Georgia
Beyond the Covid 19 crisis

New opportunities
in the agrarian sector?

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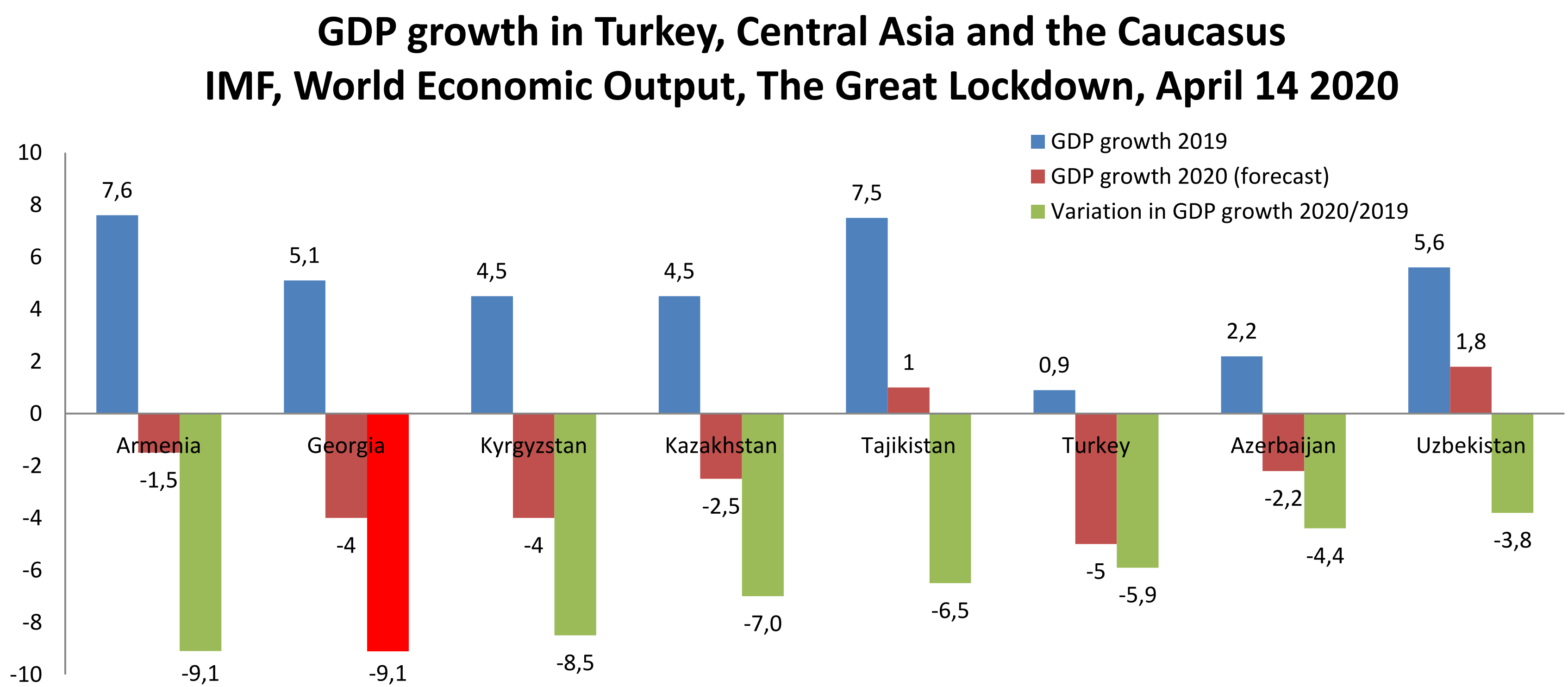
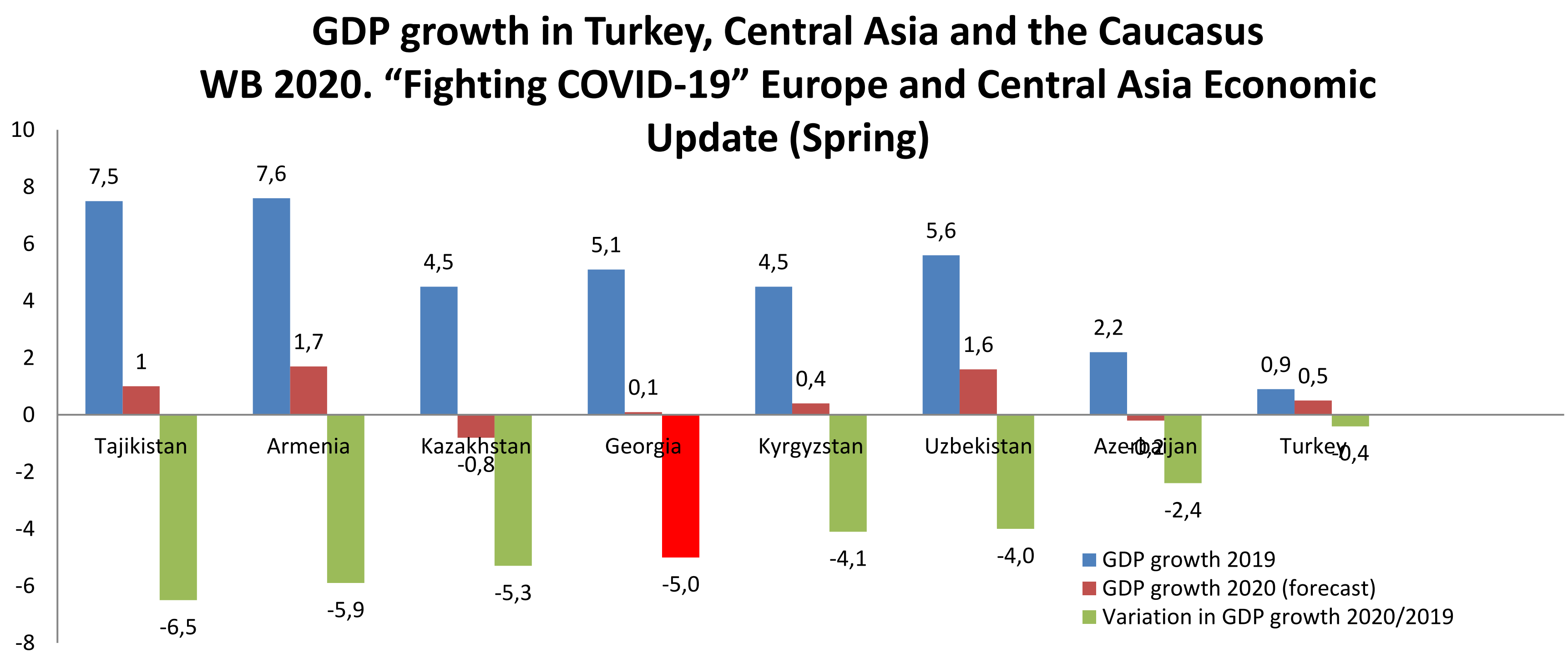
The general macro-economic background

Latest macro-economic forecasts

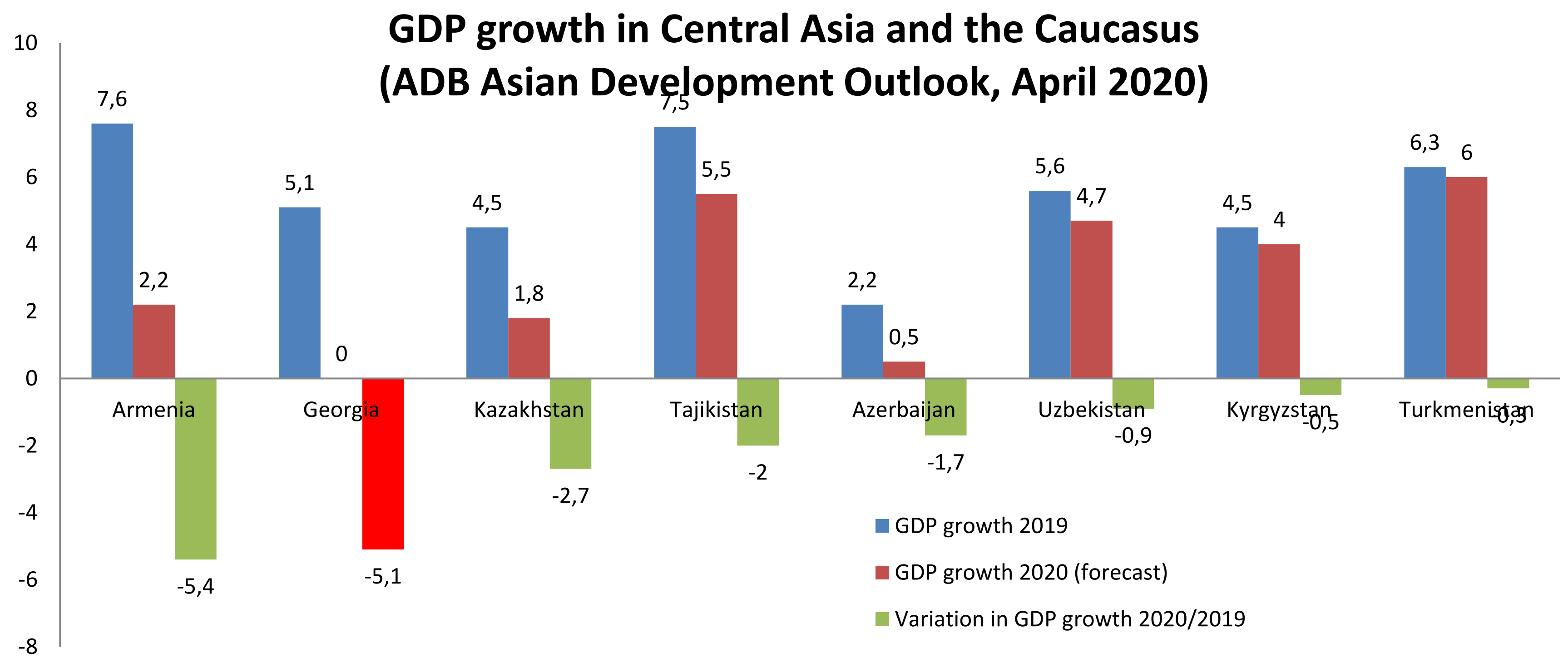
According to figures disclosed by IMF on April 14th, Georgia is expected to have the worst GDP performance in the Caucasus-Central Asia region in 2020, with the biggest negative variation vis-à-vis GDP growth in 2019 (minus 9.1%) linked to Covid 19



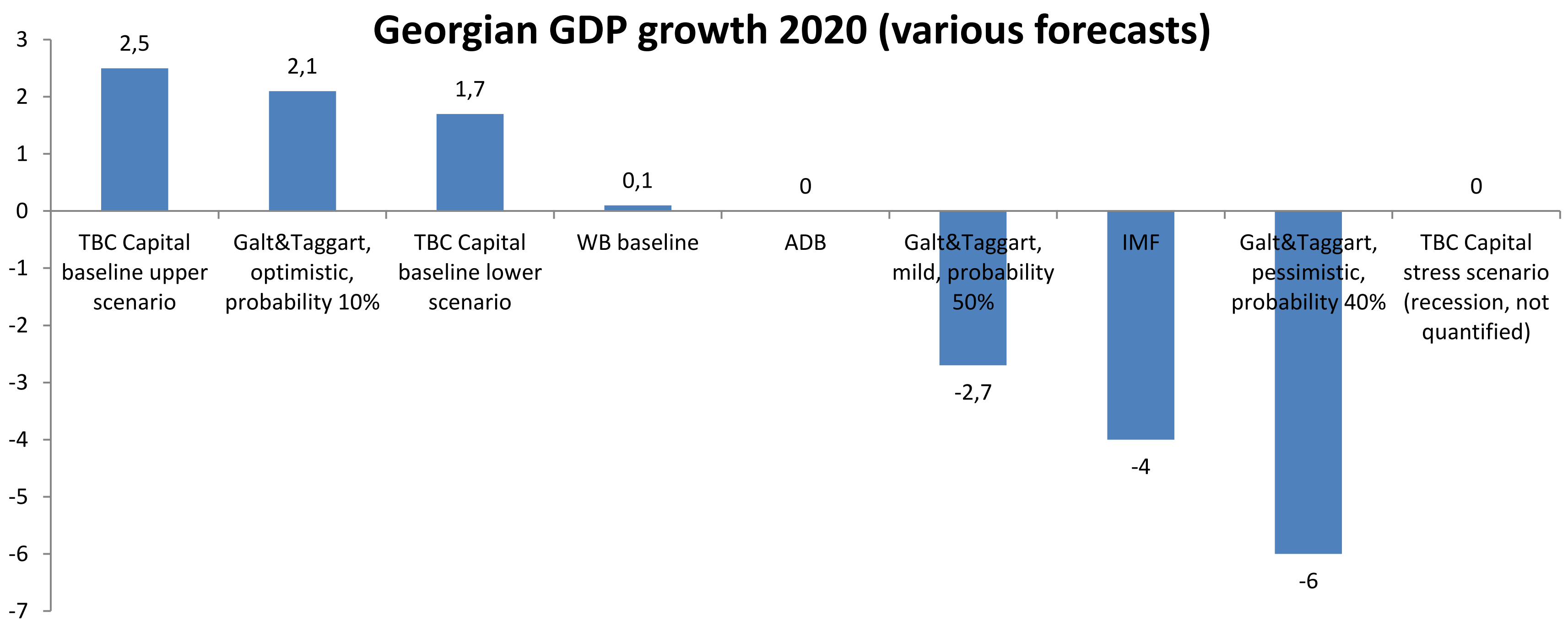
The IMF scenario comes after that recently published by the WB which was much more optimistic with 0.1% GDP growth for Georgia in its baseline scenario. Two elements were clearly a matter for discussion: a very limited decrease in the GDP of Turkey, a key trading partner of Georgia, and a strong resilience of net FDI inflows which would have reached 5.4% of GDP, marginally lower than in 2019 (5.7% of GDP)



The IMF scenario is closer to the ADB *Asian Development Outlook*, in which Georgia is also expected to have the worst GDP performance in the Caucasus-Central Asia region in 2020, with the second biggest negative variation vis-à-vis GDP growth in 2019 (minus 5.1%) linked to Covid 19



On top of the ADB and the WB, TBC (*The impact of Covid on business environment*, March 16th 2020), and Galt and Taggart, (*Covid 19 impact on Georgian economy*, March 25th 2020) have also proposed quantified scenarios. Differences among all scenarios are wide and very much depend on the length of the crisis and measures of self-isolation. Usually the latest scenarios are the most negative. Anyway, they reflect first of all extreme uncertainty on the economic impact of Covid



The ISET Policy Institute (*The economic response to COVID-19: How is Georgia handling the challenge?,* March 2020) lists some transmission channels of the global health crisis on Georgia without attempting to make a consolidated quantitative analysis of their impact

Demand side effects

- Decline in household consumption which accounted for 67.1% of GDP in 2019. Informal workers and workers in heavily exposed sectors such as tourism and HORECA will suffer most and do not currently benefit from a social safety net
- Decline in investment which accounted for 26.8% of GDP in 2019
- Decline in tourism which was estimated by the WB, Galt & Taggart and GeoStat to account for 7.6% of GDP in 2018
- Spillover factor on other economies and decline in trade
- Decline in FDI inflows
- Decline in inflows of remittances

Supply side effects

- Domestic production suffers as a result of forced business closures and the inability of workers to go to work
- Long-term economic effects (mortality, education)

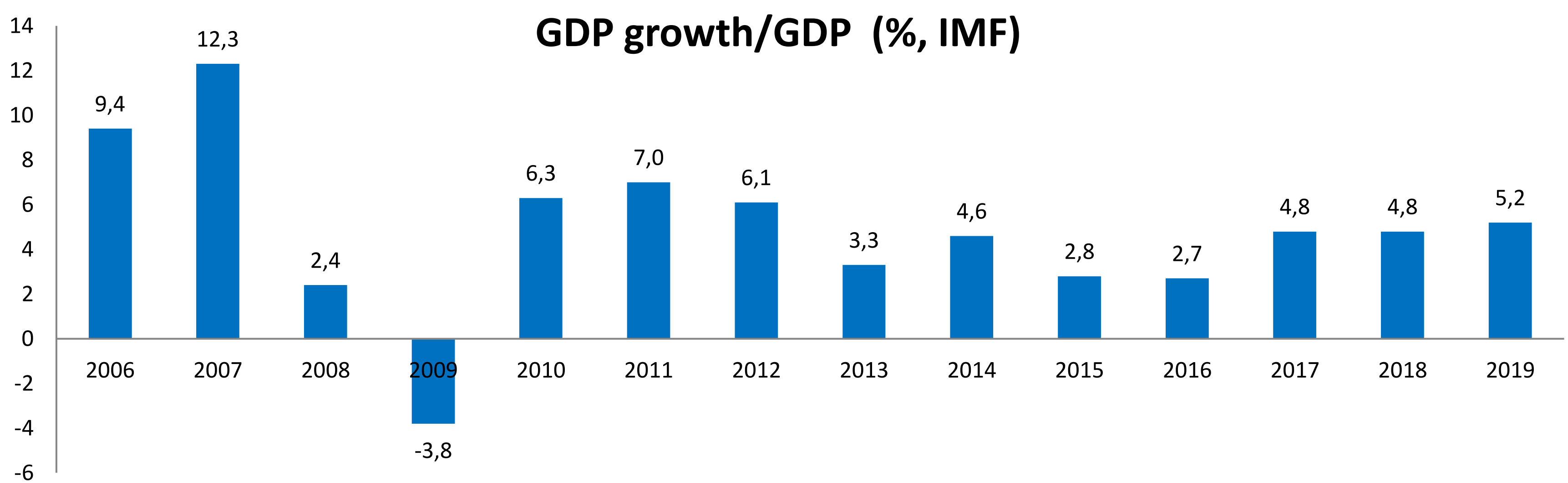
Currency depreciation

What are the key issues?

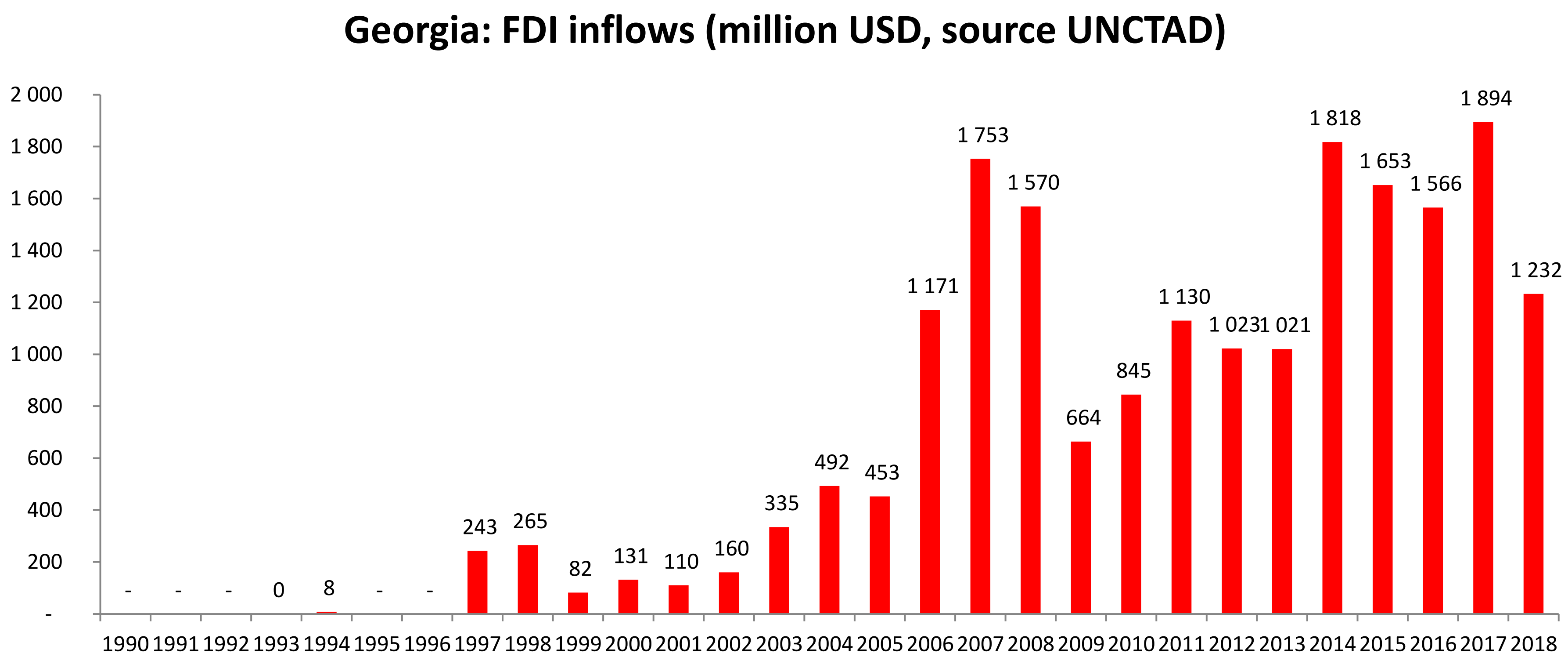
- There is consensus upon the fact that Covid 19 will have a very serious economic impact in Georgia as elsewhere. Kristalina Georgieva, IMF Managing Director, recently declared “the world faced the worst economic crisis since the Great Depression of the 1930s”
- As stated by the WB in its *Regional outlook*: “The outlook faces unprecedented downside risks related to the coronavirus, with these scenario ranges reflecting large unknowns on the ultimate severity and duration of the pandemic”. In the recent past, in particular because of a very fast increase in new contaminations in the US and Turkey, baseline WB “positive” scenarios are becoming less likely
- Will the Covid 19 crisis just be a bigger repetition of crises like the 2008 financial crisis, with no major change in global economic paradigms, or will it dramatically lead to structural change in these paradigms, as was the case in the 1930s?
- In Georgia, will the Covid 19 crisis only adjust GDP growth downwards or will it lead to structural shocks which will require strategic changes in the current development model?
- What can we learn from past external economic shocks in Georgia and how relevant are they in the current environment to assess Georgian resilience?

