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The Feasibility of Averting Collapse: the Resurgence of Georgia's Agricultural Sector

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Abstract

About half of Georgia's workforce are farmers to some extent and size, and agriculture and rural identities are fundamental components of the nation's identity. Georgia's economic and societal collapse during the 1990s ruined the agricultural sector, which was also largely neglected during Saakashvili's neoliberal reform government (2004–2012). In the last few years, however, there has been a noticeable incipient revival of agriculture; this is largely due to a coherent set of ambitious policies, including innovative private-public partnerships, the re-establishment of the food safety systems and the promotion of market-driven small farmers' cooperatives. These policies are already delivering results, including improvements in productivity, production and exports. Georgian agriculture, as "third-world" as it was in the 1990s, was one of the worst among the post-communist countries for more than two decades but is now becoming a promising economic sector.

The Post-Independence Disintegration

Historically, Georgia is a traditional, agricultural country. Its diversified soils and ecosystems provide optimal conditions for quality production. Agriculture has always been a core element of the nations' economic fabric even after the industrialization during the Soviet times. However, food and agriculture are much more than economic assets in Georgia: they are an integral part of its sociocultural ethos and identity. The South Caucasian nation is well-known as the land where wine production was allegedly first developed and as the home of a rich, rural-based cuisine. Much of the wine, tea, fruits and vegetables found across the USSR came from Georgia, which had one of the highest levels of agricultural productivity among all of the union's constituent republics. However, after the collapse of the USSR, Georgian agriculture experienced a total disintegration.

Unrest, armed conflicts, the secession of Abkhazia and South Ossetia, lawlessness, and massive corruption brought the country and its society to the edge of disintegration. Virtually, all of the existing agriculture infrastructure and equipment (irrigation systems, warehouses, tractors, combine harvesters, etc.) were dismantled for scrap. In parallel, a sudden and poorly planned privatization process resulted in the breakdown of the former Soviet collective farms into small plots, which were then distributed to rural families including those who lacked the background and skills of farmers. In the short-term, this massive land reform helped prevent the country from falling into a humanitarian crisis and requiring food aid. People were able to cultivate something to survive. On the other hand, instead of their privatization as limited companies or business-oriented cooperatives, the options selected in other post-Soviet countries, the breakdown of the collective farms transformed the agroindustry of the pre-independence times into subsistence agriculture.

By 1992, half a million Georgian families had turned into small farmers, producing minimal amounts of food, which were often insufficient to place production in the markets. Rural Georgia became a pre-modern economy where money and salaried jobs were almost absent. With neither investments nor access to fertilizers, pesticides and other inputs, yields declined to levels of parts of Sub-Saharan Africa. Many plots were left uncultivated. By 1995, Georgia's sown area was 45 percent smaller than it was in 1990, and the number of livestock was reduced by half. This primitive agriculture was unable to supply the urban areas that were relying on food imports from Russia and Turkey, often controlled by well-connected mafia groups who worked via South Ossetia, Armenia and Turkey.

For the first time in modern history, Georgia became a net importer of agricultural products. After the initial dark and chaotic years following the country's independence, the Shevardnadze administration gradually managed to bring some stability although they were unable to tackle corruption and place the country in the path of substantial economic growth. The declining trend of agriculture started to change somewhat for the better. By the year 2000, the cultivated area was increasing close to the levels of the final Soviet times, and farm productivity was modestly increasing.

The (Near) Death Knell of Doctrinal Libertarianism

The Saakashvili government, which took power in 2004, has been praised for its impressive performance in cracking down on mafia dons and the worst corruption. In addition, it has been praised for implementing massive economic reforms, as well as reputedly placing the country back in the path of modernization. Nevertheless, not much changed in the small villages of Geor-

gia during the aftermath of Mikheil Saakashvili's takeover other than improvements on some roads and better access to a reliable supply of gas and electricity. Additionally, the agricultural sector started to decline again, losing the modest gains that occurred during the latter part of the Shevardnadze period. By 2008, the sown area reached a historical minimum of a mere 329,000 hectares, almost half the sown area of the year 2000.

Despite a very favorable economic context with high growth rates and massive augmentation in public revenues, agriculture remained the forgotten sector of the economy in terms of governmental priorities. The state's allocations to the Ministry of Agriculture declined massively. By 2010, the government was investing only 0.3 percent of its budget in agriculture, becoming a country with one of the smallest funds for the primary sector worldwide. Additionally, half of the people were farmers (one of the highest percentages in the post-Soviet sphere), and the agriculture was still contributing to a substantial 16 percent of the GDP during certain years. The agriculture extension system was dismantled, and the district-level offices of the competent agriculture-related ministries and government agencies were closed.

