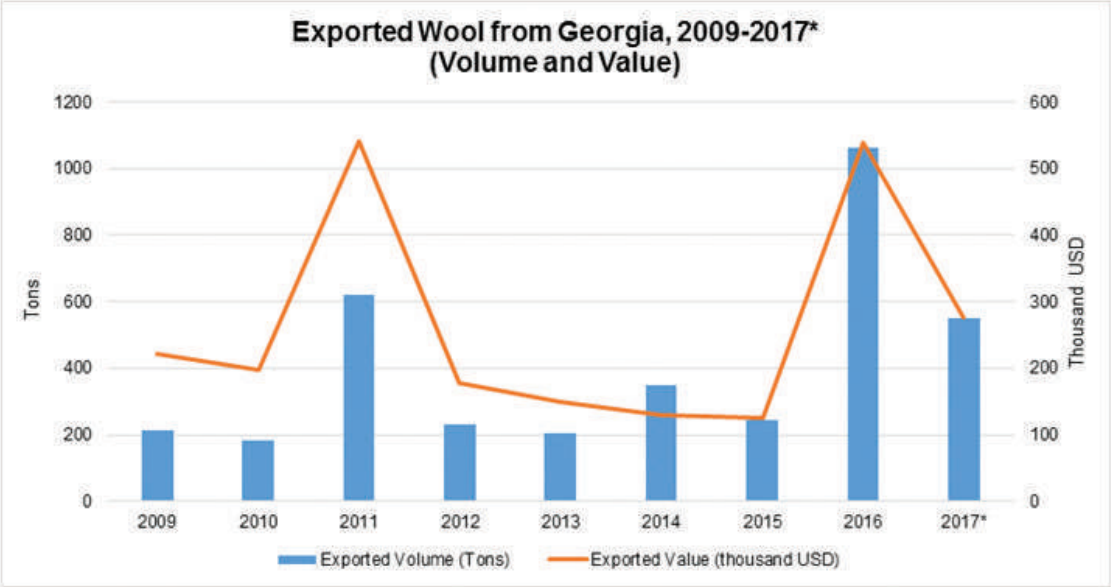
Back in 2014, Georgia and the European Union (EU) signed an Association Agreement, which included the Deep and Comprehensive Free Trade Area (DCFTA) between the EU and Georgia. While this agreement creates new opportunities for Georgia's agricultural exports, high food safety standards in the EU market make it difficult to fully utilize these opportunities. This is particularly true for products of animal origin, which are subject to strict regulations. The necessary standards were successfully met last year for Georgian wool (fleece), and it became the first animal product to be exported from Georgia to the United Kingdom market (which is still a member of EU – for now). This is success, indeed!

GLORIOUS PAST AND CURRENT CHALLENGES

Wool production was an important source of income for Georgian sheep farmers in the past. During the Soviet era, Georgia had more than 2 million sheep (around twice today's sheep population), which used the winter pastures along the Caspian Sea. Wool processing and the textile industry were well-developed, and the price of greasy wool was 12-15 Manet per kg. After the dissolution of the Soviet Union, Georgia experienced a shortage of winter pastures, because it lost access to pastures along the Caspian Sea; moreover, the country also lost the traditional Soviet market for sheep products. Like many other industries, wool manufacturing collapsed.

Today, the main source of income for sheep farms is the sale of lambs and sheep cheese (specifically for Tushetian shepherds), while wool plays an insignificant role in income generation for farmers (Kochlamazashvili et al, 2014). There are only two operational processing factories in Georgia, with old, Soviet era machines…

According to Geostat, Georgia produced 2,000 tons of wool in 2016 (on average, 2.4 kg wool per sheep). From the total amount of sheared wool in 2016, more than 50% (1,062 tons) was exported as a greasy wool to the following countries: Turkey (77%), Ukraine (10%), India (9%), the United Kingdom (2%), and Pakistan (2%).



*Source: National Statistics Office of Georgia (*5 months of 2017)*

Prices differed across export partners. The United Kingdom paid the highest price ($773/ton) in 2016, followed by Ukraine ($694/ton), India ($641/ton), Turkey ($463/ton) and Pakistan ($389/ton). On average, the exported wool price in 2016 was $507 per ton. Five wool exporter companies operated on the Georgian market in 2016, and two of them hold a market share of 78%.