Economic lessons from the war of 2008

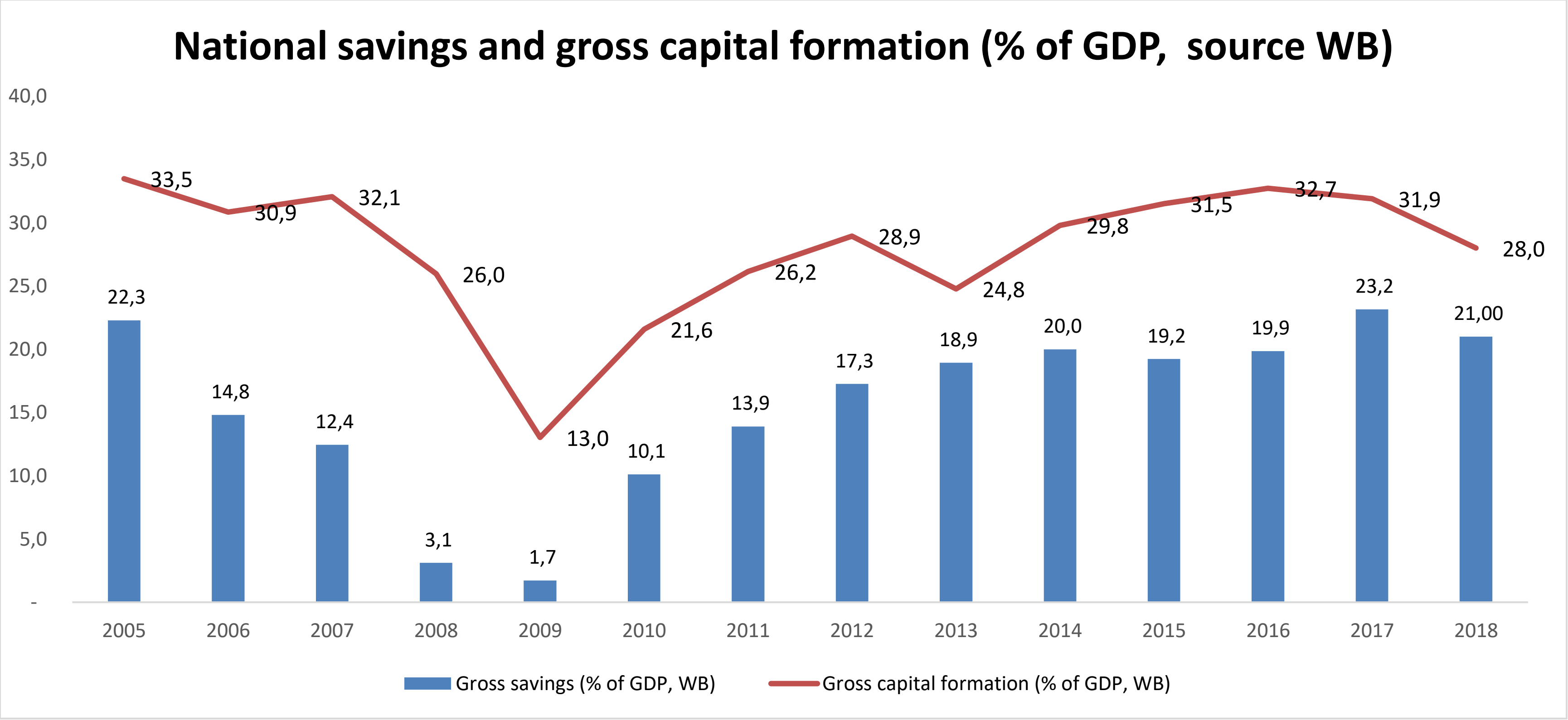
The fight against coronavirus is a form of war. And in 2008 Georgia already suffered from a war whose economic impact can be analyzed to learn lessons for nowadays. The war also took place at a time when the global economy suffered from a major financial crisis. Then, despite huge international support (USD 4.5 billion), GDP and GDP growth in Georgia massively contracted, much more than what is currently forecasted by ADB/WB even though military destructions remained localized, mainly in transport infrastructures, and had a limited period of impact



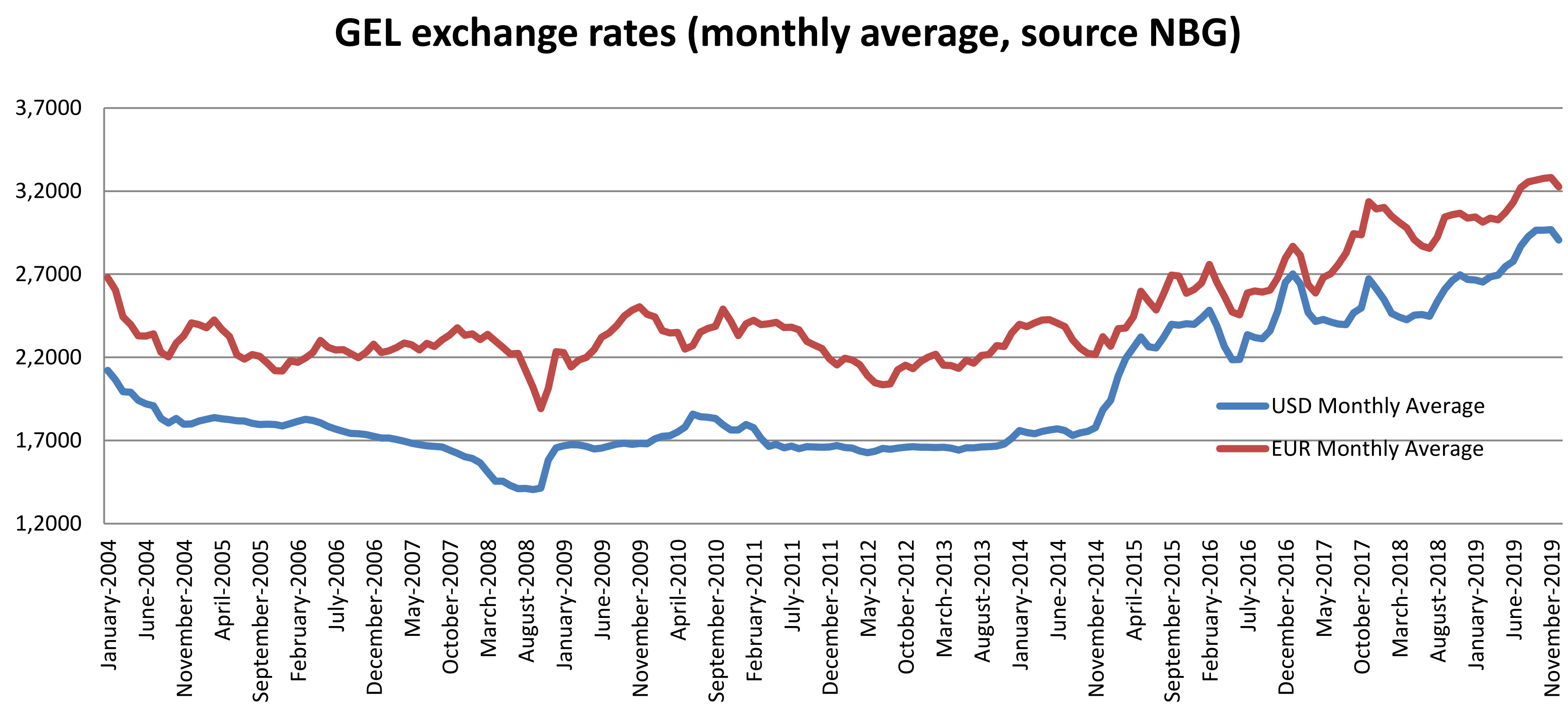
At that time, massive FDI inflows used to finance most of the current account deficit of the country (which was itself partly a consequence of such inflows). These inflows were nearly divided by three between 2007 and 2009, which is much more than what is currently anticipated in the WB baseline scenario which forecasts marginal decline. It took 7 years for them to recover their 2007 peak



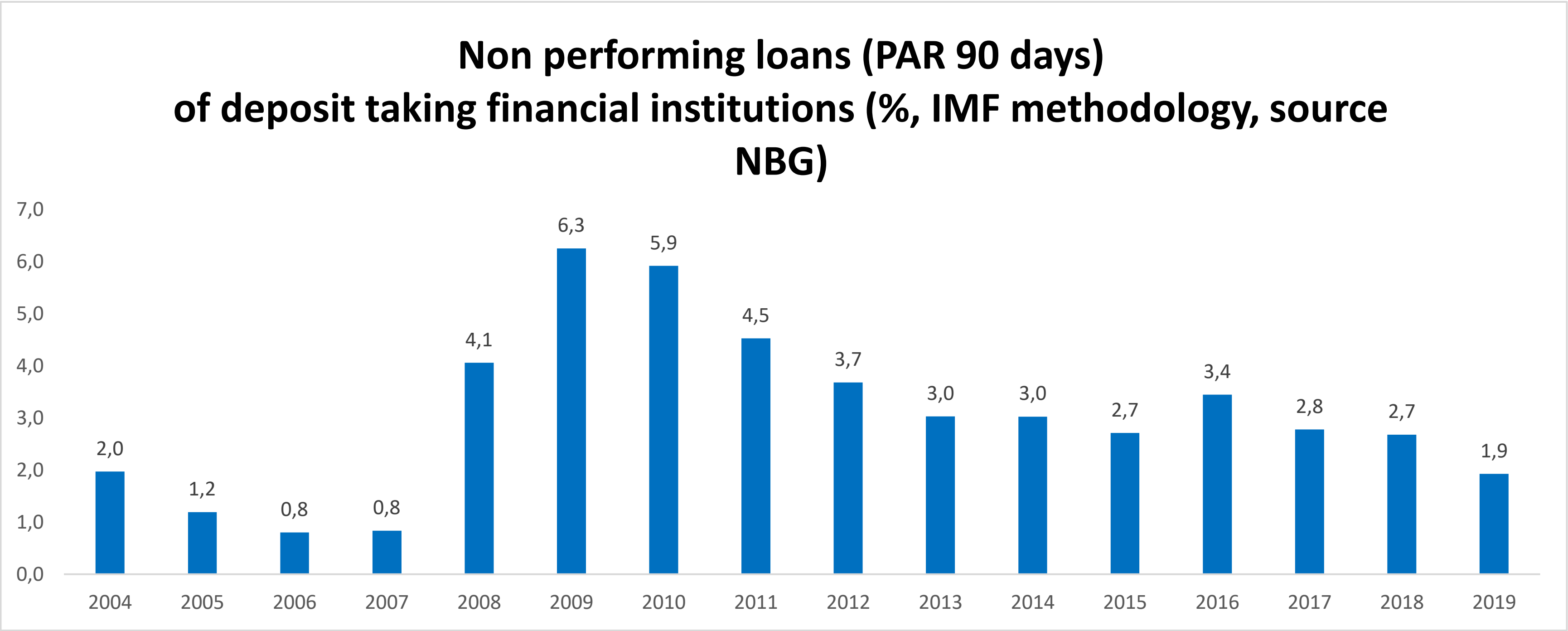
Gross capital formation was the main adjustment mechanism in the 2008 crisis. It contracted from 32.1% of GDP in 2007 to 13% in 2009. The steep contraction of investment led to a substantial decrease of the wide current account deficit, which however remained over 11% of GDP



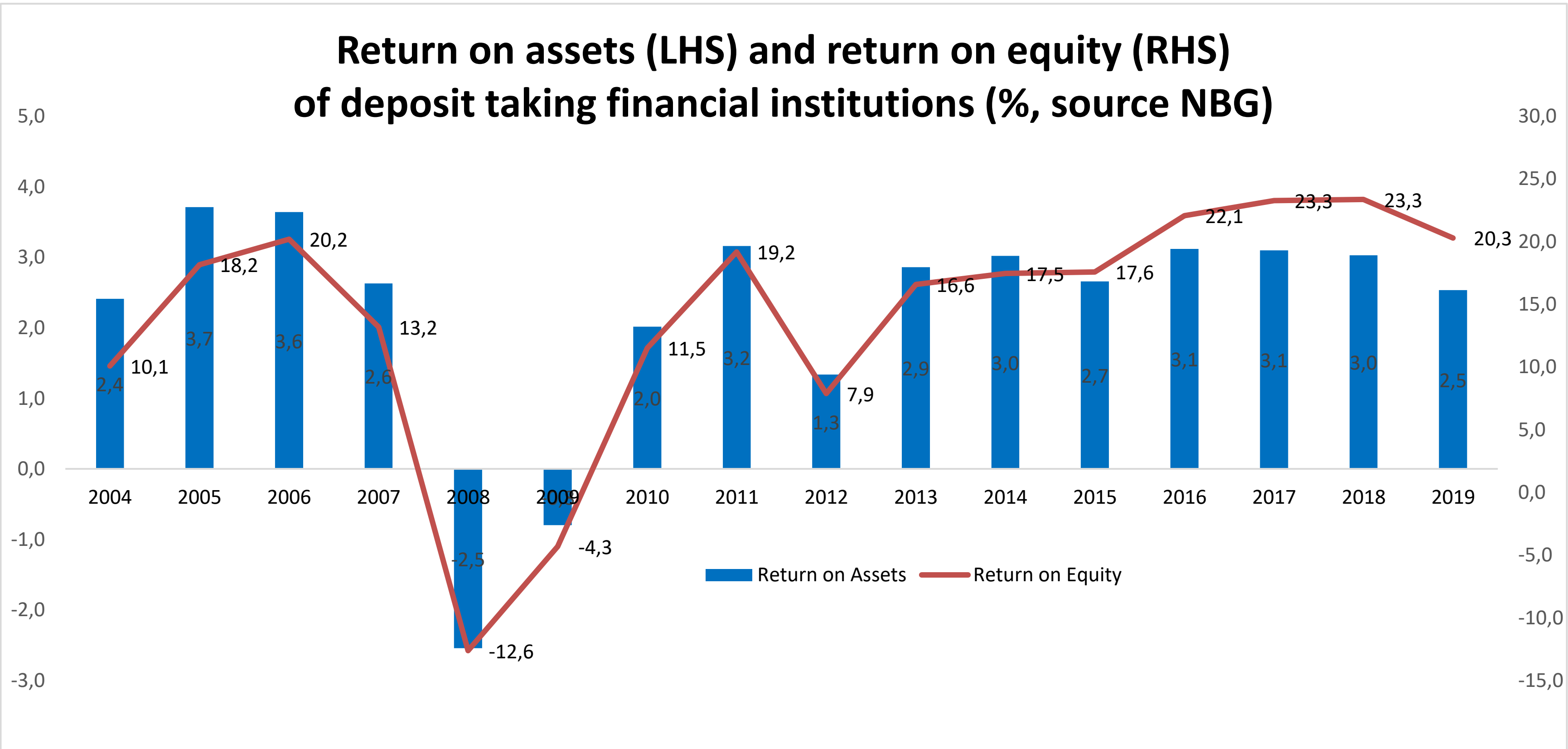
To cope with reduced inflows of FDI, NBG did not substantially adjust downwards the exchange rate in 2008. On the contrary it even fostered some initial appreciation prior to stabilizing. Until a new crisis in 2014 which impacted Georgian main trading oil-exporting partners and sources of remittances



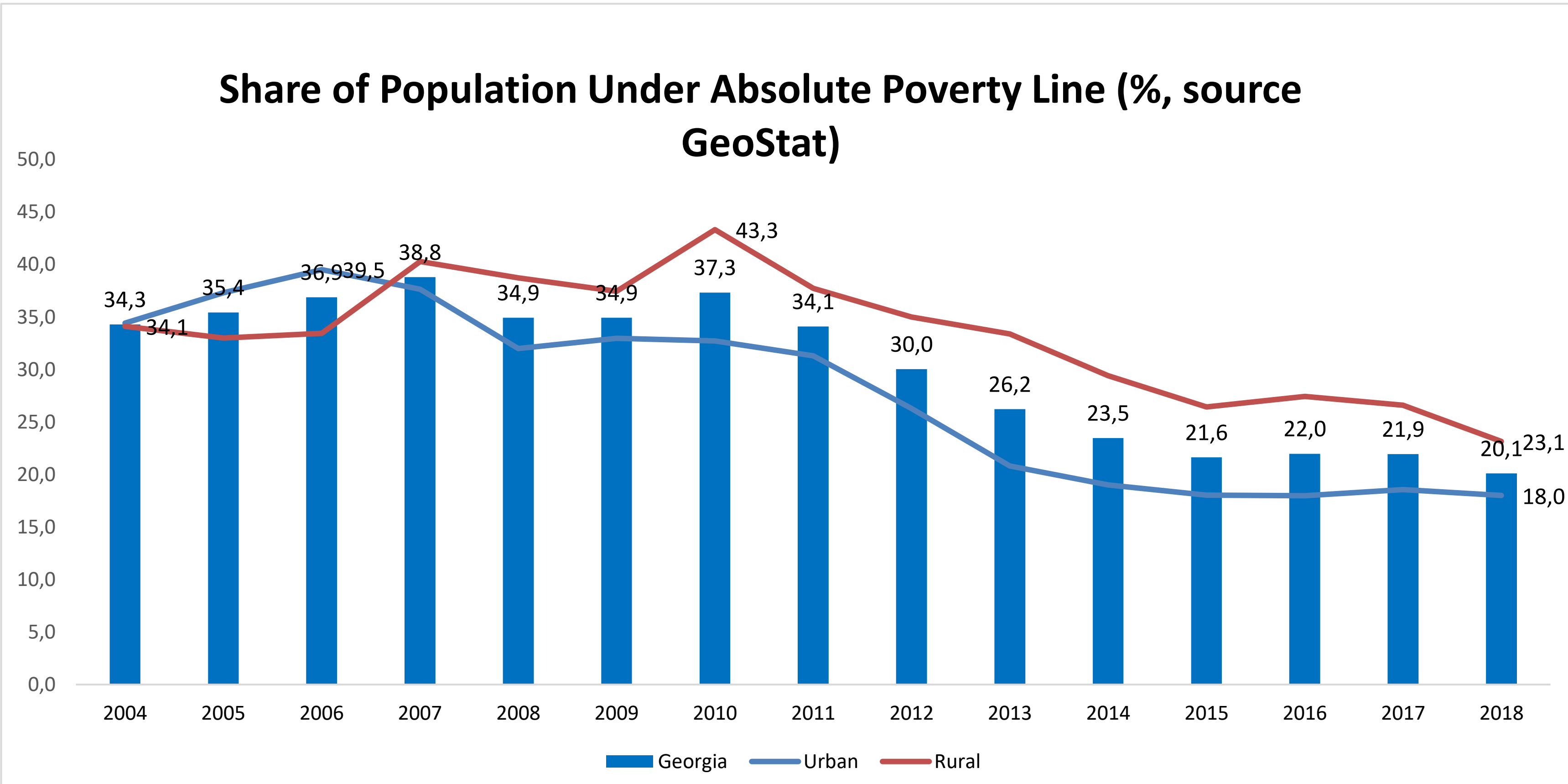
One of the main concerns of NBG was to avoid a systemic crisis in the banking sector which would have been generated by a steep devaluation as most loans were in foreign currency. Even without such devaluation NPL increased substantially but they did not reach the critical levels observed in many countries of the region after their post-2014 sharp devaluations. Then they progressively declined to reach their lowest point in 2019



Banks made heavy losses during two years. However, there was no panic among their creditors as IFIs such as EBRD stepped in to provide them with long term funding in foreign currency and acted as quasi lenders of last resort. The quick return of banks to profitability reflected their operational efficiency which has kept on improving during the last decade