The remaining state-owned agriculture assets, including arable lands that were not yet privatized, were sold in rather obscure auctions. Most animal vaccination campaigns ceased, causing the spread of new epidemics such as African swine flu, which killed the near-totality of the country's pig population in 2007. The sanitary and phytosanitary or SPS border controls were stopped, and the units were dismantled. Food inspections were cancelled, causing a worrisome augmentation of foodborne diseases. In short, Georgia became one of the few countries in the world that officially and consciously demolished its food safety system. It is difficult to assess the actual damage caused by these essentially nihilistic policies, mainly because, as part of this same attitude, the official agriculture statistics deliberately ceased to be collected and updated. However, there is massive anecdotal evidence of the enormous alienation and despair that they caused among the already impoverished farmers. Still, agriculture remained an important, albeit declining, sector in terms of economic contribution, net foreign exchange and employment.

There are various reasons to explain why the Saakashvili administration *de facto* dismissed agriculture. First, there were ideological motivations. Libertarianism, an extreme version of economic liberalism, became the *de facto* ideology of the regime. Libertarians profess the total withdrawal of the state from all the sectors of the economy other than the protection of private property, security and defense. However, in practice and despite all the official rhetoric, the state contin-

ued intervening in most other sectors of the economy, often substantially. Only in agriculture, the libertarian dogmas were followed down to its most extreme practice. Fighting against corruption, which was rampant in the Eduard Shevardnadze times, was also an important reason behind the dismantling of the agricultural public structures. However, contrary to other public functions, such as the patrol and traffic police which were disbanded and re-created from scratch, the state agronomists and border inspectors or officials were terminated without replacement.

Another explanation is the particular interpretation of modernity that Saakashvili, his entourage and his ideological mentors wanted for Georgia, which was strongly associated with futuristic urban developments and very negative towards the legacy of traditional rural life. Things turned almost histrionic when the city state of Singapore officially became the recurrent aspirational model for the 'new' Georgia by 2009. Finally, a less evident motivation but perhaps more important than any ideological driver, was the vested interest by some political and business circles to obtain easy economic gains. Many of the privatized agriculture-related assets ended in the hands of figures who were well-linked to the government. This included former minister of economy and libertarian pundit Kakha Bendukidze, who obtained the property of the Tbilisi Agrarian University without a due tender.

The removal of the sanitary border controls favored various food importing groups who were allegedly connected with governmental officials. The post-Soviet land privatization process, total absence of a coherent agriculture policy and political animosity to the sector all left a paltry legacy. Another factor further worsening the situation was the deterioration of its relations with Russia and the brief South Ossetia War in the summer of 2008, which caused a total ban by Russia of Georgian wine, mineral water and other foodstuffs, preventing the Georgian producers to reach what was still, after all, their first external market.

From Reluctant Reanimation Attempts...

The year 2010 marked the lowest point for the Georgian agriculture. Exports collapsed, yields rapidly declined and food prices climbed. Without any doubt, the massive failure of Georgian agriculture to modernize was the root cause of the persistence of high poverty levels in the rural areas. Some circles within the government, especially around the very influential Vano Meravishbili who was designated prime minister by Saakashvili in 2012, started realizing that the ruling party could risk losing ground in the rural areas if no tangible changes would be delivered to the farmers. A modest augmen-

tation of the budget for agriculture was approved—the first in 15 years—and some highly visible, although not very effective, programs were promoted. These programs included some subsidies, as well as the establishment of a network of sophisticated agriculture service centers, albeit not really adequate to match the needs of the small farmers.

In 2010, the European Union and Georgia started negotiations for an association agreement and a Deep and Comprehensive Free Trade Area (DCFTA) agreement, which would gradually fully open Georgia to the EU market and bring the country politically closer to the European Union. Beyond its economic significance, the agreements were perceived as a main step for the realization of the country's European aspirations. The DCFTA agreement would require Georgia to mend its SPS system gradually in order to become more compatible with EU standards and legislation. This process was at odds with the still-dominant libertarian approaches, which had been destroying Georgian agriculture. The EU started providing substantial technical support, but some of the most radical elements within the government's economic structures sabotaged the process as much as they could.

... To Steady Revitalization

In autumn of 2012, against all odds, Saakashvili's National Movement badly lost the parliamentary elections, defeated by Georgian Dream, a coalition of disaffected groups formed around the billionaire and philanthropist Bidzina Ivanishvili. The impact of the South Ossetia War and the anonymous disclosure of video material, just a few days before the elections, showing human rights abuses committed by government officials were the main triggers of the electorate's choice. Nonetheless, the long-standing disenchantment of the farmers and rural dwellers also played a major role despite years of abandonment by the administration. Revitalizing agriculture was one of the key political slogans of Ivanishvili.

