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Assessment of Investment Programs in Agriculture in Georgia

M. Chavleishvili

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Abstract**—**The paper presents the analysis of the current situation of agricultural development in Georgia. The investment environment that supports development of the agricultural sector is evaluated and the key priorities are identified. The analysis of the projects already implemented with state and EU support, as well as those that are being currently implemented is presented. The policy and the programs supporting development of agricultural sector are analyzed. Based on an analysis of the evaluations of experts and the primary accounting documents, the outcomes of investment programs, their advantages and disadvantages, are studied. Through identifying investment programs in the agricultural sector of Georgia, corresponding conclusions are made, based on which some recommendations are developed.

Keywords**—**Agriculture, investments, investment programs, projects.

I. Introduction

IN today's world there is an ever increasing demand for agricultural products. In addition, a decreasing trend in agricultural production and price instability for agricultural goods is observed in Georgia. An effective agricultural sector plays a significant role in overcoming the above problems. For this purpose, state support for the agricultural sector is very important.

Georgia is an agricultural country, and overall the sector contributes significantly to GDP (9.2%) [1], while agricultural processing enterprises account for 4% of GDP. Agriculture is very important in terms of net foreign exchange incomes, employment and poverty reduction. Agricultural production is the most important source of income for a majority of the population. Some 52% of the labor force is employed in this sector, with 95% of them being small entrepreneurs. A great number of farms are unable to benefit from the advantages of scale-oriented economy and cannot compete with major importers. Very often, much of the agricultural goods produced by small farms is for self-consumption [2]. The country mainly depends on imports. According to 2014 data, the share of food products in total imports was 12.7% [3]. Wheat has the highest share of imported food products; in particular, with 85% of wheat consumed in Georgia imported.

The value of agricultural output in the country in 2014 amounted to 3.4 billion GEL and goods worth 4.5 billion GEL were created through the processing of agricultural products. Total output in the agricultural sector in 2014 increased by 10% compared to the corresponding figure of 2013, which was mainly caused by the growth of the processing sector (13.8%) and the production of primary products, which increased by 5.2% compared to the previous year [4].

Despite the positive trends observed in the agricultural sector in 2013-2014, the agricultural sector in Georgia still faces quite a lot of problems. In particular, lack of investment, a Russian embargo on Georgian products, the impact of the economic crisis, minimal access to agricultural loans, low level of education in agricultural sector, an underdeveloped land market, irrigation systems, and infrastructure, etc.

The modernization process of Georgia's agricultural sector in Georgia has not finished as yet. Most experts consider that Georgia has significant agricultural potential. Calculations prove that an increase of farm and agro-industrial production is possible. Thus, further development of this sector is vital both for the stability and security of the country. State support, foreign investments, the involvement of international organizations, the implementation of appropriate projects and programs are necessary and will contribute to the revival and rehabilitation of the agricultural sector.

The objective of the paper is to analyze the current situation in the agricultural sector of Georgia; to evaluate the investment environment created by state and international organizations with the purpose of encouraging the development of the agricultural sector; and, to reveal the key priorities and develop appropriate recommendations.

II. Methodology

Both general and specific research methods are used in the paper. These methods include: economic analysis, synthesis, induction and deduction, scientific abstraction, comparative and statistical (selection, grouping, observation, dynamics, etc.) methods. Expert evaluations have also been carried out. Comparative analysis between analytical and statistical data was made. Qualitative research methods were used in order to assess the current state of investments in agriculture. Secondary data were collected and analyzed. In order to identify the patterns between the analytical and statistical estimates, the publications of the National Statistics Office of Georgia, Ministry of Agriculture of Georgia and international organizations are applied.

III. Discussion

Agriculture is a priority sector in Georgia. Sectoral structure of agriculture and production specialization has significantly changed in the country due to the requirements of its historical development and the variety of natural and economic conditions. According to the 2013 data, the share of animal

Marina Chavleishvili is with the I. Javakhishvili Tbilisi State University, Department of Microeconomics, Faculty of Economics and Business Tbilisi, , (Phone: +995-591925606; e-mail: marina.chavleishvili@tsu.ge).

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husbandry and crop farming in the agricultural sector of Georgia amounted to 56 percent and 40 percent, respectively [5].

The economic environment is an important cornerstone of rural development. The most important factors in this regard are resource potential, specialization and a shift in production, intensification, integration and cooperation, management, manufacturing process control systems, economic relations, economic risk management, education and information, investments and institutional systems [6].

Land is one of the key factors for the production of any agricultural product. Land resources are limited in Georgia. Agricultural land is divided as follows: arable – 27% (810,000 ha); perennial plants – 9% (270,000 ha); meadows and pastures – 63% (1,890,000 ha) [7]. Households own 95.7% of the available sowing area, and therefore, effective usage of land, as a production factor, is very important.

In 2014, production of the following crops increased compared to 2010 - fruit (81%), grapes (83%), citrus (46%). corn (138%), wheat (8%), vegetables (7%); while the production of potatoes declined by 15%.