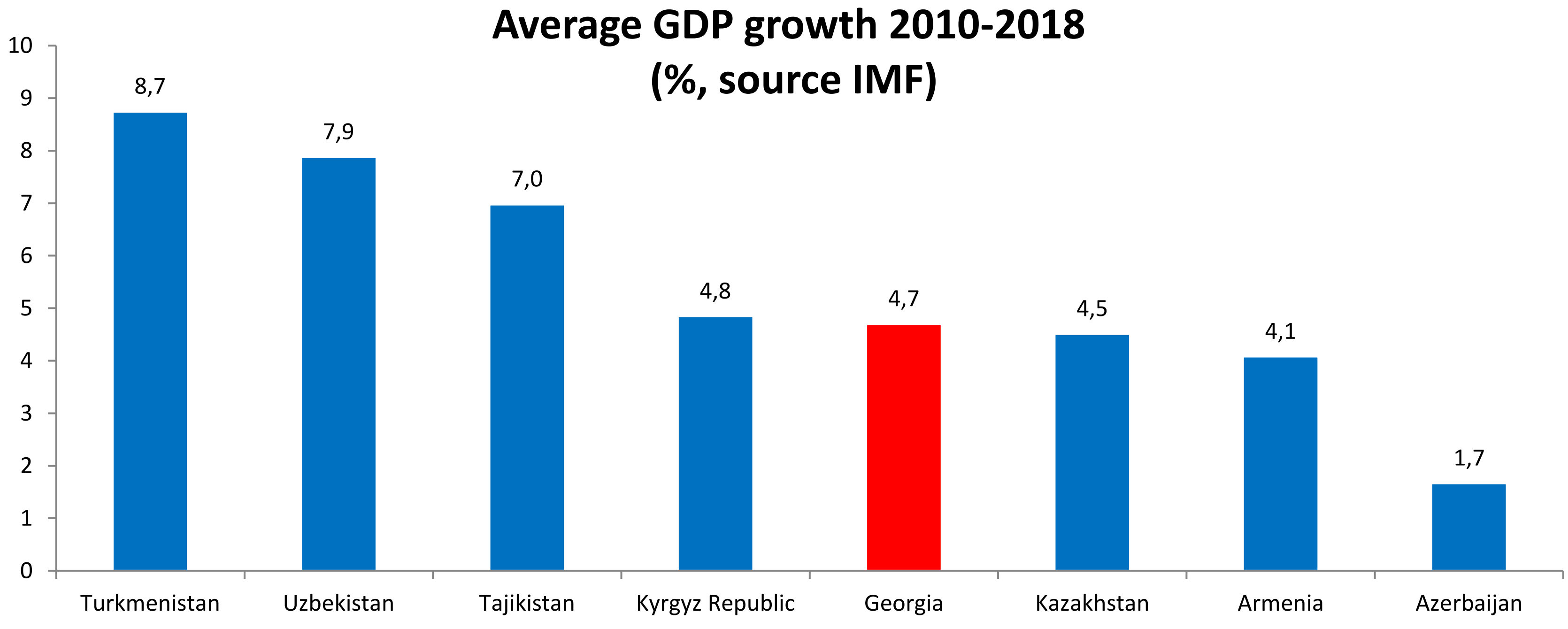


While the economic crisis had no impact on measured extreme poverty in urban areas, there was a big initial jump in measured indicators of poverty in rural areas. Until growth came back after a rather short period of time without any substantial change in the development model adopted after the Rose revolution

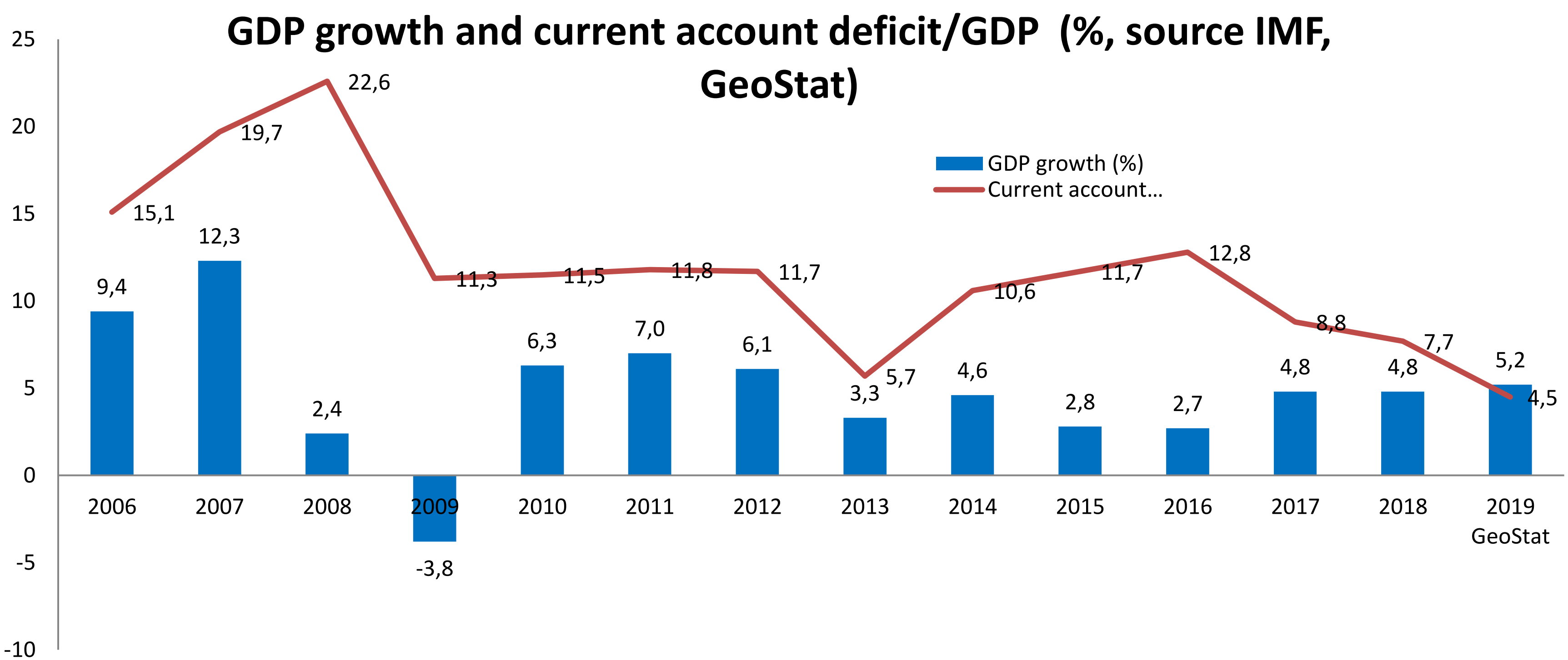


What is the state of the Georgian economy before Covid 19?

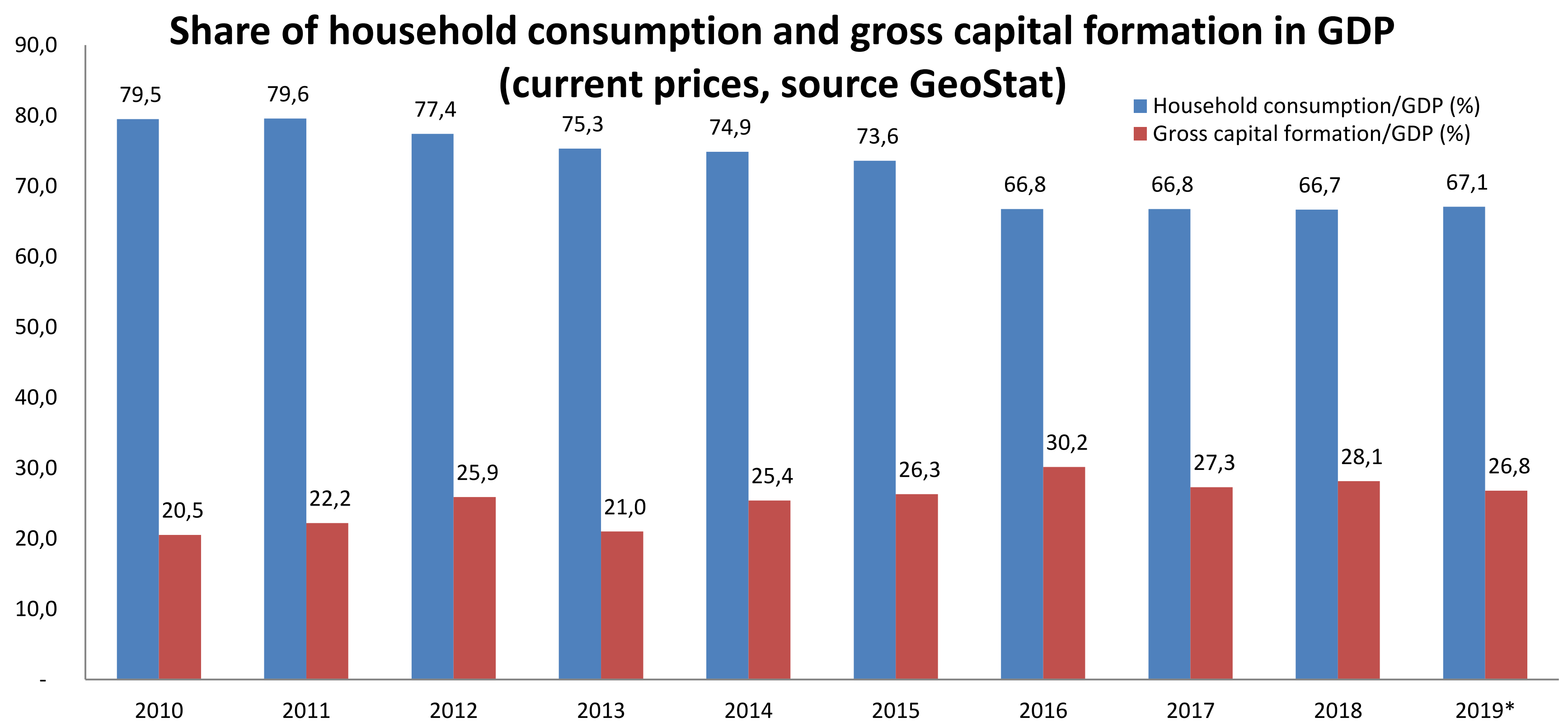
After the Rose Revolution of November 2003, Georgia implemented a libertarian programme of economic reforms that propelled it to the highest rankings of the WB/IFC *Doing Business Index.* However, as acknowledged by the 2018 WB systematic country diagnostic, *Georgia, from Reformer to Performer*, its economic performance in the last decade was not really outstanding, with rather moderate GDP growth compared to its neighbours and large external deficits



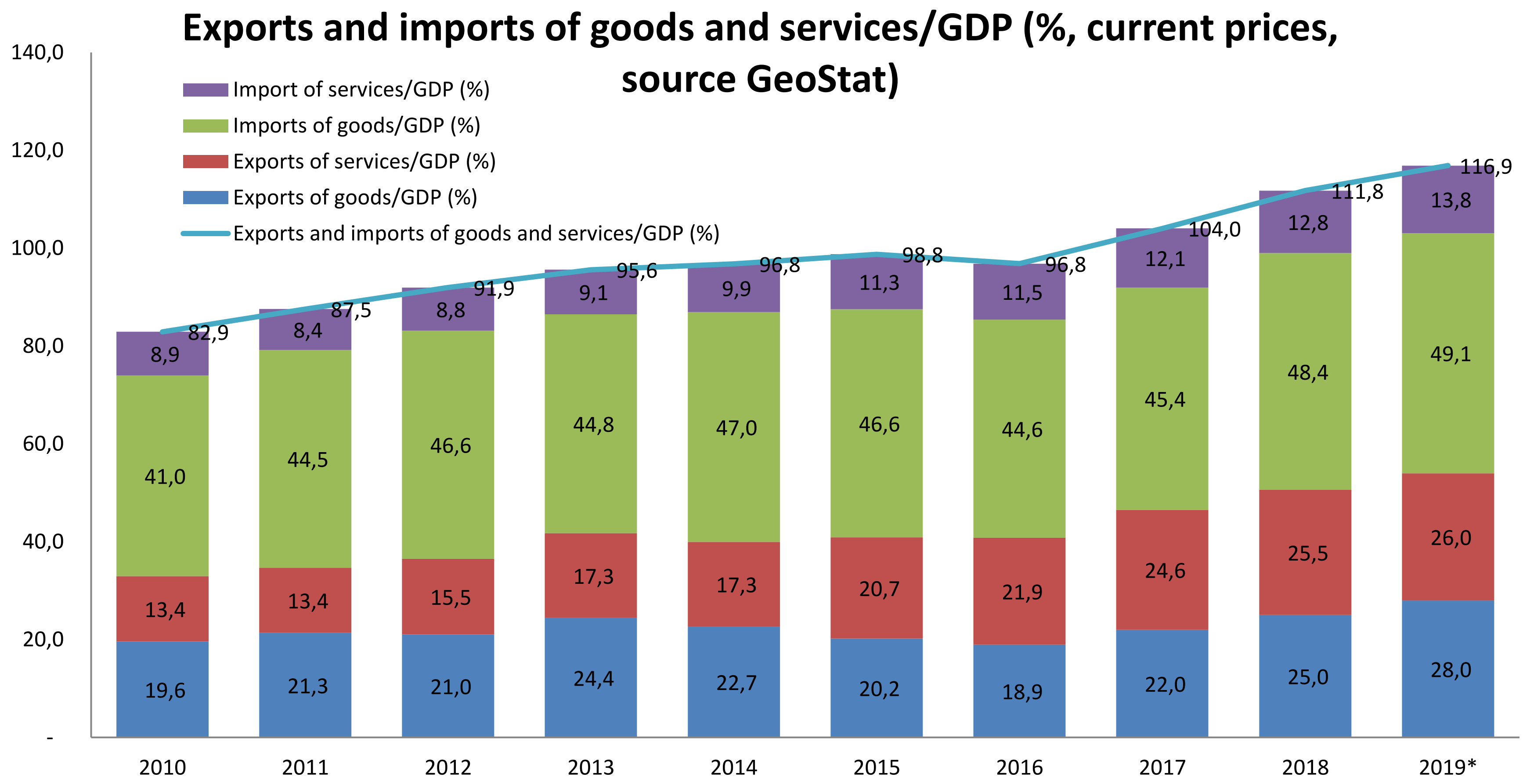
However, in 2019, Georgian macro-economic performance was one of the best since 2003. Georgia had one of the highest GDP growth per capita in the region, and a moderate fiscal deficit (2.1% of GDP) despite much increased public investment (7% of GDP). For the first time since the Rose revolution the current account deficit/GDP ratio (4.5%) was lower than GDP growth. Finally, structural reforms were beginning to really pay-off in macro-economic figures



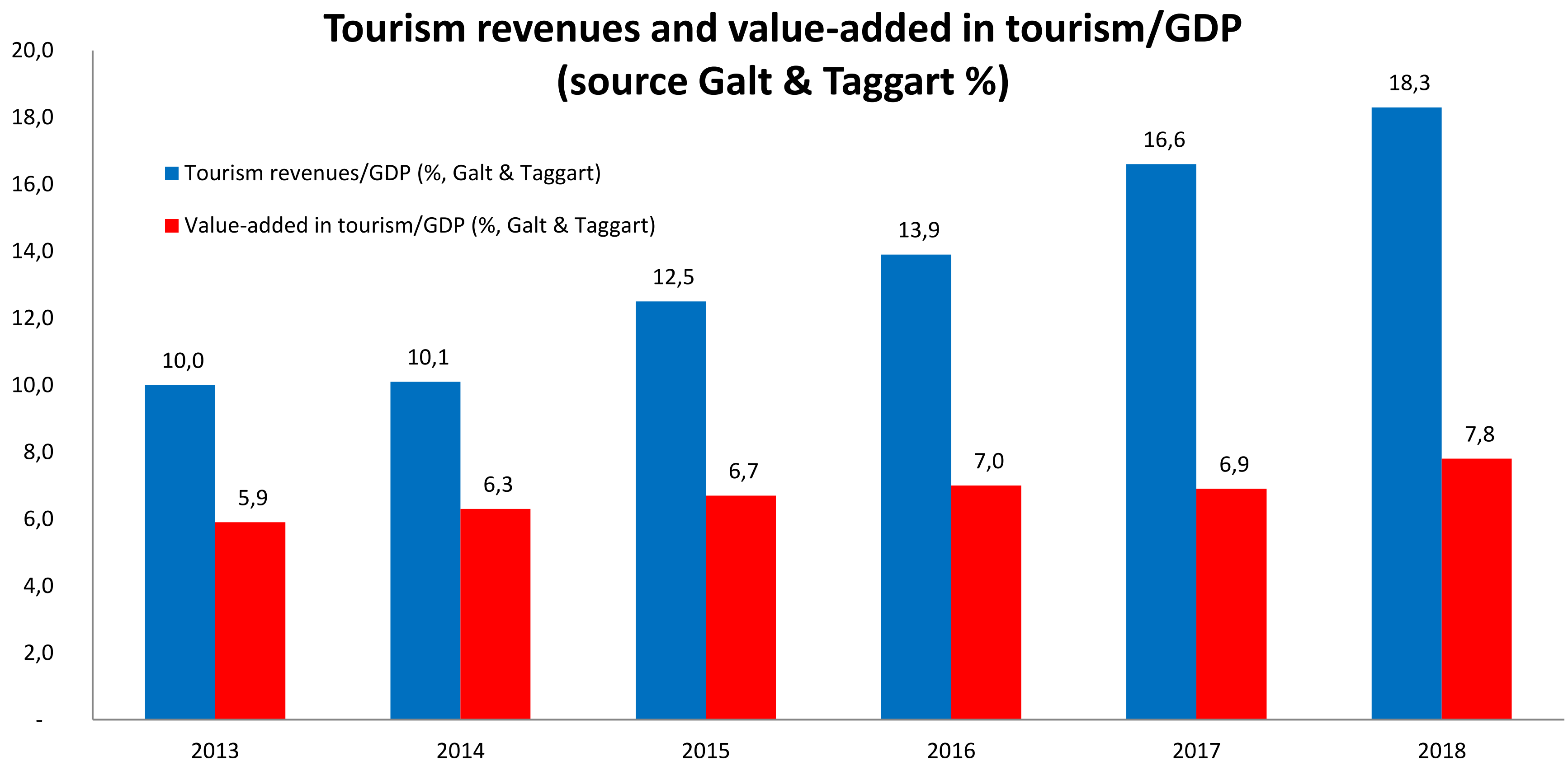
The progressive shift from consumption-led growth to supply-led growth is one explanation for Georgian better performance: During the last decade, household consumption declined from 79.5% of GDP to 67.1% of GDP while GCF increased from 20.5% to 26.8%. Government policies played a positive role in fostering this shift, which had a cost in terms of popularity



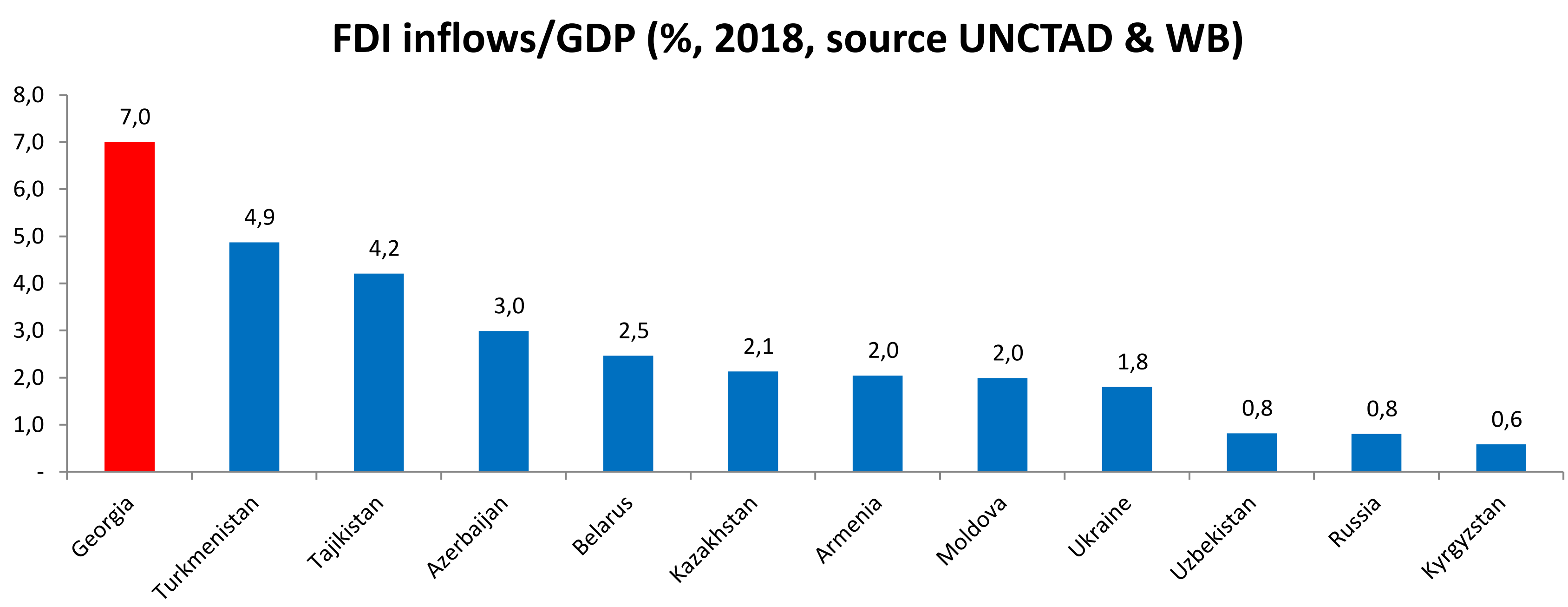
During that decade Georgia also became more global. Between 2010 and 2019, international exchange of goods and services increased from 83% of GDP to 117% of GDP. Georgia largely managed to become a regional transit hub for trade and its exports of services, boosted by tourism, reached 26% of GDP in 2019, nearly as much as its exports of goods