The new administration, in fact, made modernization of agriculture one of the top economic priorities. The Ministry of Agriculture, run by a new team of committed professionals and advised by experts from the Food and Agriculture Organization (FAO) and the EU, installed a battery of ambitious reforms. These reforms included the approval of an agriculture sector multiyear strategy, the enactment of key SPS and food safety legislations, the restoration of the food control systems and the recruitment and deployment of agriculture advisors all across the country. To update statistics, a door-to-door national agriculture census was conducted in 2014 for the first time in a decade. In 2013, an agree-

ment was reached with Russia to lift the embargo on Georgian food imports, and in 2014 the DCFTA agreement was signed with the European Union. Along with the improvement in the quantity and quality of production, this better context permitted an augmentation of agriculture exports, from US\$349 million in 2010 to US\$824 million in 2014.

An innovative system that consisted of the distribution of vouchers that small farmers could use for acquiring fertilizers and other agricultural inputs from private providers of their choice, permitted a massive augmentation of the sown area for the first time in two decades. Some 700,000 farmers are benefiting from this scheme every year. A similar model of private-public partnership was also developed to enhance access to credit. The government signed agreements with virtually all of the financing institutions to grant a portion of the interest rates for agricultural funding.

Because of better investments and increased access to inputs, productivity increased significantly. In 2015, the average yield of wheat reached 2.6 tons per hectare, compared to 1 ton per hectare in 2010. During the same period, the number of livestock increased from 1 million heads to 1.3 million.

The promotion of business-oriented cooperatives was another key aspect of the sector reforms. The underlying logic was that by organizing themselves into cooperatives, Georgian small farmers could exploit economies of scale and increase their capacity to compete in the market.

It was believed that, in principle, many Georgian farmers were going to be reluctant to form cooperatives, feeling that this would mean a return to the Soviet collective farms. Therefore, massive awareness campaigns were conducted by the Ministry of Agriculture, NGOs and the farmers' organizations, explaining the role and functioning of Western-style market-oriented cooperatives. In 2013, a progressive law on farmers' cooperatives was enacted, creating tax incentives, and an Agriculture Cooperatives Agency was established, providing capacity building to the farmer groups. Various projects, funded by the EU and implemented mainly via NGOs, provided technical assistance and grants for capital investments.

The Remaining Land Issue(s)

These efforts paid off. By mid-2016, 1,640 agriculture cooperatives were established all over the country. The reforms required a substantial augmentation of public funding. By 2015, the government was investing ten times more in agriculture than it did in 2011. Still, these financial resources were not a large burden for the public finances as they consisted of only 3 percent of the state budget, or the equivalent of approximately 100

million euros, plus some 30 million euros per year from various donors (mainly the European Union, the International Fund for Agricultural Development, USAID and Switzerland), including direct budget support by the EU to the state upon fulfillment of pre-agreed conditions. Long-term commitment by the government, professional management and a strong collaboration with the civil society have been the key aspects of the positive progress.

Of course, a number of challenges remain to be solved so that Georgian agriculture can fulfill its potential, including completing the land registration process,

improving the access to finance and micro-finance by small farmers, and defining and promoting more holistic rural development policies. Beyond agriculture, solutions to these challenges will also preserve the natural resources and solve environmental issues as well as create non-farming job opportunities for rural people. It is still too early to see how the early gains of the reform will be consolidated in the long-run. Agriculture policies require patience and continued efforts to deliver sustainable results. What is already certain, however, is that after twenty-five years of falling and lagging behind, thousands of Georgian small farmers are now starting to catch-up.

About the Author

Juan Echanove is an agriculture and food security expert with 23 years of experience as program manager and policy advisor. He was the agriculture attaché of the EU Delegation to Georgia (2009–2015) and was officially awarded for his contribution to the development of agriculture. He is the honorary chairman of the Georgian Farmers' Association. Now he works as Senior Global Food Security Policy Advisor for CARE-US.

Recommended Reading

- Juan Echanove's personal blog, 'A tale from the Caucasus', a detailed description of the role of the civil society, donors and other stakeholders in the resurgence of Georgian agriculture <<http://juanechanove.blogspot.fr/2016/08/a-tale-from-caucasus.html>>
- Mills, John (2013), *Agriculture and rural cooperation examples from Armenia, Georgia and Moldova*, Policy Studies on Rural Transition no. 2013-2, Budapest: FAO Regional Office for Europe and Central Asia.
- Ministry of Agriculture of Georgia, *The Strategy for Agriculture Development of Georgia, 2015–2020* (English version) <<http://www.moa.gov.ge/Download/Files/92>>
- Legislative Herald of Georgia, *Law of Georgia on Agricultural Cooperatives* (English version) <<https://matsne.gov.ge/en/document/download/1972742/0/en/pdf>>