Production in the animal husbandry sector declined in 2014 compared to 2010. In particular, this falling trend was observed in the production of meat (slaughtered weight). The production of meat fell by 15.8% - beef by 23.1%, and mutton and chevon by 42.9%, etc. [5, p.28].

In 2002 to 2012 there was a decreasing trend in the agricultural sector of Georgia, which was caused by some subjective and objective factors. The policy implemented by the state is very important from this perspective; in particular, the agricultural sector of Georgia was not considered competitive and it was regarded that investment in the sector would not yield results. This attitude to Georgia's agricultural sector has hindered its development and worsened indicators of economic effectiveness.

The attitude of the Authorities to the agricultural sector has changed since 2011. In 2011, the state budget in Georgia included possibilities and preferences for attracting foreign direct investments into the agricultural sector. Investors enjoyed preferential conditions for implementing agricultural projects [8]: a zero property tax rate on small farms (less than five ha) and property transactions; a zero VAT rate on the primary supply of agricultural products; zero import tax rate on agricultural and other machinery; privatization of agricultural land (75% of agricultural land is owned by the state); the full tax preference for depreciation; and, liberal labor regulations.

Since then, investments have been actively made in Georgia's agricultural sector in order to encourage development of strategic sectors, such as wineries, fisheries, fruit growing, etc. Some measures have been taken targeted to support integration into the global economy. Several international agreements have been signed - Free Trade Agreements (FTA) with Turkey and with the Commonwealth of Independent States (CIS), and good safety practice (GSP) agreements with the European Union and the United States.

In 2014, foreign direct investments increased and amounted to 1.273 million USD. The share of agriculture in investments is changeable (Fig. 1). In 2013, the share of agriculture and fishery was the lowest (1.27%), the corresponding figure in 2014 was 1.41%, which is lower compared to the corresponding figure (1.76%) of 2012 and higher compared to 2011 (1.33%) [9].

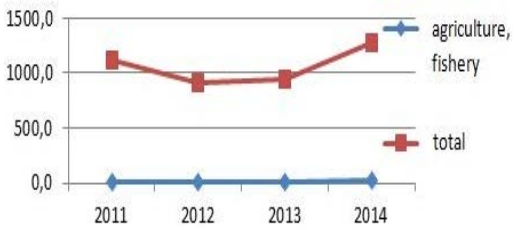


Fig. 1 Foreign Direct Investments in Agriculture

Unfortunately, a large part of the investments represents the cost of the land sold to foreigners, which has negative consequences for small countries. In order to regulate the problem, the government raised the legislative initiative placing a moratorium on agricultural land sales to foreigners. The initiative included making amendments to the Law of Georgia on the Ownership of Agricultural Land. According to the amendments, selling agricultural land to foreign citizens and legal entities was prohibited until January 1, 2017. In addition, land cadastral data was improved.

The Ministry of Agriculture of Georgia together with the Project Management Agency and the Ministry of Economy and Sustainable Development is implementing various targeted programs, focusing on overcoming the problems in the agricultural sector of Georgia. Among them, some of the most important state programs are: Produce in Georgia, Plant the Future, Co-financing of Agricultural Products Processing Enterprises, Development of Irrigation System and Land Market in Georgia, National Animal Health Program of Georgia 2013 to 2018. The project of supporting small farmers is being implemented successfully.

A total of 15 million GEL has been allocated to implement the project, Plant the Future, during the coming two years. The project aims at encouraging targeted usage of land in the regions through the establishment of plant nurseries and fruit gardens. The creation of 1,000-1,200 hectares of modern intensive and semi-intensive gardens is envisaged in the framework of the project. The project will also help improvement of the quality of fruit and stabilization of production. The raw material base for the processing industry will increase. The first results are expected to be seen in 2017, with full results targeted for 2020. As a result, the export potential of the country will be improved, revenues will increase, and the social and economic conditions of those living in rural areas will improve.

"Support to Micro and Small Enterprises in Georgia", the new component within the frame of the program Produce in Georgia was introduced. The total budget of the Program is 20 million GEL and its duration is 26 months. Implementation of

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the program began in November 20, 2014. Funding for the Program is determined as 5,000 GEL for startup entrepreneurs, and 10,000 GEL, and 15,000 GEL for groups of two and three entrepreneurs, respectively. Once eligible, entrepreneurs are expected to provide at least 20% co-financing. The program was designed on the basis of the experience of the East European countries. It is expected that 5,000 recipients will benefit from the program. The goal of the program is to increase the competitiveness of regional business, increase revenues and economic activity in the region, create a favorable environment for starting and developing business; as well as diversification of regional products, creation of additional jobs and the reduction in the migration rate in the region.

The program of preferential loans is very important for supporting the development of agriculture. In 2012, the government initiated the establishment of the Rural and Agricultural Development Fund. The Fund planned for the implementation of the Small Landowner Farmer's Support Project and the Preferential Agro-credit Project, and aims at supporting the development of agriculture.