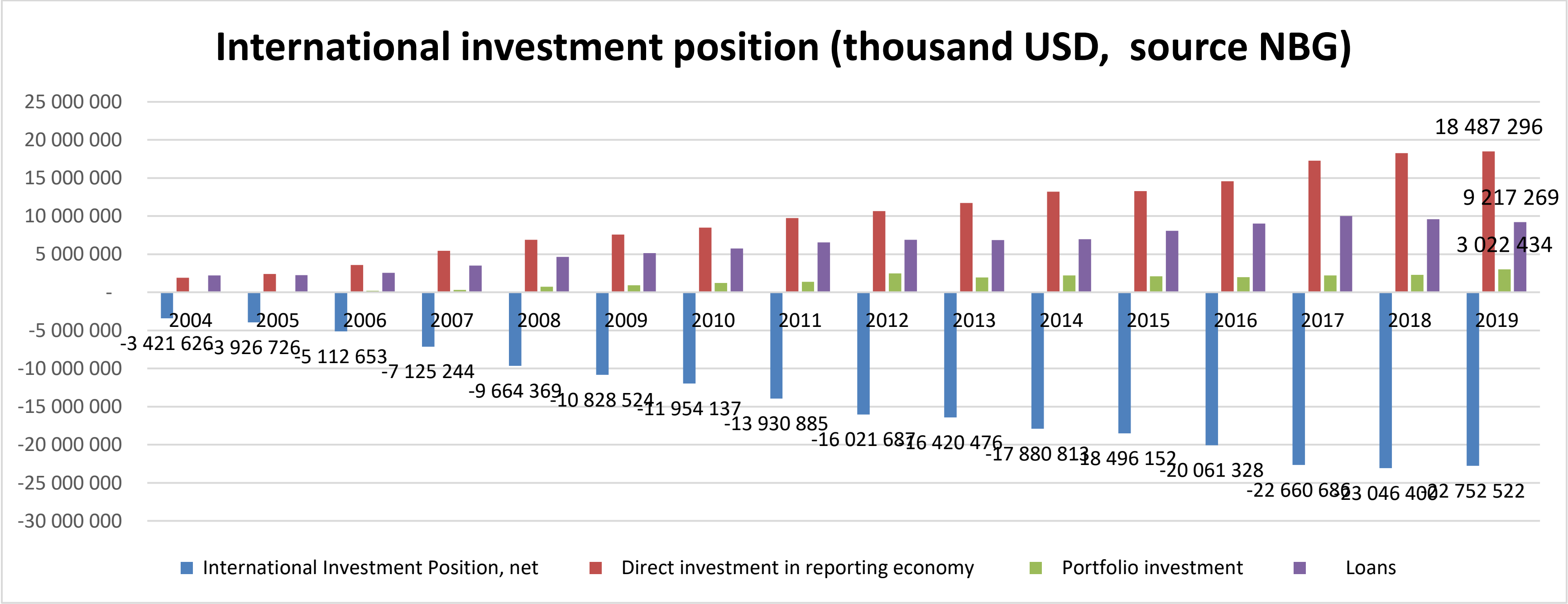
Tourism was a key contributor to exports of services. Its revenues accounted for 17% of GDP in 2019 according to GeoStat. However, the share of value-added in tourism in GDP was much lower as tourism very much relies on inputs provided by other sectors with large spill-overs (multiplier)



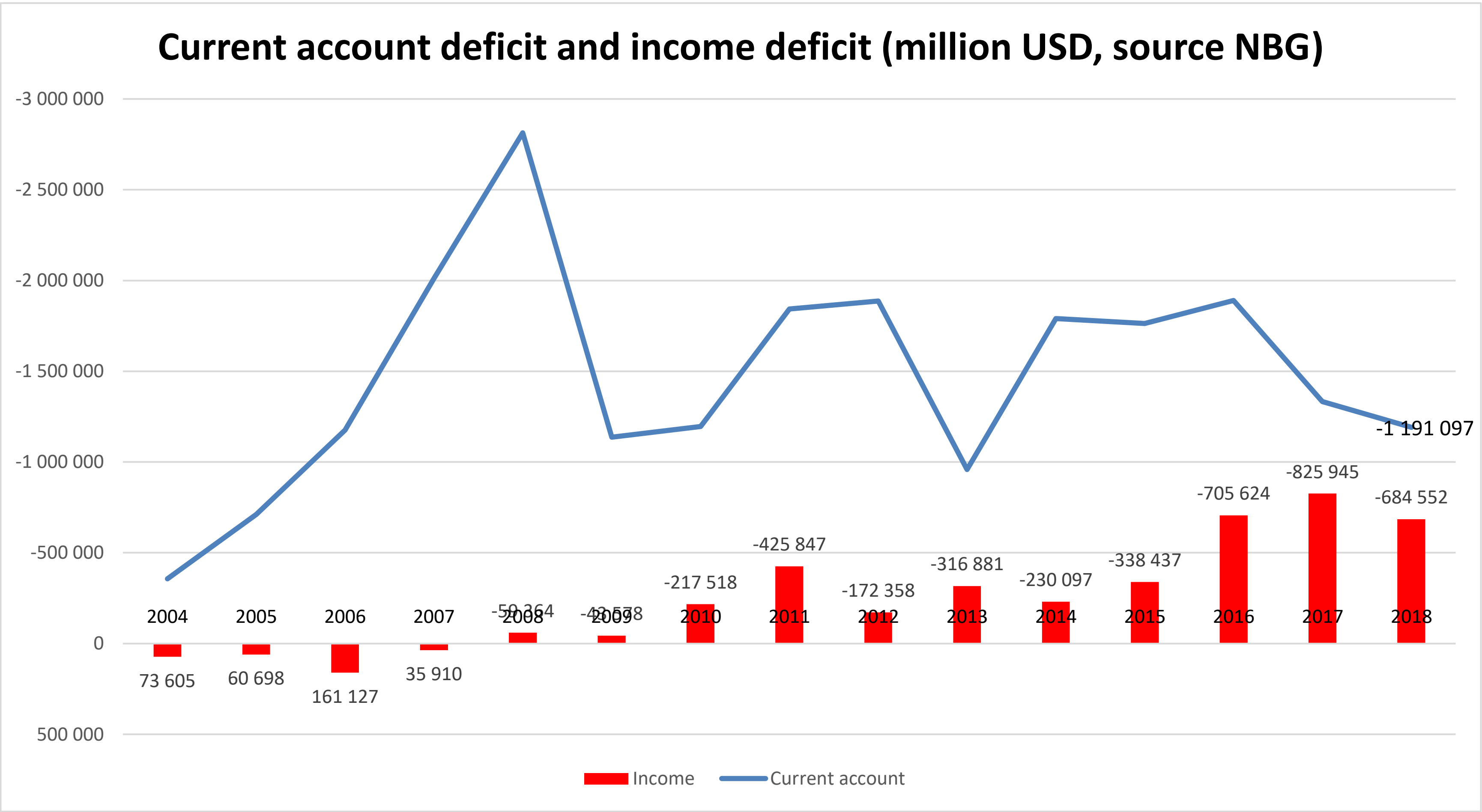
Thanks to its superior business environment, but also to its privileged access to the EU market through its Deep and Comprehensive Free Trade Area agreement and to China after its 2017 Free Trade Agreement, Georgia has kept on receiving much more FDI than CIS countries. In 2019, FDI inflows accounted for 7.2% of GDP according to GeoStat, the equivalent of one-fourth of gross capital formation



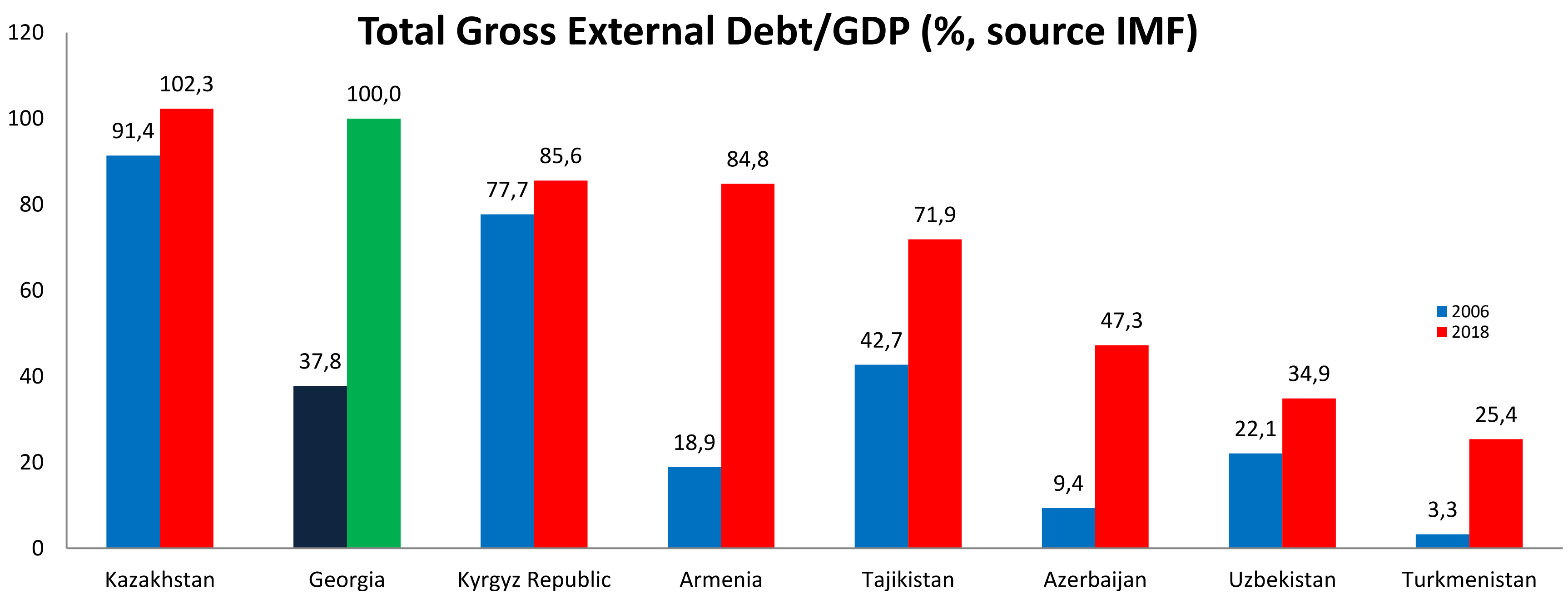
Except for inflation which remained a high 7% in 2019 mainly because of strongly increasing food prices (12.3%), the macro-economic evolution of Georgia was indeed quite good prior to Covid 19. It was assessed as such by S&P and Fitch which upgraded Georgian ratings by end-2019, even though Georgia is paying the price of two decades of accumulation of excessive current account deficits through a very large negative net international investment position (128% of GDP in 2019)



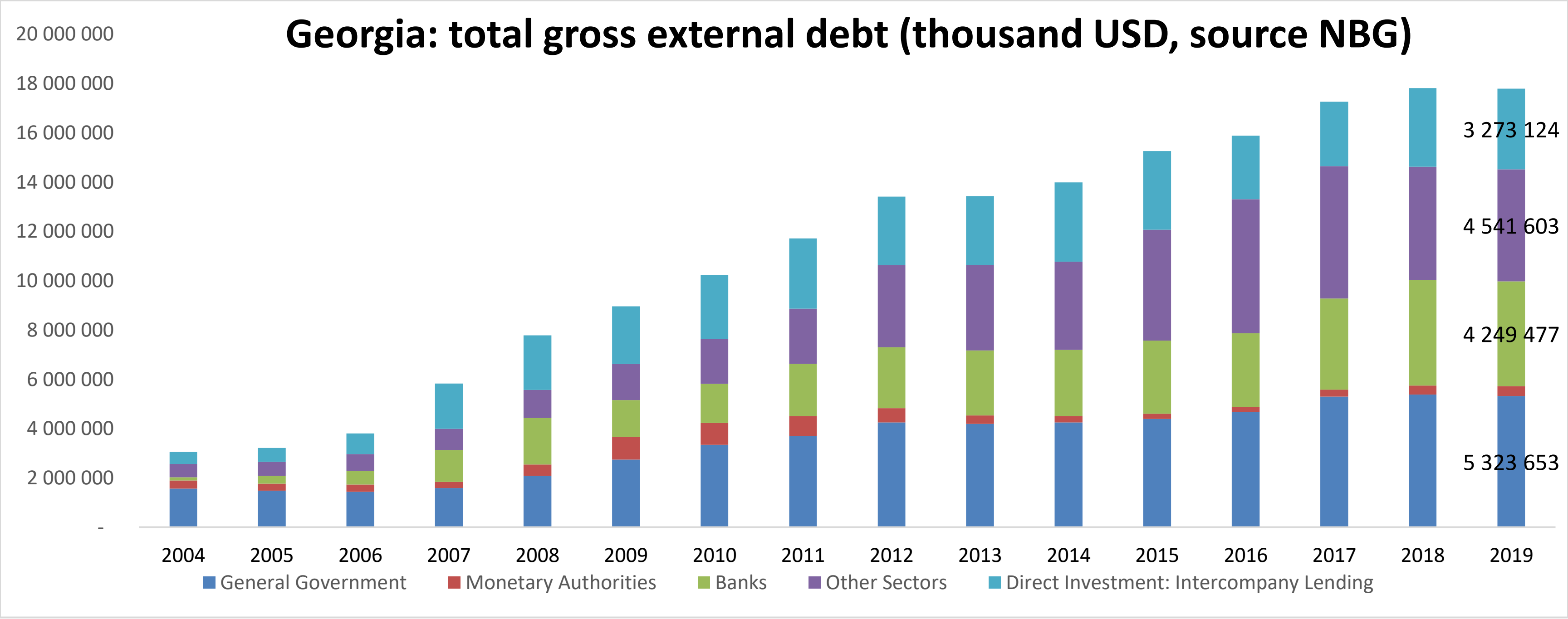
In 2018, more than half of the current account deficit was already linked to the income deficit linked to this negative investment position despite very low interest rates worldwide



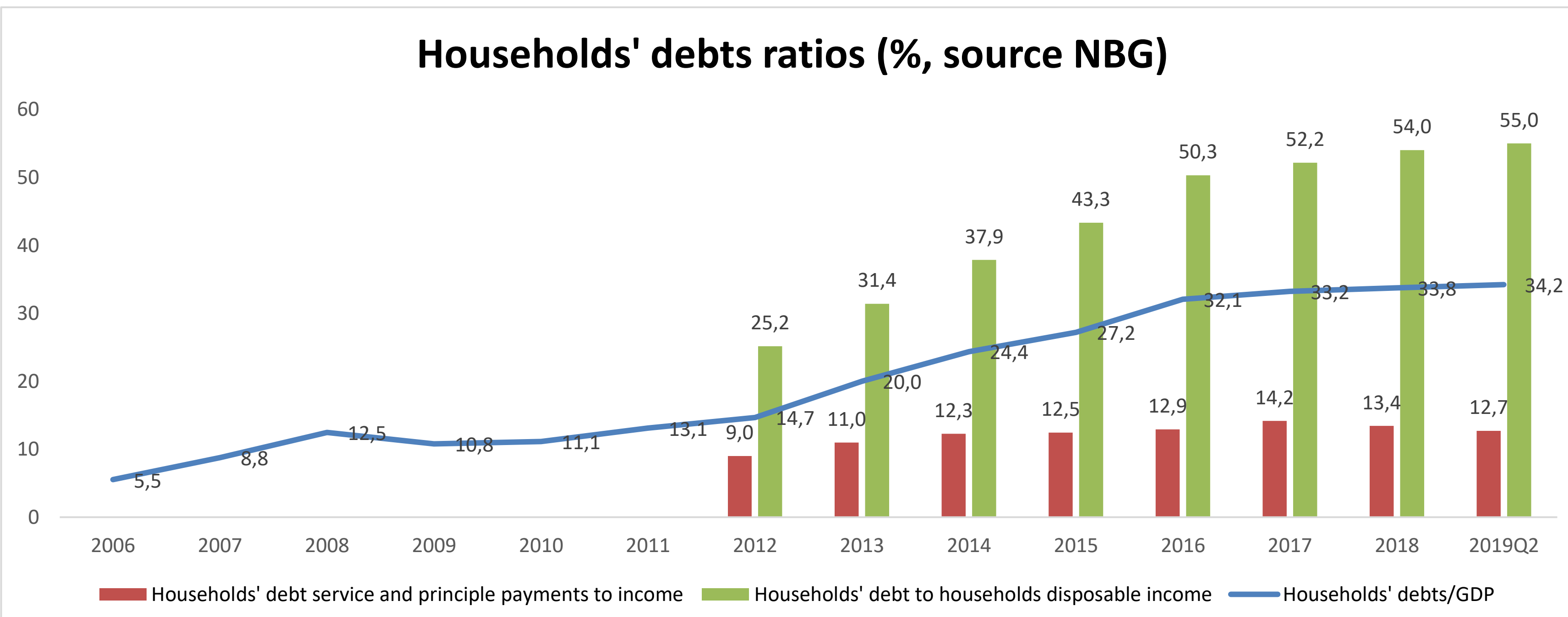
Even though most current account deficits of the country since the Rose revolution were paid for by FDI inflows, Georgian external indebtedness is also now quite high. Indeed, it is the highest among CIS countries in net terms as oil-exporting countries such as Kazakhstan or Azerbaijan have large sovereign funds they can tap in times of crisis. And contrary to poorer countries in Central Asia, only a rather small part of Georgian external debt is concessional as its international creditors are mainly private



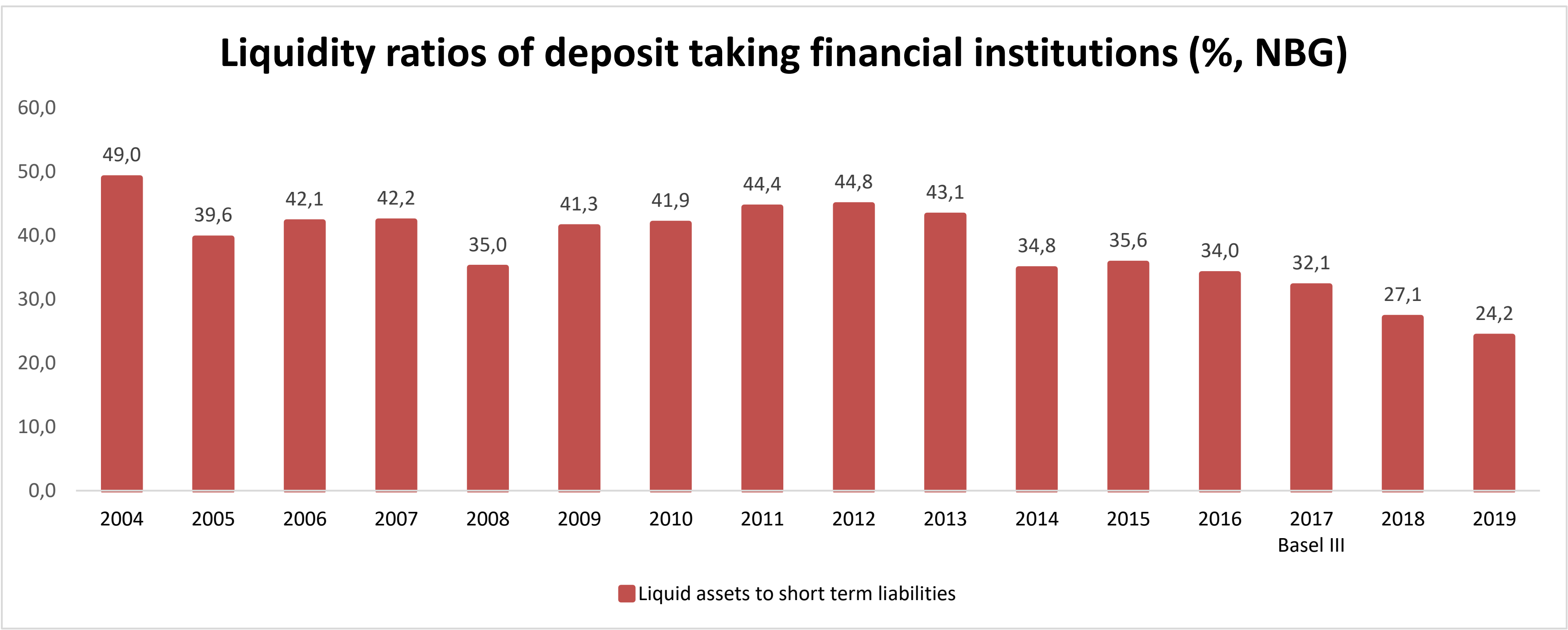
A small faction (30%) of the external debt is with Government whose total debt is a moderate 48% of GDP. Intercompany lending linked to FDI accounts for 18% of total. Half of the external debt is with banks (24%), and the corporate sector (26%). The fact that external debt is mostly private does not mean it is not an issue. Some acute emerging market debt crises have been linked in the past to private external indebtedness (Chile in 1982, South-East Asia and Korea in 1997). During these crises, banks and corporates borrowing from volatile portfolio investors were particularly impacted