The rest of Georgia's wool was partly used domestically to make woolen garments, while big chunks of wool were wasted (either burnt or trashed). This waste of resources is not only an economic problem, but also harms the environment…

SOME SUCCESS STORIES, BUT NOT ENOUGH!

Even though there has been some success in increasing and diversifying Georgia's greasy wool exports, including in the EU, the price of Georgian wool has been on a decreasing trend. According to the head of the Shepherds Association of Georgia, Beka Gonashvili, farmers are getting 30-40 tetri per kilogram of greasy wool, which does not cover even the cost of shearing and transportation. This demotivates farmers to produce good quality wool, and even worse in some cases - farmers burn or throw away the wool. The situation can only be changed if price of wool becomes higher… How can this be done?!

One wool-processing factory, "Tusheti," has partly managed to break this vicious circle. This company pays one lari per kilogram of good quality wool, and farmers are motivated to deliver a high-quality product. However, currently this factory can purchase only 25-30 tons a year, which is a drop in the ocean, considering total wool production in Georgia. "There is more demand for processed wool (washed, dyed, yarn, felt, etc.), however, we cannot meet the demand due to our limited capacity for wool washing and our drying facility (as well as the old machinery used for spinning and yarn making)," says the director of Ltd Tusheti, Dito Arindauli.

According to Kochlamazashvili et al (2014), wool industry development can bring jobs and income for rural people and less environmental damage to Georgia's nature. Tushuri sheep breed has coarse wool, which provides good material for carpet and felt-making (however, price of coarse wool is low on the international market). Wool processing techniques are very old, and still a widespread tradition among rural women in Georgia. In addition, colleges and schools make wool products for sale - woolen socks, hats, souvenirs, traditional thick felt, etc. The demand for semi-processed wool is on an upward trend, because woolen clothes and accessories are becoming popular among Georgians, as well as tourists. Georgian wool products are also getting international attention. For instance, two Georgian sisters from Tusheti, opened a woolen garment making school named "Shepherd's House" in Rome, Italy. Their felt cloaks with icons on it are used by the Patriarch of Georgia, Ilia II, and Pope Francis, the Bishop of Rome. Moreover, the Kotilaidze sisters recently worked with a bag brand TL-180 (a French-Italian designers' brand based in Paris) for the Mercedes-Benz Fashion Week Tbilisi.

In addition, new technologies suggest that coarse wool is a good material for the construction industry. Not only is it a natural fiber, it has good thermal insulation qualities, which makes it energy efficient. The Heidelberg Cement Georgia has already been cooperating with the wool processing company Tusheti for several years.

WAY FORWARD…

The government and donors should help this sector in developing new products and new markets that would add value to Georgian wool. After creating value-added products, equally important is that this value is fairly distributed across the value chain actors. As with all agricultural value chains, the key is better coordination and cooperation between actors. For example, both adding value and fair distribution of margins could be addressed by forming wool cooperatives. Farmers in such cooperatives might be able to shear, collect, classify, process and market the wool together, which would potentially lower their costs and/or create higher value. Joint marketing will also create better bargaining power and prices for the farmers.

So far, there are not many wool cooperatives in Georgia. One example is the wool shearing cooperative that was

established in the Tushetian community with the support of Caritas Czech Republic a couple of years ago. In order to address the coordination failure along the wool value chain actors, this donor recently decided to facilitate the entire value chain development – to support the wool processing company Tusheti, as well as connect it with wool shearing cooperatives and later to woolen garment making enterprises, in order to produce added value products locally, according to the project manager at Caritas, Anzor Gogotidze.

Those initiatives should be accelerated to avoid wasting wool. Increased wool export (including export to the EU market, which was highly facilitated by another donor, the Swiss Agency for the Development and Cooperation (SDC) and implemented by Mercy Corps) and the development of the wool processing and textile industry could bring this wasted resource back into the economy, creating more jobs and income for the country. Let's hope that Georgian wool will become the "Golden Fleece" again, as it was in the famous myth on Jason and Argonauts, told of the gold-haired winged ram held in Colchis (one of the earliest Georgian formation).