In the framework of the Preferential Agro-credit Project, farmers receive significant assistance and access to affordable financing from the Ministry of Agriculture of Georgia. The Preferential Agro-credit project was launched in March, 2013. Three types of credit products have been developed in the framework of this project: 1. Short-term (six month) interest-free commodity loan (installments) up to 5,000 GEL for small farmers without collateral; 2. Preferential loans for medium and large farmers from 5,000 to 100,000 GEL charged at an annual interest rate of 7% to 8%; 3. Long-term and flexible loans up to 600,000 USD charged at an annual interest rate of 3%. At least 60 enterprises were financed according to this scheme in 2013. The loan was allocated to business-oriented, sustainable projects. Implementation of these projects should become the basis for long-term agricultural development. A total of 11 banks and three microfinance organizations participate in the Preferential Agro-credit Project [10].

The spring program was implemented in the agricultural sector (190 million GEL), which was intended to finance the plowing and other land activities for 640,000 small farmers. In the framework of this project, peasant farmers got a chance to buy agricultural equipment, seeds and fertilizers. Agricultural card is equal to 510 GEL per hectare. The nominal card is for the purchasing of raw materials and equipment and is equal to 300 GEL per hectare. Peasant farmers who own less than 0.25 ha of land were given cards equal to 100 GEL.

Improvement of irrigation and drainage systems is one of the priorities of the Ministry of Agriculture of Georgia. The Ministry and Georgian United Land Reclamation Systems Company purchased land irrigation equipment worth of 3.6 million GEL under the irrigation system rehabilitation program. The restoration of about 50 irrigation channels throughout the country is planned before the beginning of the irrigation period. According to the Ministry of Agriculture, projecting rehabilitation of over 15 main irrigation channels has already finished. As a result, 70,000 hectares of agricultural land had been provided with water by 2013. The sum of money allocated from the budget in 2013 increased by 6.5 times compared to 2012 and amounted to 64.4 million GEL.

In 2014, 265 million GEL was allocated from the state budget of Georgia for agricultural development, which is about 45% higher compared to the corresponding figure of 2013 (182 2 million GEL) [11].

The agricultural sector of Georgia has been actively assisted by the EU since 1990s. At the beginning, the assistance was provided in the frame of a food security program, but lately the assistance has been provided through implementation of various projects by international and/or non-governmental organizations. At least 13 medium-sized agricultural projects have been funded (€ 23 million) by the European Commission in the last five years. Some of the projects were intended to help poor farmers living in remote areas; while, others were used to provide those affected by the 2008 Russia-Georgia conflict with essential agricultural equipment and vital items.

The European Union provides substantial support to Georgia in the field of regional development (Sector Policy Support Programmes (SPSP) which allocates € 19 million) in order to eliminate regional disparities and to stimulate economic growth. Many of the regional development strategies include a strong agriculture component.

The SPSP oriented to the agricultural sector came into action at the end of 2012, with Georgia and the EU signing the European Neighbourhood Program for Agriculture and Rural Development (ENPARD). The program was launched in 2013 and 40 million Euros was allocated for the program by the EU. In July 2014, an additional €12 million was allocated for ENPARD. The general aim of the ENPARD program is to increase the production of food products and reduce poverty in rural areas. The specific aim of the program is to encourage the implementation of a national sector strategy and strengthen the unions of small farmers. Thus, the current investment projects implemented in the agricultural sector of Georgia is a positive trend and should lay the basis for increasing effectiveness in agriculture.

IV. Conclusion and Recommendations

The implemented projects can be evaluated as a positive trend in the agricultural sector of Georgia, which will significantly contribute to the revival and rehabilitation of the sector. In addition, analysis of the data and information on investments in Georgian agriculture allowed us to make some conclusions:

- Implementation of investment programs contributed to the widening of production in the agricultural sector, creating an incentive for people to return to rural areas, and for the revival and development of traditional fields;
- Analysis of the activities in the frame of the above programs proves that a positive trend can be observed in achieving results in the short-run, which is reflected in the

growth of agricultural production. The growing trend will be clearly seen in long run;

- Agricultural risks caused by the changes in natural and climatic conditions are reflected on the final outcome of production. However, according to the overall assessment, financial support for this sector has had positive effects on public welfare;
- In most cases, governmental and international projects are effective; however, some of the projects may turn out to be ineffective due to the certain reasons, in particular:

✓ The information is not complete – agricultural census is not statistically accurate, and only households and non-market oriented farms are registered - even this data is not complete;

✓ The level of microeconomic analysis is low; in particular, complete microeconomic analysis is very important for successful planning and implementation of such programs, which can be negatively assessed with respect to existing programs; Participation of professional researcher-economists and specialists in the planning process is very important;

- Monitoring of the events held, which allows for the timely elimination of problems, is essential while analyzing the programs;
- Farmers have vague information about agro loans; therefore, it is essential to provide them with accurate information and details of loan conditions.

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