Banks have largely borrowed abroad to finance credits to households whose share in GDP has tripled since 2008. Despite preventive measures adopted in January 2019 by NBG, many households were already over-indebted by international standards prior to the crisis. In its *2019 Financial Stability Report*, NBG was stating "The vulnerability of the household sector to changes in economic circumstances in Georgia is particularly high". And "In the case of the moderate risk scenario, which assumes an exchange rate depreciation by 15 percent, an increase in the base interest rate by 3 percentage points and a decline in employment by 2 percent, the share of over-indebted borrowers goes up to 50 percent". Needless to say we are no more in a moderate scenario

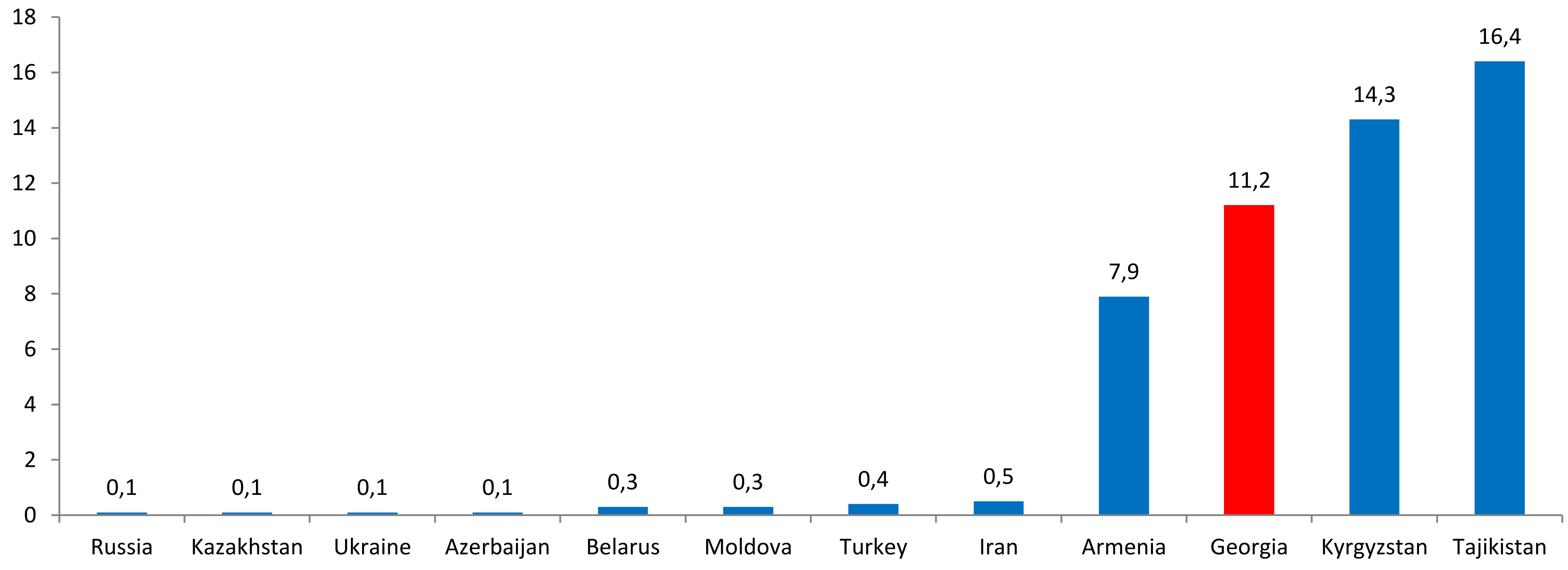


Sure, banks had robust Capital Adequacy Ratios (19.5% in December 2019 against 16.0% in 2007) prior to Covid 19 and their management standards were better than in 2008, with no hidden dead assets. But there is no way their portfolios will not be impacted if the macro-financial risks highlighted by NBG in 2019 materialize. And on their liability side, Georgian banks are also more fragile than during the crisis of 2008 with liquid assets covering only 24% of their short-term liabilities by-end 2019 against 42% in 2008

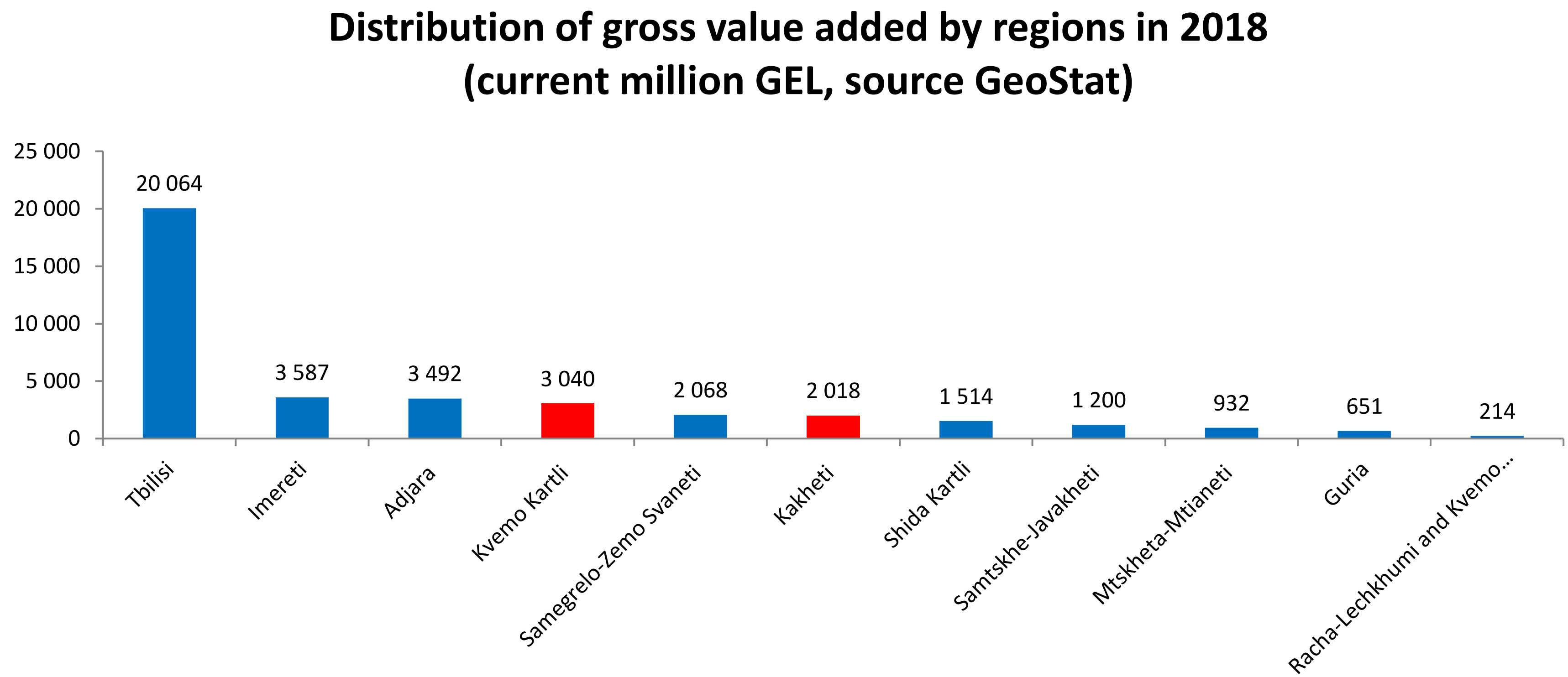


Finally, even though the performance of the Georgian economy was rather positive at macro level prior to Covid 19, there were many remaining structural failures prior to the crisis. Because of insufficient job creations, low tax rates for the rich and the corporate sector, and the absence of a solid social safety net, inequality was high, with high GINI coefficients. Too large a part of the population remained in extreme poverty

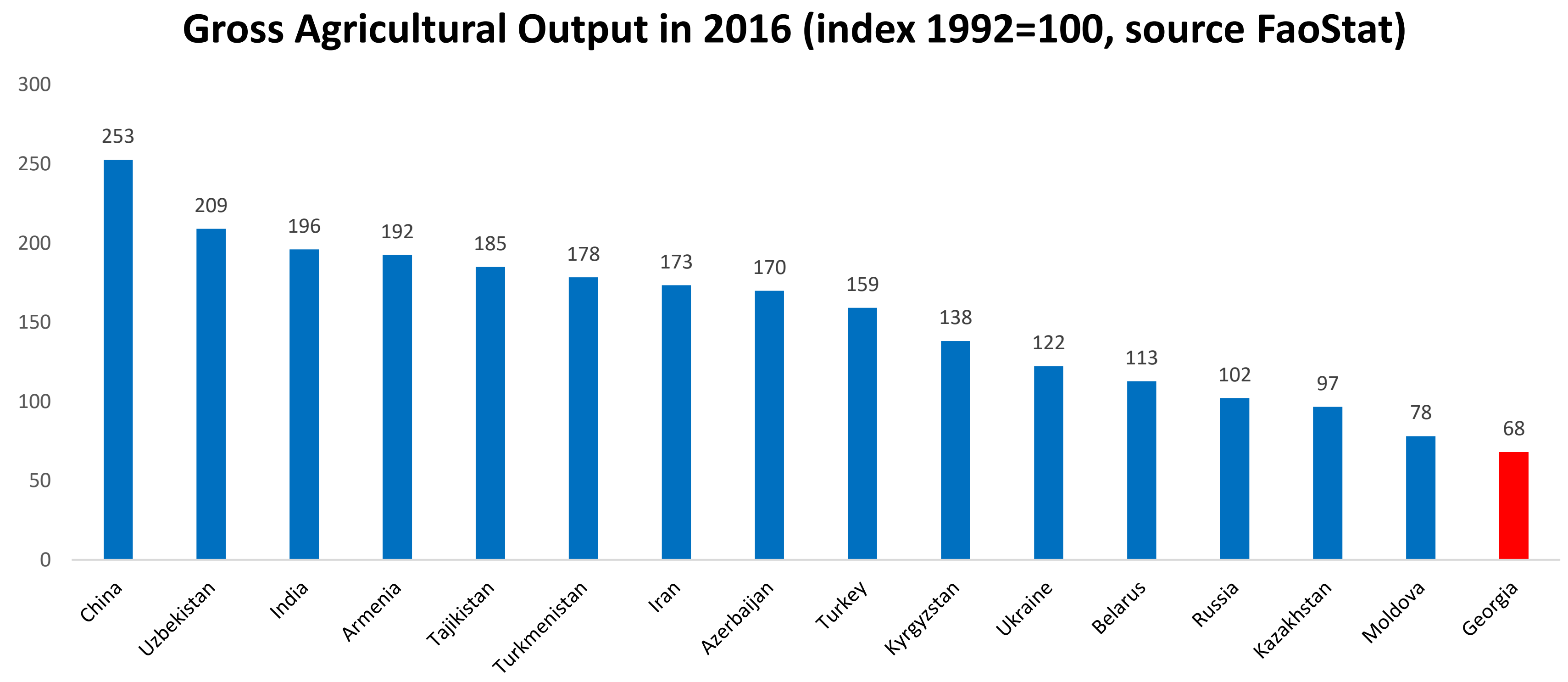
Working poor at PPP USD 3.10 a day
(% of total employment, 2018, source UNDP)



Inequality was not only social, it was also geographic. With “only” 31% of the Georgian population over 15 years and 24% of employment (but 40% of formal hired employment), Tbilisi generated in 2018 52% of total gross value-added of the country. 74% of bank loans were given in Tbilisi at end-2019



Poverty was particularly high in rural areas (23.1% of the rural population remained in 2018 under the Absolute Poverty Line), mainly because of the poor performance of agriculture since the end of FSU and the lack of other job opportunities in the regions



Expected immediate impact of Covid 19: a SWT/O analysis

Strengths

- The Covid crisis is not the first recent crisis for Georgia. Georgian authorities managed to deal well with the 2008 crisis linked to the war and with the post-2014 crisis which impacted its major regional oil-exporting trading partners
- Prior to Covid 19, Georgian economy was on the best track at macro-economic level, with no major imbalance, since the Rose revolution
- The quality of Georgian banking regulation and the efficiency of banks are unparalleled in the region. Georgia had the lowest share of problem loans in the region prior to Covid 19 and its banks have the operational tools to deal with a crisis
- After months of tensions, there has been positive inter-party dialog for the organization of next parliamentary elections. It has been highlighted by Georgian international partners as a real victory for democracy. I ensures easier access to international support which is already being mobilized by GoG with full support from opposition
- GoG has managed to remarkably deal with the Covid pandemia at this stage and won plaudits from international observers
- GoG has taken effective short term emergency economic measures to deal with the crisis including controlled and limited devaluation of the GEL
- Because of its low public debt, GoG can enter into large scale contra-cyclical measures without putting at risk macro-economic equilibrium on the long range
- GoG has substantial margin for maneuver for post-crisis increase of its revenues with for instance more progressive taxation as in the EU

Weaknesses

- Georgia is much more exposed to international trade of good and services and to its global and regional contraction than a decade ago.
- Georgia's dependency on the volatile oil-driven Russia and Azerbaijan increased during the last decade. They absorbed 26.4% of Georgian exports in 2019 against 15.6% in 2008 (ITC)
- Because of its large pull effect on other sectors, including construction, the contraction of tourism has an impact which goes much beyond its share in GDP
- Georgia remains heavily dependent on FDI inflows as well as remittances to balance its external books
- Georgia is the most heavily indebted FSU country in net terms, and its net negative international investment position is the biggest vis-à-vis GDP
- Georgia has a highly leveraged economy with a very high ratio of "consolidated" credit to the private sector/GDP. Local credit accounted in 2019 for 63% of GDP and credit to non financial institutions provided from abroad an additional 46% of GDP (NBG). These are ratios usually found in most advanced economies
- There has been excessive growth of credit to households during the last decade with levels/GDP much higher than in countries with similar levels of development
- According to NBG, mortgage and personal lending represented 55% of total bank lending in 2019. In 2018, the share of mortgage loans issued with a Payment to Income (PTI) above 50% amounted to almost 30% of all mortgage loans
- 55% of total loans at end-2019 of the local banking sector were in foreign currency (NBG). Nearly all loans provided from abroad to the corporate sector were also in foreign currency. A large-scale devaluation cannot be an option as it would generate insolvency at macro level

Threats

- Until the world finds a way to eliminate Covid 19 through vaccination or systematic eradication, international transport will remain constrained globally. Cross-border tourism will massively suffer for probably at least one year
- Georgia has trade surpluses only in sectors dependent on commodity-driven Russia (55% for beverages, ITC) or for mineral commodities. The disruption of the global economy will impact those most. Prices for imported oil have abruptly decreased but could partly rebound once the big producers (Saudi Arabia, Russia, the US) find an agreement on market share. In any case, remittances are correlated with oil prices. Therefore low oil prices are not of much interest for Georgia
- Because of its large negative investment position and external debt, Georgia is expected to suffer much from the global contraction in cross-border private financial flows. Private financial flows (commercial banks, portfolio investors) will initially focus on safest havens
- The combination of decreased household income and excessively large indebtedness of households prior to the crisis may translate into strong increase of NPLs. The banking sector would be under stress and would require public support. NBG would not be able to provide large emergency liquidity in GEL as it would generate intense pressure on GEL, and as large scale devaluation would create a systemic solvency shock as shown in many countries of the region after 2014
- NBG cannot obviously play the role of lender of last resort in foreign currency which makes most of banking assets
- The corporate sector will suffer from the combination of reduced income and reduced financing sources, especially highly leveraged companies which used to borrow abroad from volatile portfolio investors. The highly leverage real estate sector might be particularly hard hit in the near future and after fast growth of the recent past a construction glut could be anticipated even though there was no sign of a real estate bubble prior to the crisis

Opportunities

- GoG has shown impressive capacity to act since the beginning of the crisis
- Beyond emergency measures such as the deferment of taxes for the most exposed sectors and 3-month deferment of repayment of loans, GoG is in active negotiation with its international partners to implement additional measures which could in particular finance some kind of safety net during the period of confinement. There is strong national consensus in this field
- Georgia is a small economy (1% of Russina GDP), remains a democratic reference in FSU and has a superior business environment. IFIs and development partners will not let it down and will provide external support as much as needed
- Because of its limited indebtedness, GoG has large fiscal margin of maneuver to implement contra-cyclic measures through inter alia acceleration of its program of investment in infrastructure (roads, irrigation systems, green energy infrastructure, etc.)
- Because 83% of financial assets are in three banks, GoG support to the financial sector can be easily put in place, technically, in case of need. The risk of moral hazard experienced in 2008 could be reduced by fair measures such as for instance partial and temporary nationalization of those banks which are now mainly owned by foreign portfolio investors. Such measures are already considered for strategic firms in the EU. They would be legitimate as the excessive share of credit to households in banks' portfolios has been the result of their own decisions despite regular warnings from NBG
- The crisis is an excellent opportunity for Georgia to rethink its economic model to make it fairer and more resilient and to build political consensus on a new generation of economic reforms complementing what has already been achieved. This opportunity can create many opportunities

Some opportunities making the Crisis an Opportunity

Short term

- Local tourism: It was on the rise prior to Covid 19 and can be promoted further as a short-term support tool, e.g. through vouchers distributed among civil servants for vacations in Georgian tourism facilities. Similar measures are already considered in Croatia according to the WB
- If there construction is in crisis, GoG could launch a large program of low-cost housing in the regions and in Tbilisi, with a systematic green urban planning approach. There is anyway big pent-up demand for such affordable housing

Medium term

- Healthcare: As Georgia has proven its technical professionalism in the sanitary management of the crisis, it could move ahead and attract FDI to build a solid base of medical tourism as it is already the case in Turkey, with a focus on its Silk Road Russian-speaking hinterland. It could be associated to spa tourism in the regions
- Pharmaceuticals: There were already positive developments in the sector. The crisis showed to the EU how dangerous it is to rely on distant countries for pharmaceuticals and other products linked to medicine. EU countries will probably introduce new regulations to repatriate much production in Europe. Georgia EU-associate could be an ideal low cost candidate for this relocation

Some opportunities making the crisis an opportunity

- Manufacturing: Apart from pharmaceuticals, many EU companies will try to decrease their excessive dependence on China and relocate part of their production in low-cost EU-linked countries in their neighborhood. Thanks to its unparalleled access to both the EU and China, Georgia is well placed to take advantage of this process
- Higher education: There is a chance to divert more public and private resources towards higher education, and to turn it into another service asset as for instance in Northern Cyprus where it generates 10% of GDP. There are already many foreign students in some universities, for instance Indian students in the Tbilisi Medical University
- Communications: Their role is very much boosted by the crisis. Thanks to favorable regulation and low taxation, distance services can enable further speedy development of this sector, especially if Government rolls out an e-economy supporting program
- Banking: Even though their portfolios will initially suffer from the crisis, TBC and BoG will remain technical leaders and will be able to keep on developing their investments in the Silk Road region once the crisis will be overcome, making Tbilisi a regional financial hub

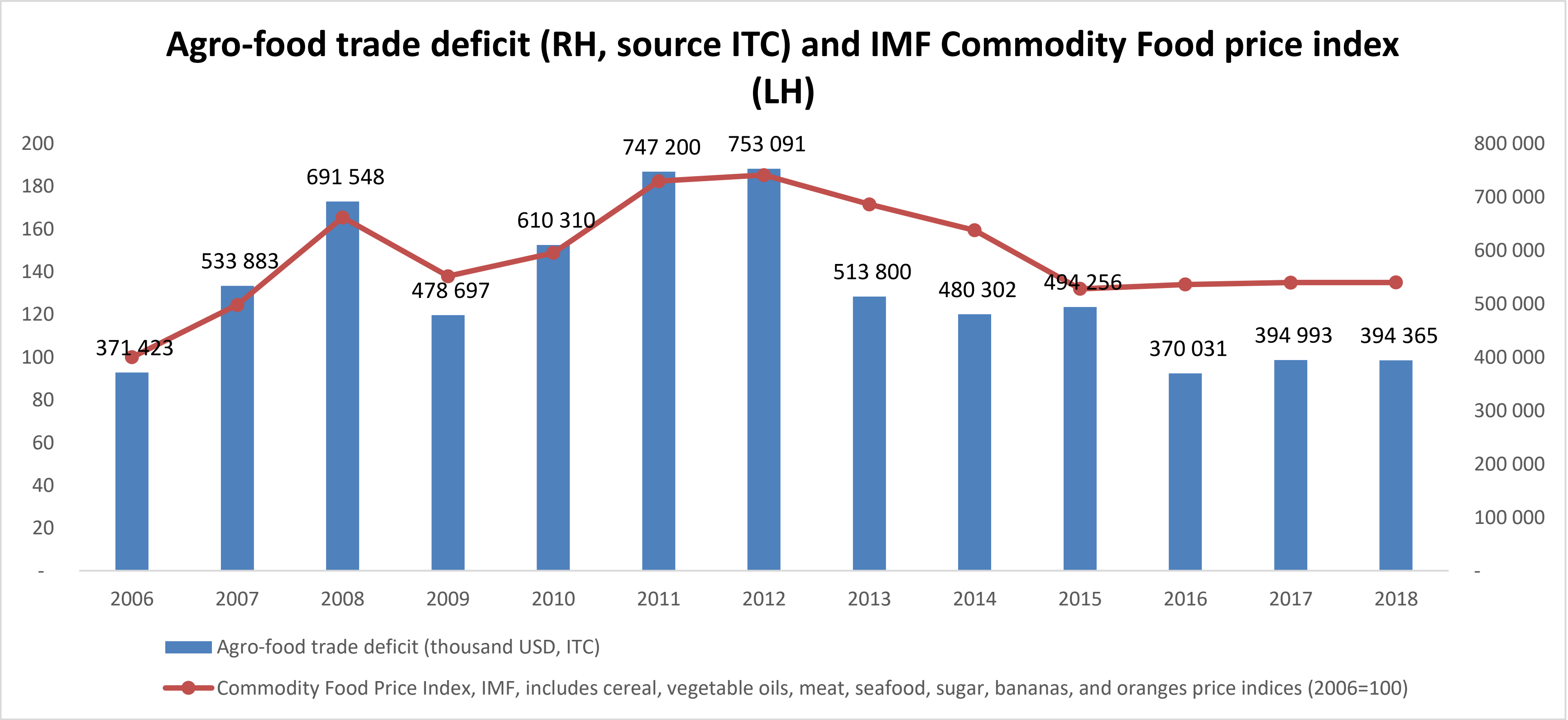
Long term

- E-commerce trading platform: Georgia is already a trading platform, for instance for second-hand cars. It could become a e-trading platform thanks to the superior efficiency of its banking sector and to improved communication infrastructure as well as transport logistics
- Green economy – probably together with the e-commerce it can become a cornerstone of a new economic paradigm including new agriculture policy (sustainable)