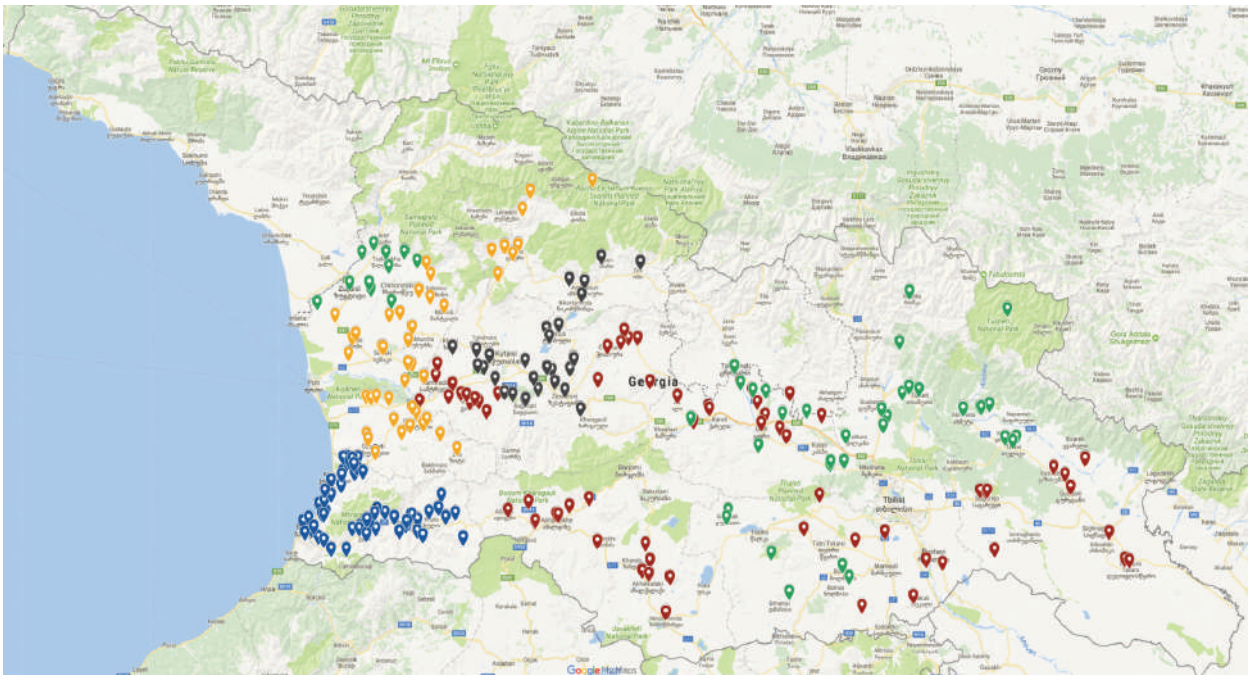
* * *

*Kochlamazashvili, I., Sorg, L., Gonashvili, B., Chanturia, N. and Mamardashvili, Ph. (2014): Value Chain Analysis of the Georgian Sheep Sector. Study elaborated for Heifer International.

Aurthors: Rati Kochlamazashvili, Phati Mamardashvili

Strong Leader = Successful Team?!

16 OCTOBER 2017



Source: ISET Policy Institute

The cooperative movement in Georgia started back in 2013 with EU support, through the launching of the ENPARD project, a major component of which is the development of agricultural cooperatives across Georgia.

According to the Agricultural Cooperatives Development Agency, there are 1,500 agricultural cooperatives in Georgia, and more than 250 of them have been supported by the ENPARD program (for locations of these cooperatives see the map).

Not all those newborn cooperatives will be successful, and their sustainability depends on many factors.

THE THEORY SAYS…

According to the literature, *managerial skills, stakeholder involvement, a competitive environment,* and *access to finance* are the determinants of sustainability for agricultural cooperatives. Some recent research[1] has shown that good *managerial skills* are the main contributors to the success of an initiative. Further research has proved that *strong leadership,* paired with *enthusiasm for collective action*[2], has led to more successful cooperation, whereas lack *of management experience and knowledge* has caused failures. Some studies[3] have also found that managing cooperatives is more challenging compared

to managing private firms, because of the complicated decision-making process in cooperatives – meaning, the one-member one-vote system (however, it's more democratic). Having said that, the importance of having a strong leader is crucial for a cooperative success.

THE PRACTICE SHOWS…

Lia Mukhashavria - the founder of the ENPARD-supported agricultural cooperative Guriis Tkhili - is an example of a strong leader who used her knowledge and experience to start a hazelnut processing cooperative in Guria.