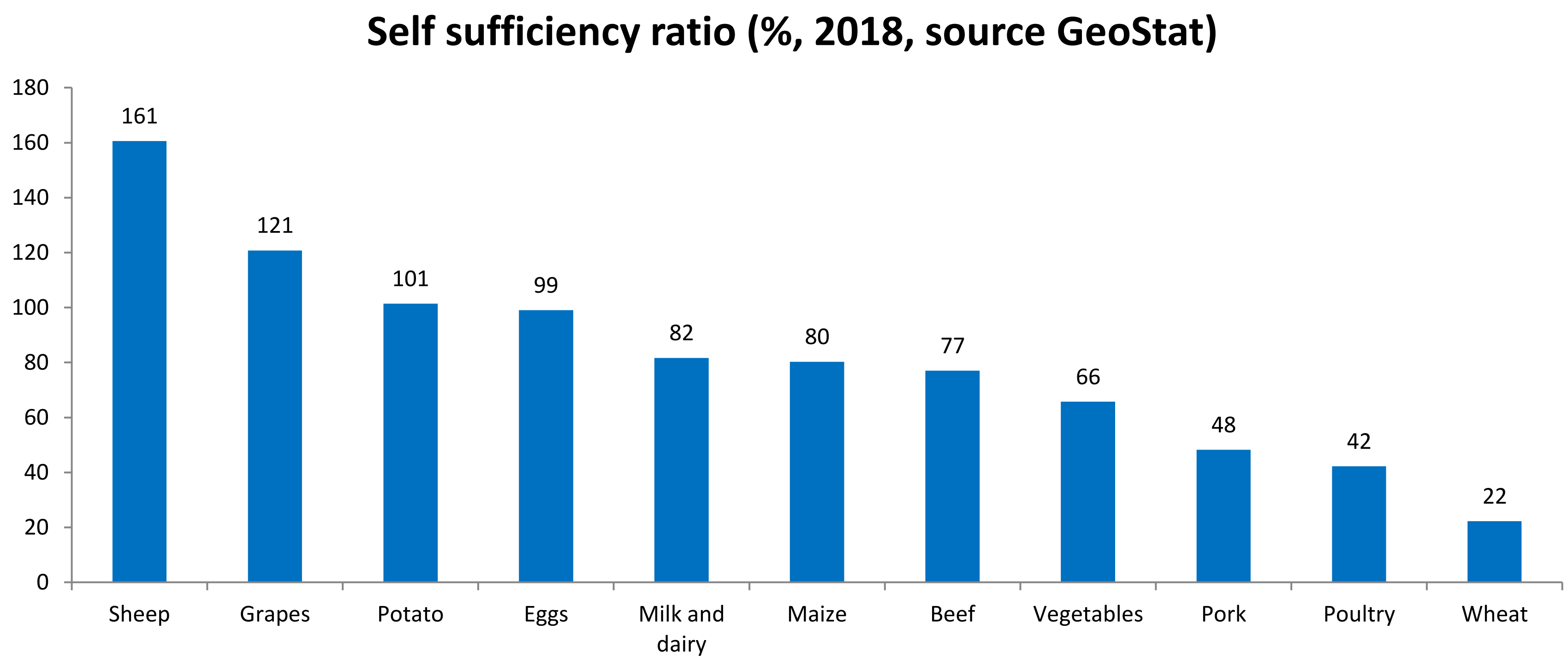
The biggest opportunity from Covid 19 crisis: setting-up a new agrarian policy

Current situation in the agro sector of Georgia

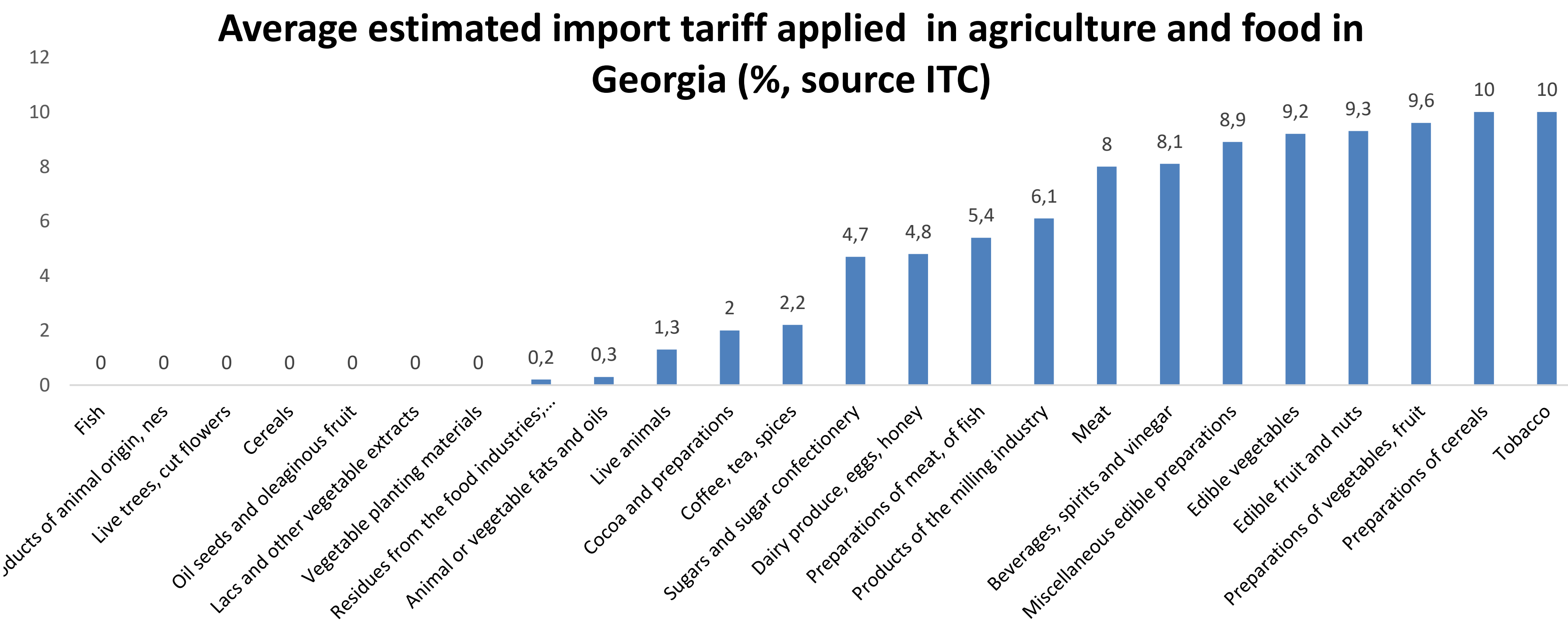
Thanks to excellent soils and climate, Georgia was a large net exporter of agro-food in FSU, providing 10% of inter-republic trade for food, and its food exports covered its imports by a factor of 1.7. Even though its population fell by 24% between 1994 and 2019 (GeoStat), it then became a large net importer. The reduction of its agro-food trade deficit since 2012 first reflects lower global food prices



Georgia massively depends on imported commodities to feed itself. In 2019, 82% of imports of cereals came from Russia and 10% from Kazakhstan (ITC). The recent decision of the Eurasian Economic Union to ban exports of grains motivated by Covid 19 shows how dangerous is this extreme dependency for Georgian national Food security

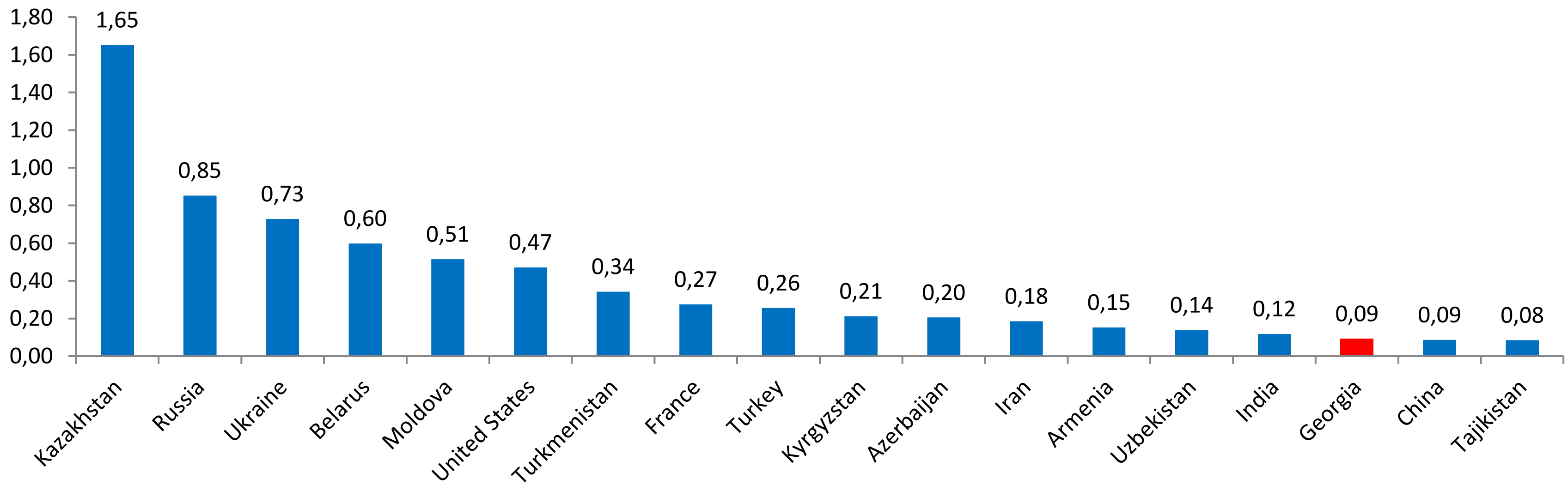


Georgian libertarian policy-makers two decades ago decided to enter WTO with near zero tariff protection of agriculture. Meanwhile, Georgia has free trade agreements with CIS countries, the lowest cost grain producers on earth, and with Turkey whose subsidies to agriculture are among the most distortive in OECD and which has banned potential imports of animal products from Georgia for "phyto-sanitary" reasons, as it frequently does with safe imports from the EU



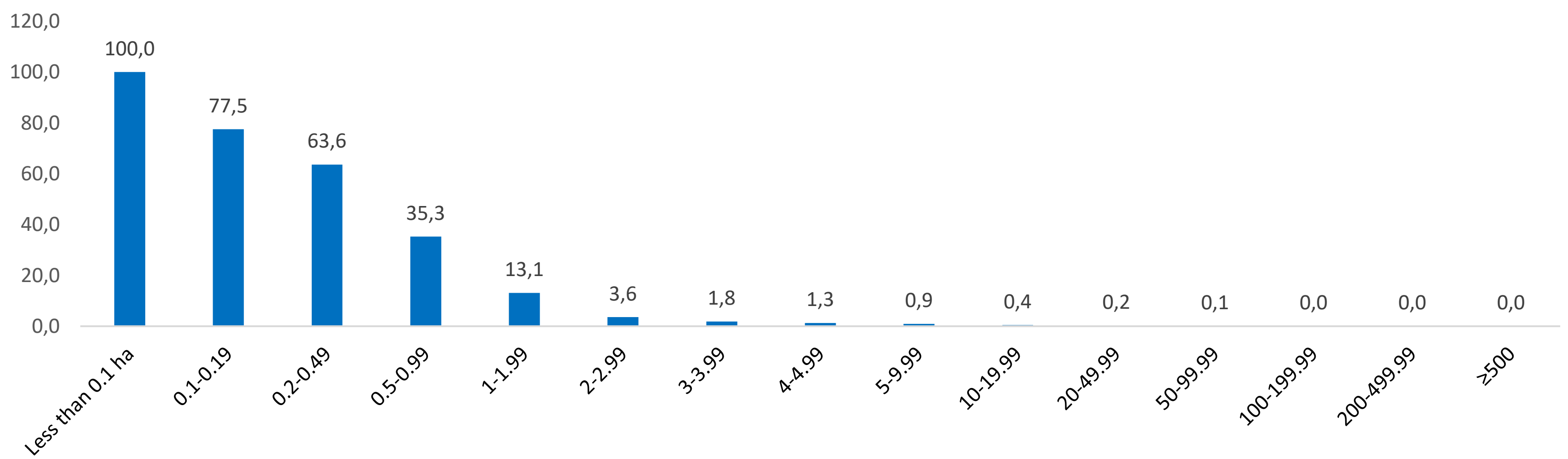
The "naïve" unilateral deregulation of agricultural trade came together with the continuing destruction of irrigation/drainage systems which collapsed to a low of 40,000 ha in 2012. Since then, GoG managed to re-commission 130,000 ha. By 2025, 200,000 ha are expected to be irrigated. Even though it is much less than in FSU (400,000 ha), these investments will reduce general scarcity of arable land and better protect farmers against Climate change

Arable land (hectares per person 2016, source WB)

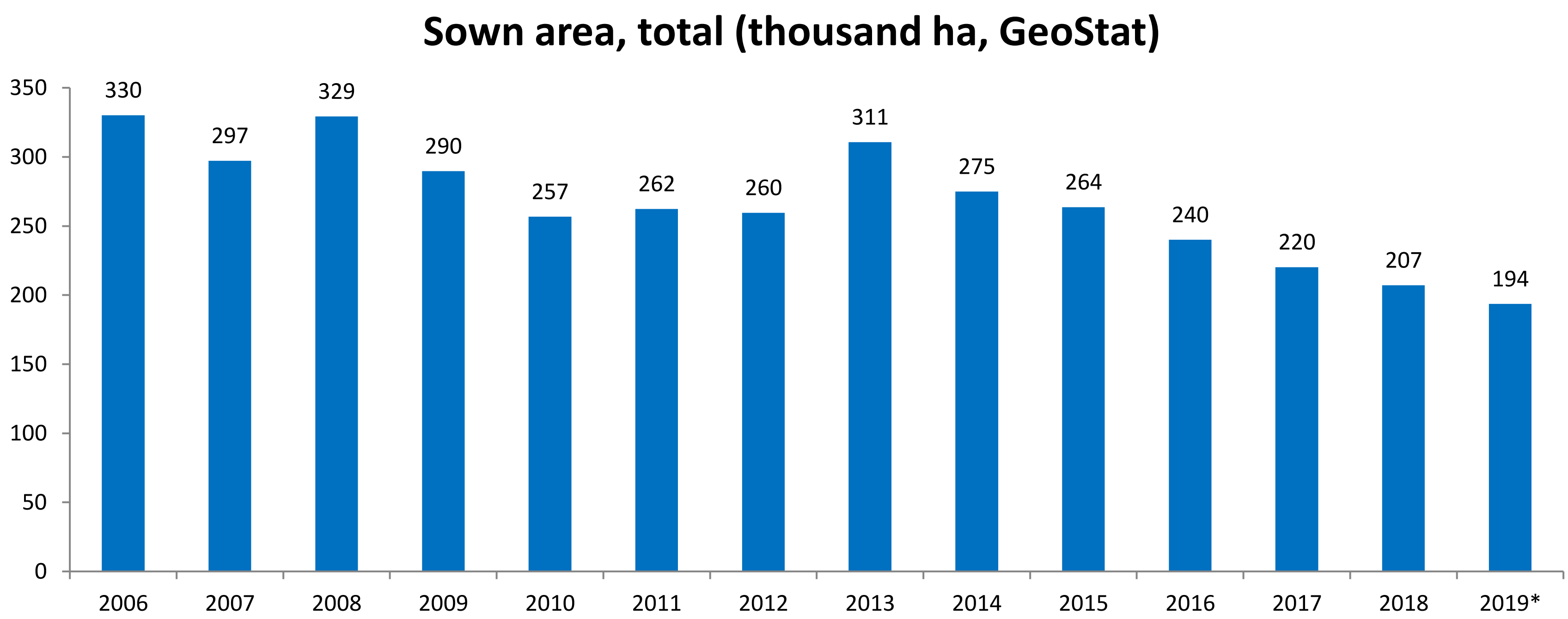


In the 1990s, there was a political decision to liquidate large collective farms. But contrary to countries of small-scale agriculture like Tajikistan where land rights have been handed over to former workers in those farms, land has been given to virtually anybody in rural areas leading to extreme fragmentation and transfer to persons with no farming capacity

Share of agricultural holdings over an arable land area threshold (percentage, source Agricultural Census 2014)

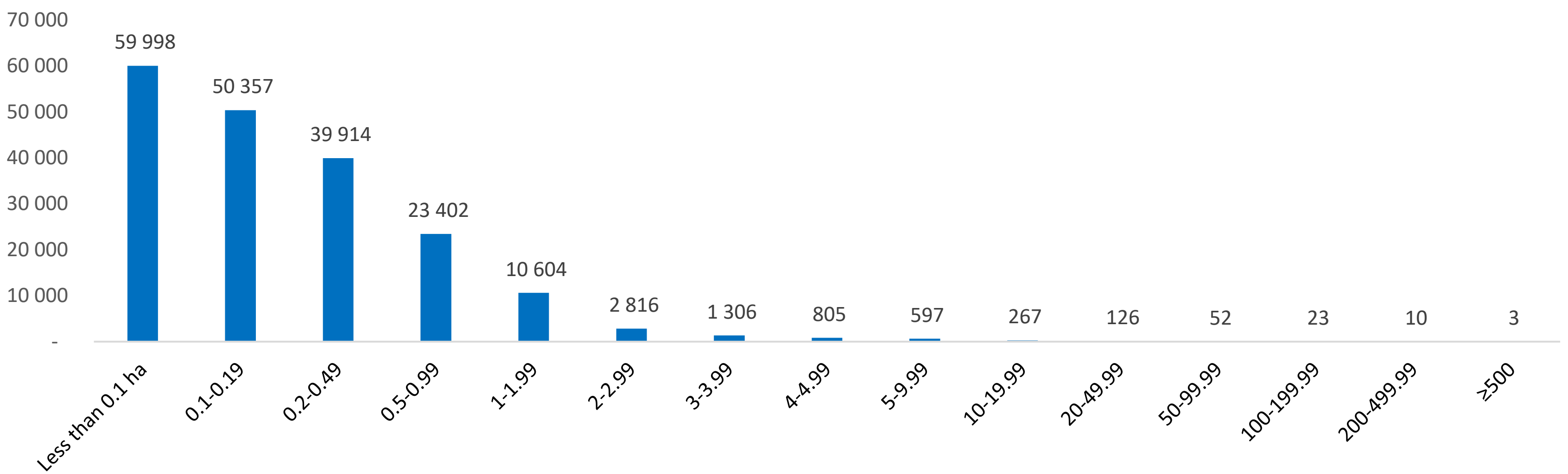


As many owners left to Tbilisi or abroad, there is massive fallow land despite general scarcity of land. Between 2006 and 2019, sown areas of annual crops contracted by 41.4%. After a one-year rebound in 2013, linked to the adoption of a new support policy, this downwards tendency has kept on going



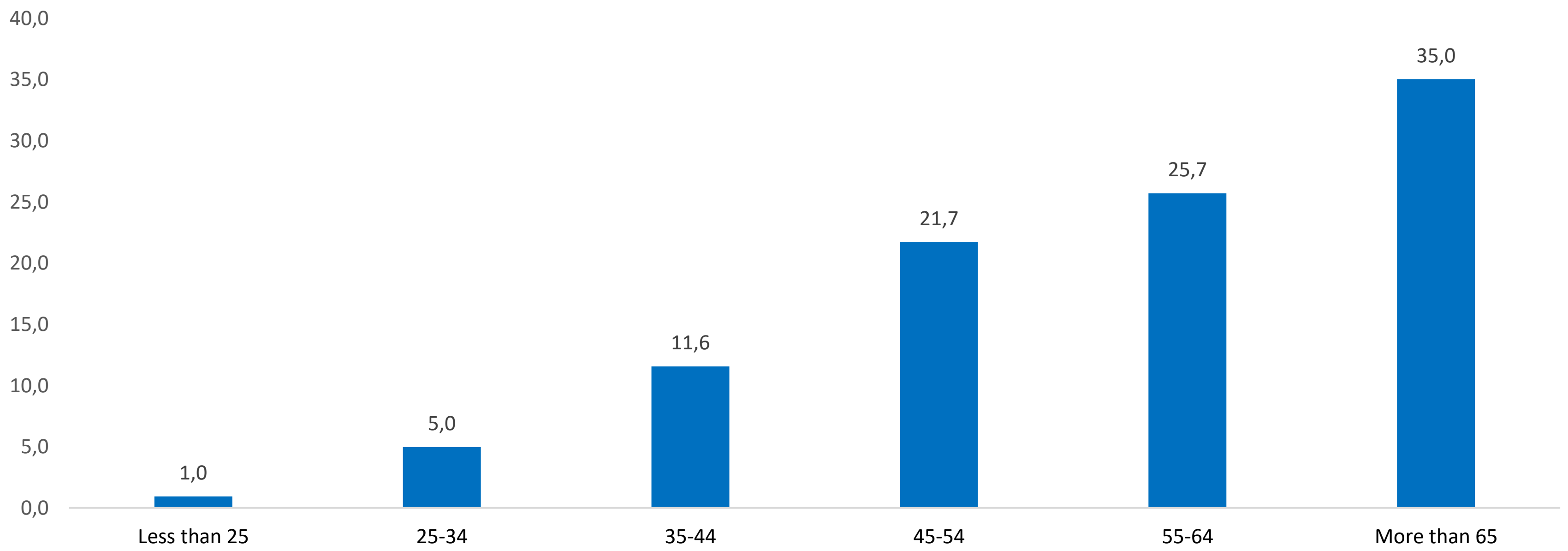
Fallow land goes on par with poor access to land. In 2014, only 597 holdings out of 642 thousand registered by the Agricultural census cultivated more than 5 ha of irrigated area. Quite difficult to compete with imports in these conditions. Especially when no more than 20-30% of land is officially titled, leading to big uncertainty for its users

Number of agricultural holdings over an irrigated land area threshold
(units, source Agricultural Census 2014)

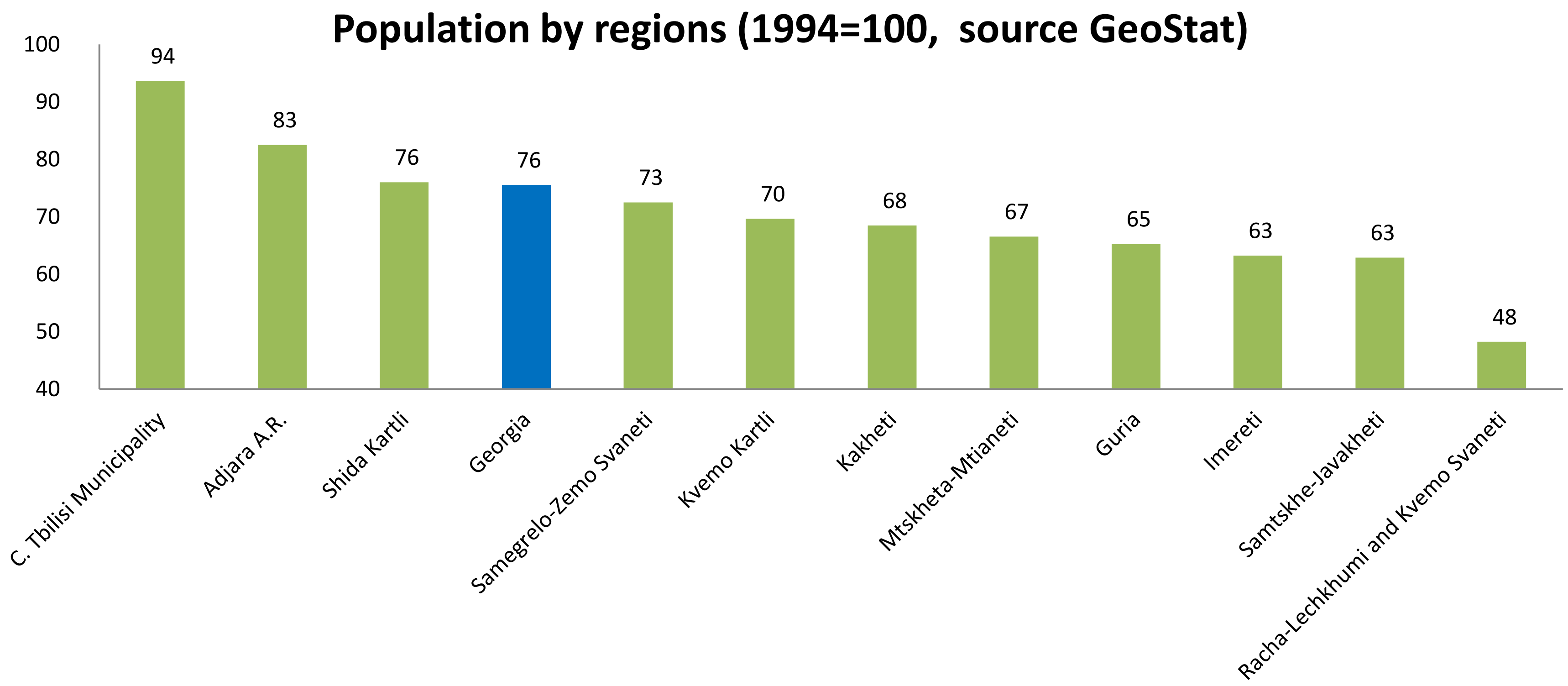


Because of its structural bottlenecks Georgian agriculture is not attractive for new generations. In 2014, only 1% of family holders were less than 25 years old while 35% were more than 65. Six years later it is most probable that the share of older farmers is even bigger

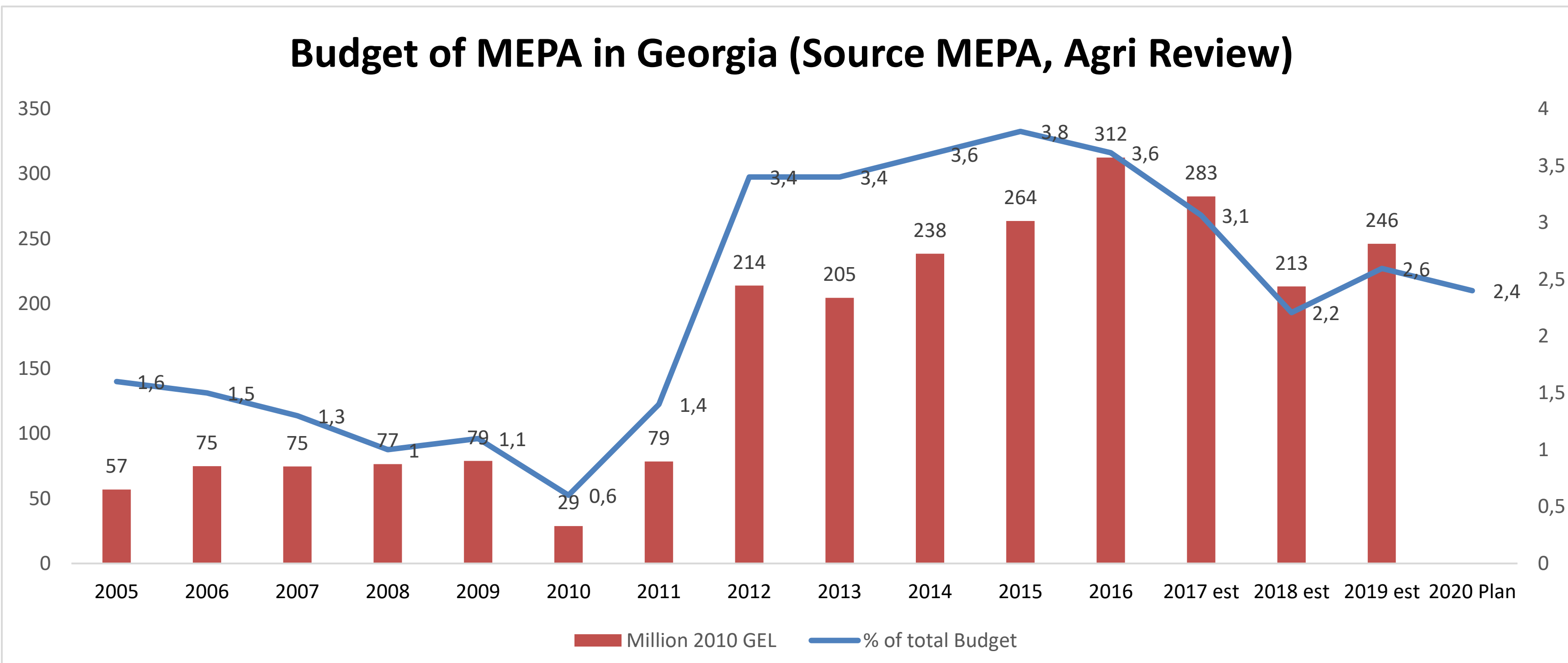
Family holdings classified by age of holders (%, source Agricultural Census 2014)



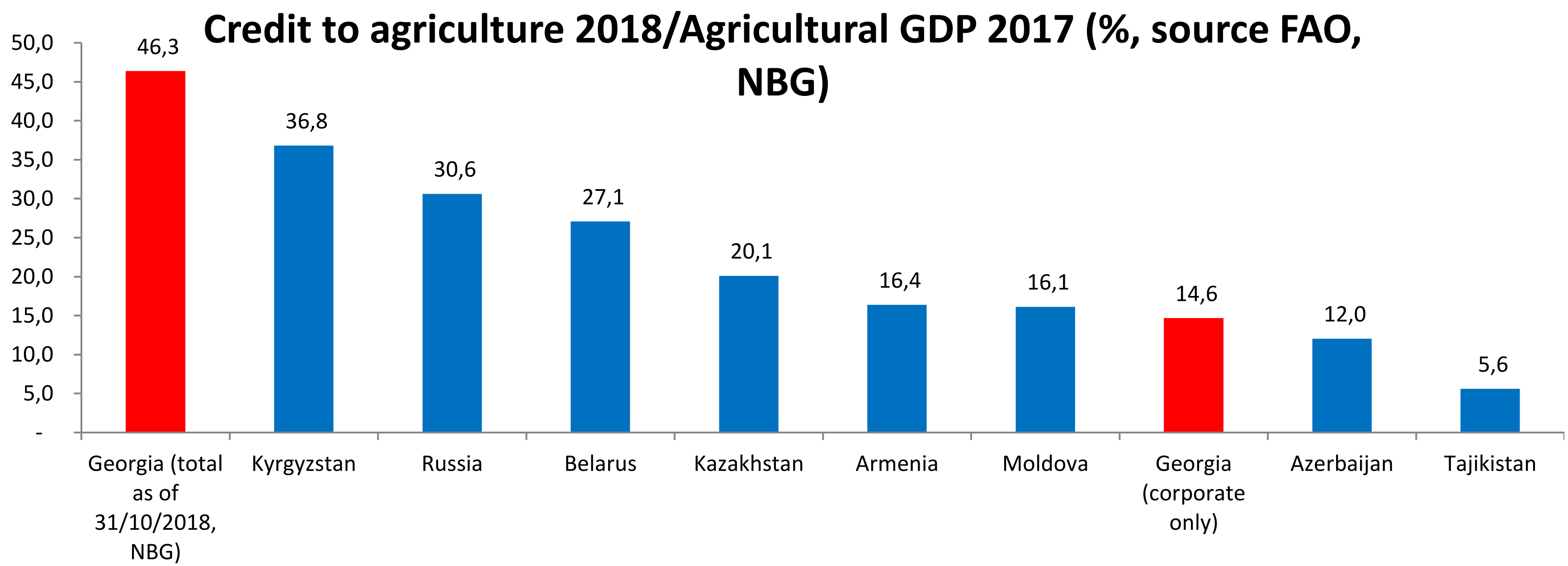
Apart from agriculture, there is not much to be done yet in the countryside. Young people have left their regions “en masse”, which led to impressive decrease in their population and human desertification of many desolate territories with negative impact on activities such as tourism



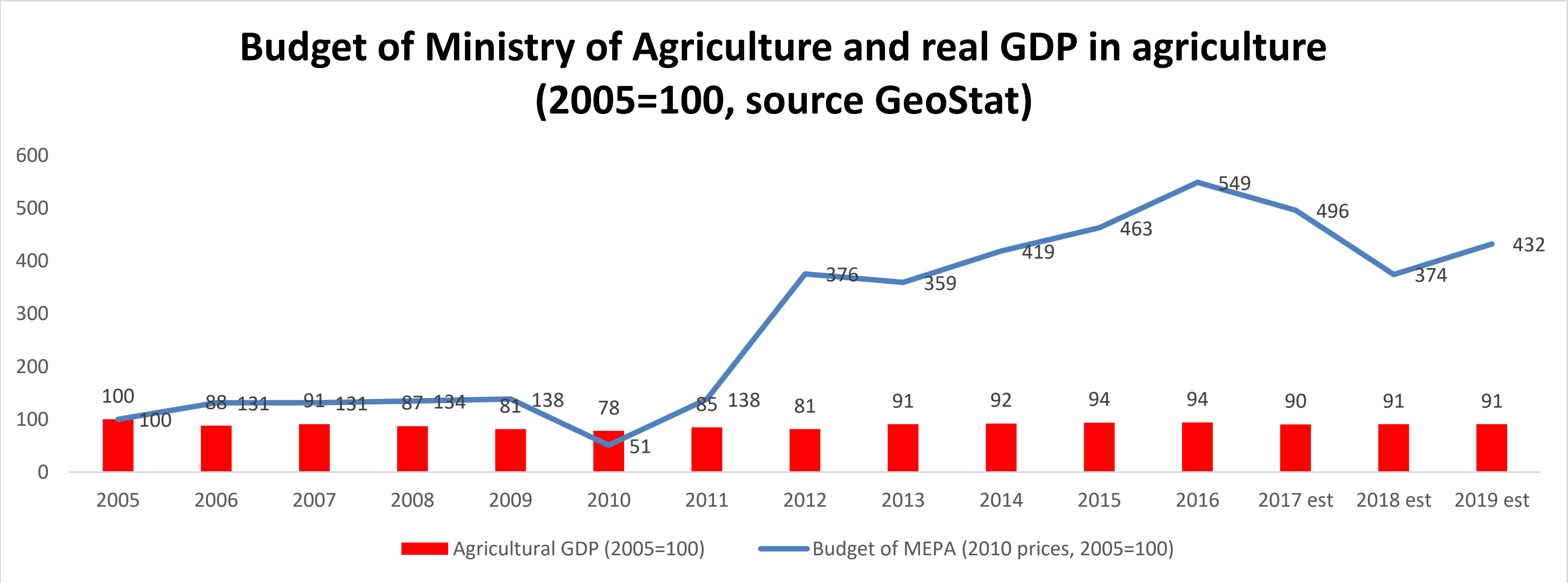
At the beginning of the last decade, the former administration understood the extent of the agrarian disaster and launched emergency measures such as the creation of State-run agricultural machinery providers. The following administration substantially increased budget support to agriculture which was multiplied more than ten times in real terms from 2010 till 2016



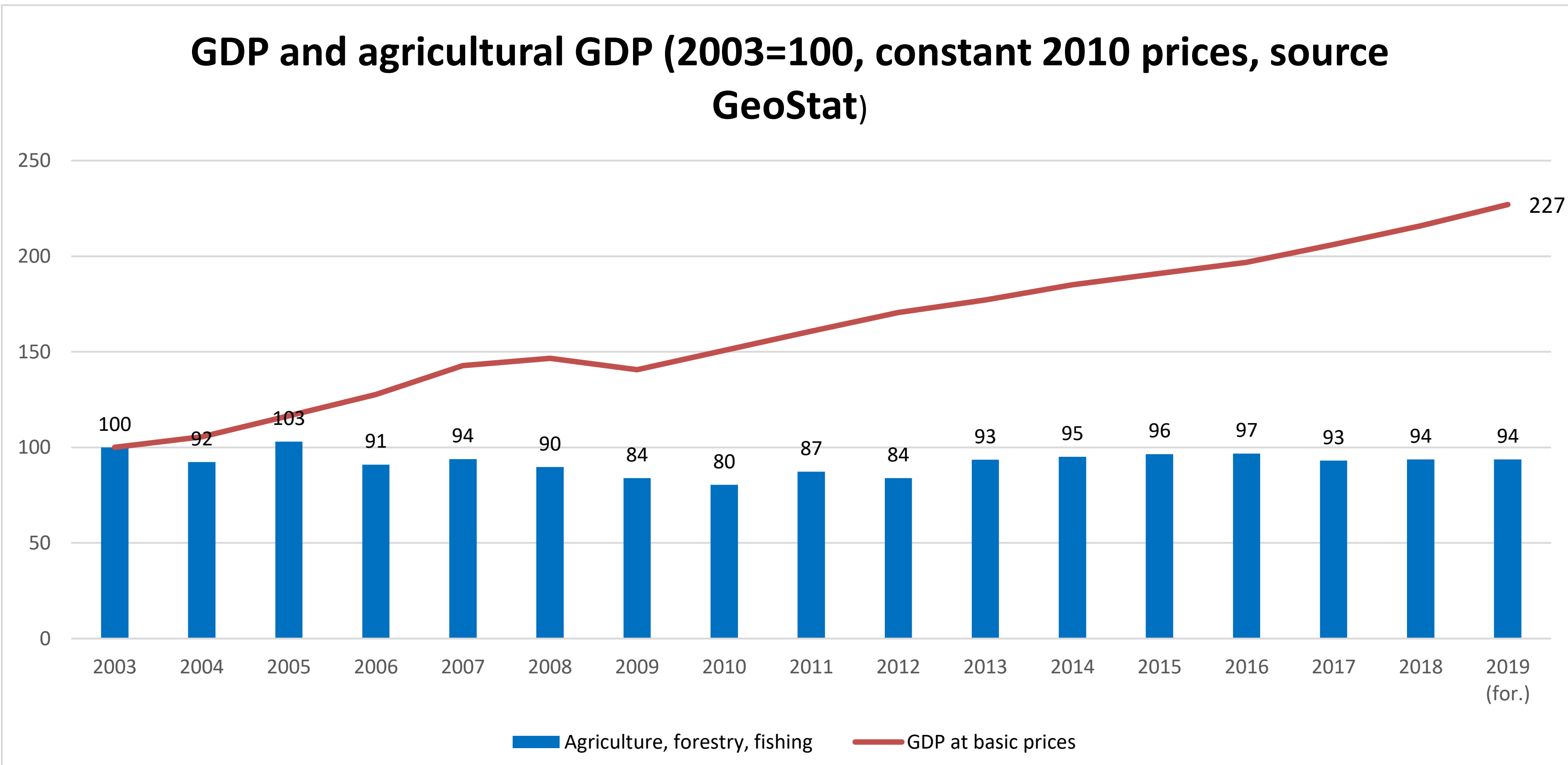
Interest rates subsidies, co-investment grants, subsidized crop insurance and risk sharing mechanisms provided through the APMA agency (now ARDA) launched in 2012 under MEPA have effectively crowded in credit provided by commercial banks. Now Georgia has the highest credit to agriculture (or at least to farmers)/agriculture GDP in the region



However, budget support from MEPA and large international development programs have led to no results of substance for output and there is no sign of improvement: In 2019, GDP in agriculture declined by 1.1%, even though its competitiveness was boosted by the GEL devaluation. For lack of reactivity of the sector to market signals, inflation of food products (12.3%) was much above that of CPI (7%)



In the current crisis situation, there is a need for a much more effective agricultural and agrarian strategy which builds on a clear analysis of the failures of the past to overcome them. Just trying to upgrade current policies as it is largely planned in the current strategic documents will not fix the issue



What could be done to kick-start a sustainable and socially-inclusive development of agriculture?