Lia is a Tbilisi-born lawyer and human rights activist who graduated from the Law Faculty of Tbilisi State University (Georgia) in 1989, the Law School of Temple University (US) in 1995 and the Frankfurt School of Finance & Management (Germany) in 1999, and worked for several international and local organizations from 1990-2014. Knowledge and experience generated during these years motivated her to leave Tbilisi, and in 2015 Lia moved to her home village in Guria in order to set up a hazelnut processing cooperative.

Prior to moving to Guria, she collected information about the best production technologies in hazelnut production, market size, and prices, and has visited farmers in Georgia and abroad, including famous kibbutz in Israel. Eventually, together with four experienced hazelnut growers, she established her cooperative, which unites 97 members who together have about 150 ha of hazelnut orchards in four different villages of Lanchkhuti municipality, Guria (Shukhuti, Mamati, Atsana and Ninoshvili). The cooperative relies on a well-equipped hazelnut processing plant (162 m2) which is now ready to receive its first harvest for processing. The factory can process 5 tons of unpeeled hazelnut per day and has become a working place for 100 people, working in two shifts. Instead of selling low price, in-shell hazelnuts on a spot basis, the cooperative members plan to establish long-term contracts with clients and sell shelled hazelnuts directly to the market without involving intermediaries. This will allow them to keep higher value added from their sales.

FACE TO FACE WITH CHALLENGES

While establishing the cooperative, Lia encountered challenges related to motivating people, who were not enthusiastic about cooperation. They were (and still are) reluctant to share knowledge with each other. Lia calls this phenomenon "glekhis chkua" (peasant's brain). Furthermore, age and gender imbalances are extremely pronounced in rural areas, meaning that only 20% of the population in the villages is young, according to Lia. Also, farmers were quite skeptical about Lia as a female leader, despite her reputation and accomplishments, which they respect and are proud of.

Another major challenge was to attract funds for building the nut processing plant. Led by Lia, the core team of the cooperative managed to benefit from the state program "Produce in Georgia." The cooperative was provided with 1,700 m2 of land at the symbolic price of 1 GEL/ha, with an obligation to invest 136,000 GEL for factory construction. In addition to this, Guriis Tkhili has received a seven-year preferential agro credit in the amount of 76,000 GEL (the government subsidizes 8%, and Guriis Tkhili pays the rest - 3%). Furthermore, under the ENPARD programme (CARE consortium), they got a recoverable grant of 76,220 GEL for the equipment needed for drying, cracking, calibrating, sorting and packaging hazelnut in bulk.

Yet another challenge was to manage quite a large number of members with resources spread across numerous villages. In order to manage the cooperative efficiently, Lia has appointed 15 members as managers. Each manager is dealing with a group of farmers whose orchards are situated on adjoining land plots. The managers are responsible for obtaining data on total production, land ownership, and the finances of the managed group of farmers. The core management team includes one agronomist, one factory manager, and one person (Lia herself), who are responsible for sales and communication.

NEXT STEPS TOWARDS SUSTAINABILITY

According to Guriis Tkhili's estimation, at least 80 tons of unpeeled hazelnut will be processed at the factory this year. That is in spite of the damage caused by the stink bug epidemic in western Georgia, fungal diseases, and unfavorable weather conditions, leading to a low harvest and low quality of hazelnuts in most parts of Guria. Fortunately, there was a quite good yield up in the Gurian mountainous villages, which will be the major source of hazelnuts for the factory this year.

As to the markets, Lia hopes to sell a decent quantity of shelled hazelnut directly at the international market in Turkey. She has had negotiations with Ukrainian, Spanish and Belgian partners, and is considering selling shelled hazelnut on the Middle East and China markets in the future.

She also plans to open shops for hazelnut and nut products, and envisions tourism as an opportunity. She believes that her cooperative, combined with the beauty of Gurian villages, will attract agro- and eco-tourists in the region. This will contribute to the creation of new jobs and income diversification for farmers.

However, what Guriis Tkhili has achieved so far was very much dependent on Lia's strong **leadership skills**; real success is yet to come, when other sustainability factors, such as **cooperative members' involvement**, which will help guarantee stable production volume (avoiding side-selling) and decent quality (proper maintenance of hazelnut orchards); **access to finance** for avoiding cash problems (financing operational costs); and a good **marketing strategy** will be also in-place and operational.

Since success stories are contagious, according to Lia, her initiative encouraged some of her neighbors to return to their village and "light the houses in the neighborhood" again…

Authors: Nino Kakulia, Irakli Kochlamazashvili, Salome Gelashvili