Using the crisis as an opportunity for reconquering the local market for food

- GoG as part of its anti crisis measures wants to promote import substitution, especially in the food sector, for instance by re-launching production of sugar from local beets in the Agara sugar factory
- In the current situation, when WTO has been widely criticized by leading countries like the US, there is probably some margin of negotiation to better protect Georgian agriculture within the framework of the current WTO agreement. It could be systematically investigated
- As Turkey has used its Free trade agreement with Georgia in a very asymmetrical way, Georgia could push for a substantial re-balancing and get in particular clearance for its animal exports subject to sanitary control
- The pre-crisis decision to ban the use of the name cheese for products based on imported powder milk could be systematized and enlarged. Use of powder milk should be systematically disclosed to consumers
- Georgia could create a Food security Board ensuring contractual fixed prices for local producers to create a National Food security reserve and to feed public bodies such as the army, public hospitals or schools (for instance daily glass of fresh pasteurized milk from local producers provided to school children)

Dealing with land fragmentation

- The activities of the newly created LEPL National Sustainable Land Management and Land Use Monitoring Agency under ARDA could be accelerated with systematic use of geo-detection technologies (satellite) to register land. These technologies could also be used for farmers (smart agriculture) and agriculture finance, insurance in particular
- Currently, land is not taxed under 5 ha of ownership. It creates negative distortion and prevents the emergence of a middle-class of professional farmers while allowing many land-owners to keep their land idle for speculative purposes as it costs them nothing
- The threshold for tax exemption could be reduced to 5,000 m2, enough to feed a family, with vouchers for inputs (improved seeds, fertilizers, genetic material, use of machinery) delivered for the amount of taxes paid in the 0.5 ha-5 ha bracket
- All unused fallow land identified through satellite should be taxed at a higher rate
- Georgia could use the example of the French law on lease of agricultural land which created a very favorable environment for farmers after 1945 and promote long term lease agreements (over 9 years) in favor of land users
- Special State land agencies managed with representatives of farmers could be set up at regional level on the model of the French Safers created in 1961. They could consolidate plots into viable entities and provide access to land to a new generation of well-trained medium-size family farmers through long-term leases with an option to buy. They could have preemptive rights on land transactions. They could receive and administer “reclaimed” State land in rebuilt irrigation and drainage perimeters
- The idea to re-concentrate land in the hands of a few large corporate farms is socially and politically not feasible. And apart from Georgia, the worst results in agriculture output in FSU have been those of large-scale agriculture countries (FaoStat). In Georgia itself, many investments of modern corporate farms are loss-making as it is the case in nearby agro parks in Azerbaijan. The future is with effective family farm entrepreneurs as in nearly all advanced agricultural countries including the US and the EU

Promoting the emergence of a new generation of qualified family farm entrepreneurs

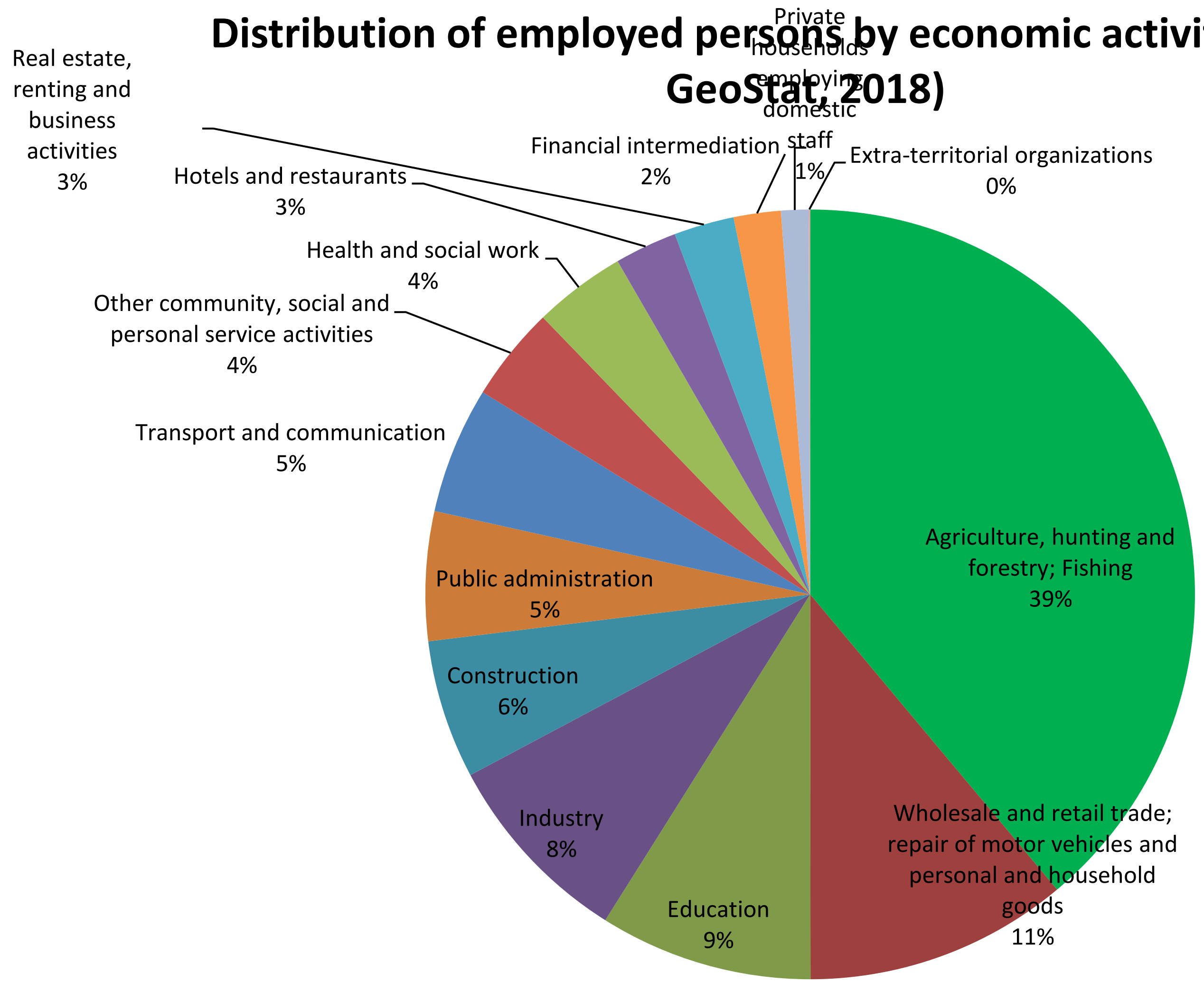
- As for other elements of support to agriculture, the setting-up in 2013 of State extension services ICCs has had no tangible positive impact to date
- A key reason for the lack of results is because agriculture is currently not attractive for the young generation in rural areas. Older farmers are not expected to easily change their practices, especially as 77% of holdings work mainly for self-consumption (Agricultural census 2014)
- Based on successful examples abroad, it could be possible to promote a “young farmer development package” including access to land, and access to long term subsidized credits provided by commercial banks with interest rates subsidies and risk sharing from ARDA. The benefits of this package could be limited to young farmers having received a specific agricultural education or to young farmers with at least 5-year professional experience having followed vocational trainings jointly organized by MEPA and Ministry of Education
- In order to accelerate the transfer of land to a new generation as was the case with the French “indemnité viagère de départ”, the State land agencies could buy land from older farmers, pay them a monthly amount, and lease it to young farmers after consolidation of plots with an option to buy
- Special incentives such as a priority for allocation of land could be given to young farmers members of service cooperatives registered with ARDA

Extracting economies of scale through effective cooperatives

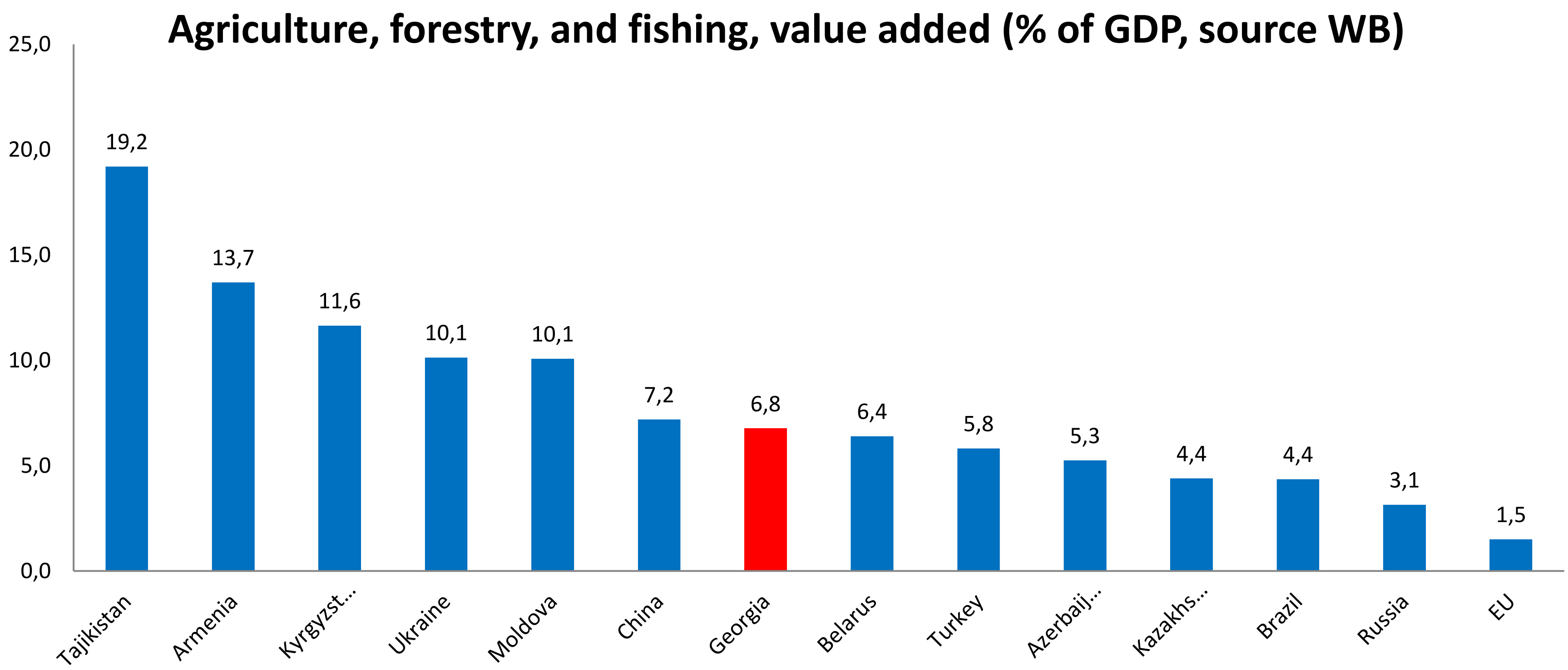
- Cooperatives in Georgia have not yet given satisfactory results because the general environment for agriculture was not favorable and because they have been promoted as poverty alleviation tools, especially by NGOs involved in the EU Enpard programme, and not as a specific form of business entities focused first on the operational needs of their members
- However, without joining forces to get better access to inputs and equipment, to market their products and in certain cases to work jointly in their fields, farmers will not be able to extract the necessary economies of scale to be internationally competitive and to effectively negotiate good prices for their inputs and products in their value-chains
- There is definitely a need to promote effective cooperatives as in the EU and the US which could act as real business entities and get access to credit. Both production cooperatives consolidating land resources of their members (usually organized under different forms like GAEC in France) and service cooperatives make sense
- “Business” cooperatives could be largely involved in the development of a Food security Board as it was the case in 1936 in France with the creation of the National Inter-professional Office for Cereals (ONIC) which dramatically kick-started their development

What is the upside?

Today, agriculture in Georgia officially employs 39% of the population. However the vast majority of farmers are village households with other sources of income. In 2018, the share of income from selling agricultural production in the total income of household was only 5.5%

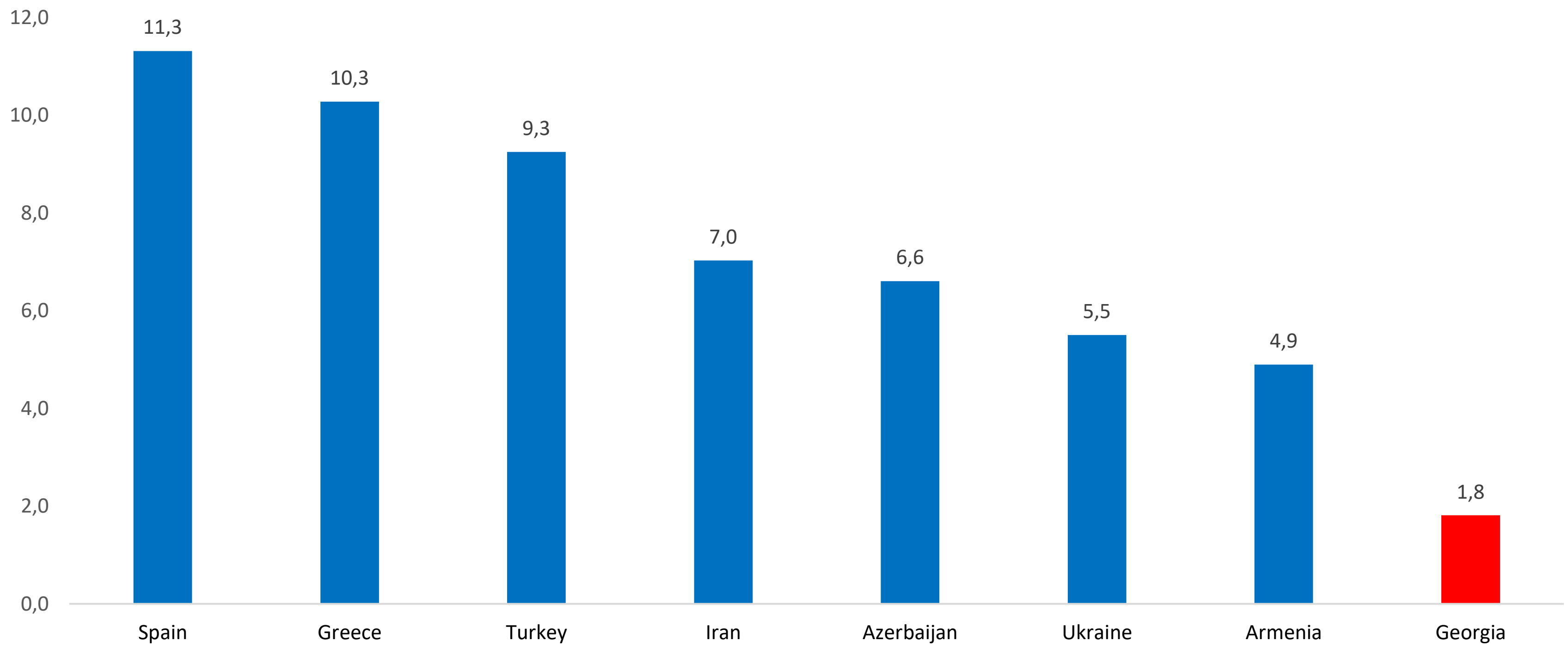


Because of poor performance, agriculture accounted for only 6.3% of Georgian GDP in 2019, much less than in countries with similar level of development like Armenia. Even though food prices are low because of the absence of tariff protection, the share of food in total household consumption expenditure remains a high 43% in 2018. Food is both a key economic and social issue, especially in times of crisis

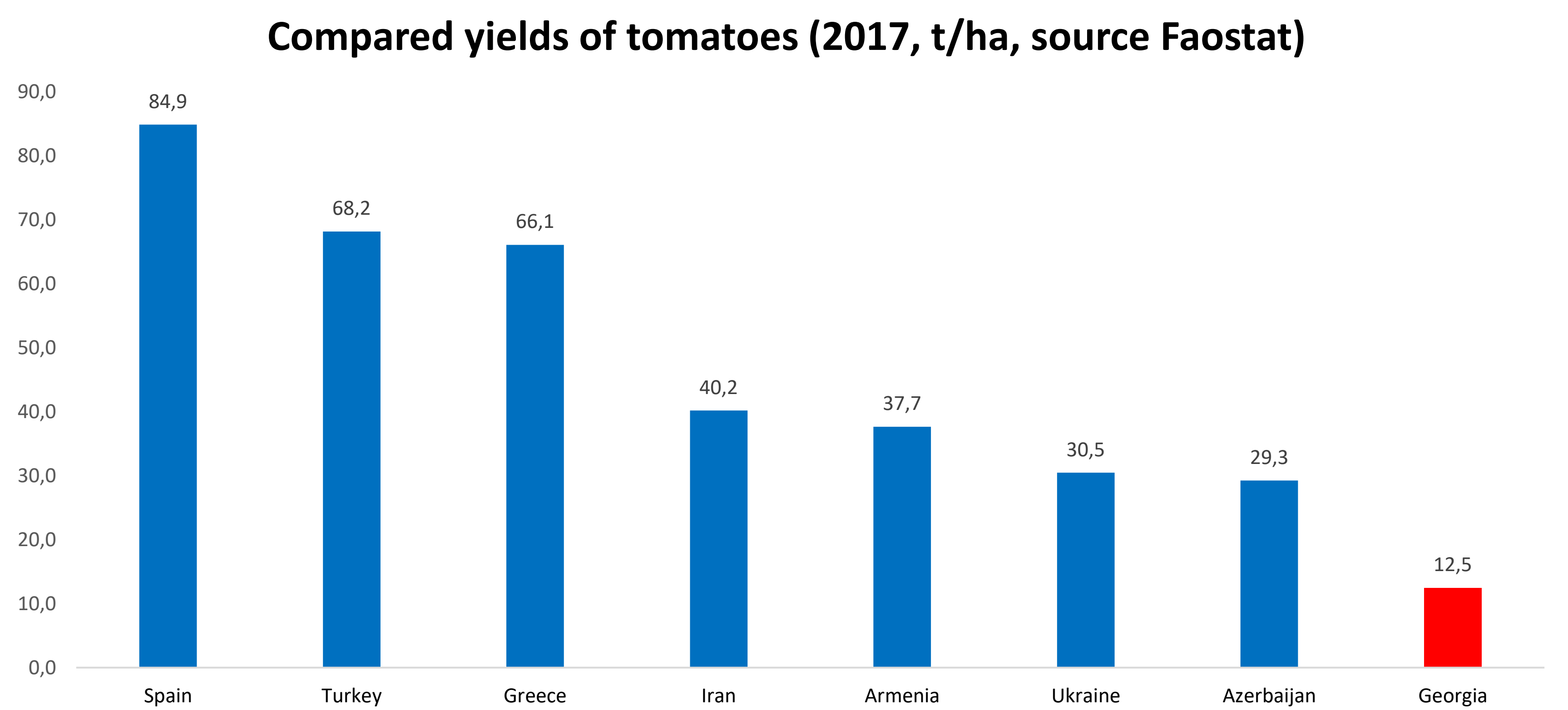


In theory, Georgia can massively increase its output because its yields are usually just a ridiculously low fraction of those of its neighbors or countries with similar agro-climatic characteristics. This is the case for maize for instance, the main cereal cultivated in the country

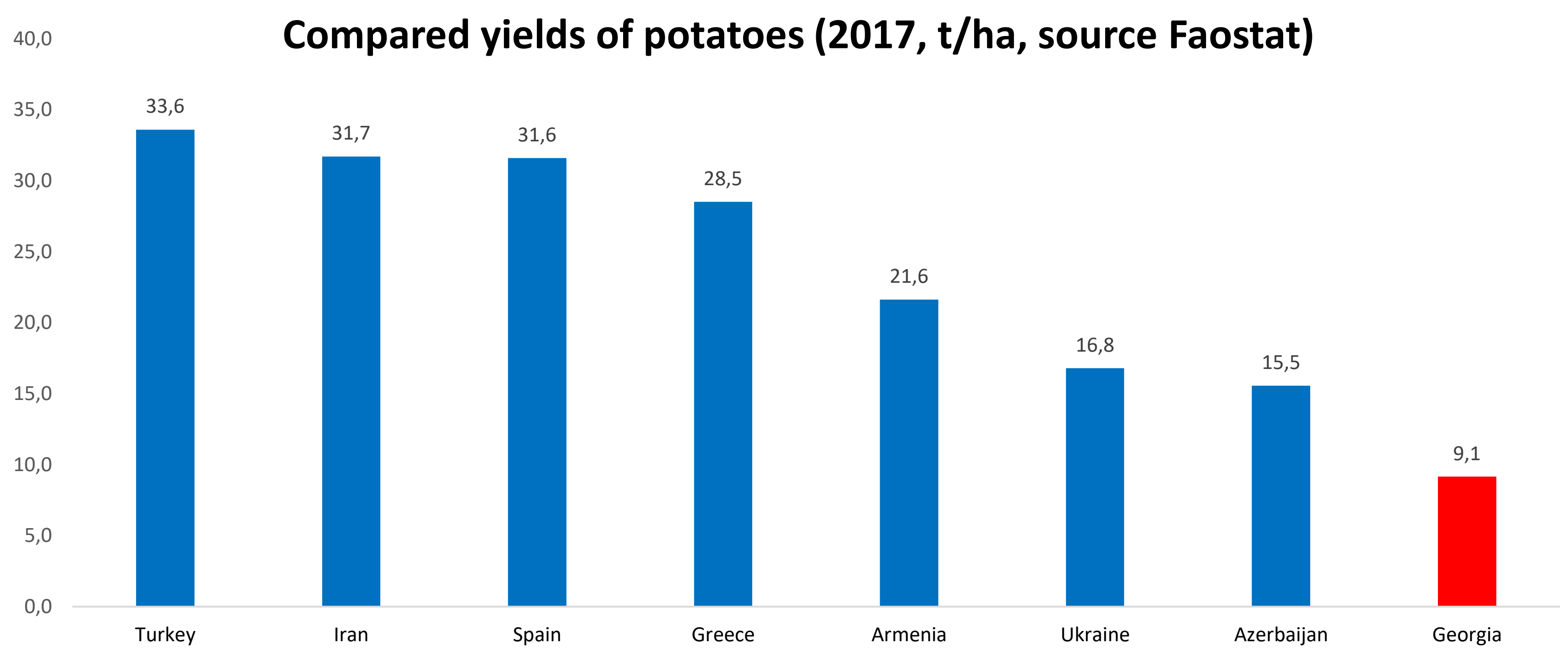
Compared yields of maize (2017, t/ha, source Faostat)



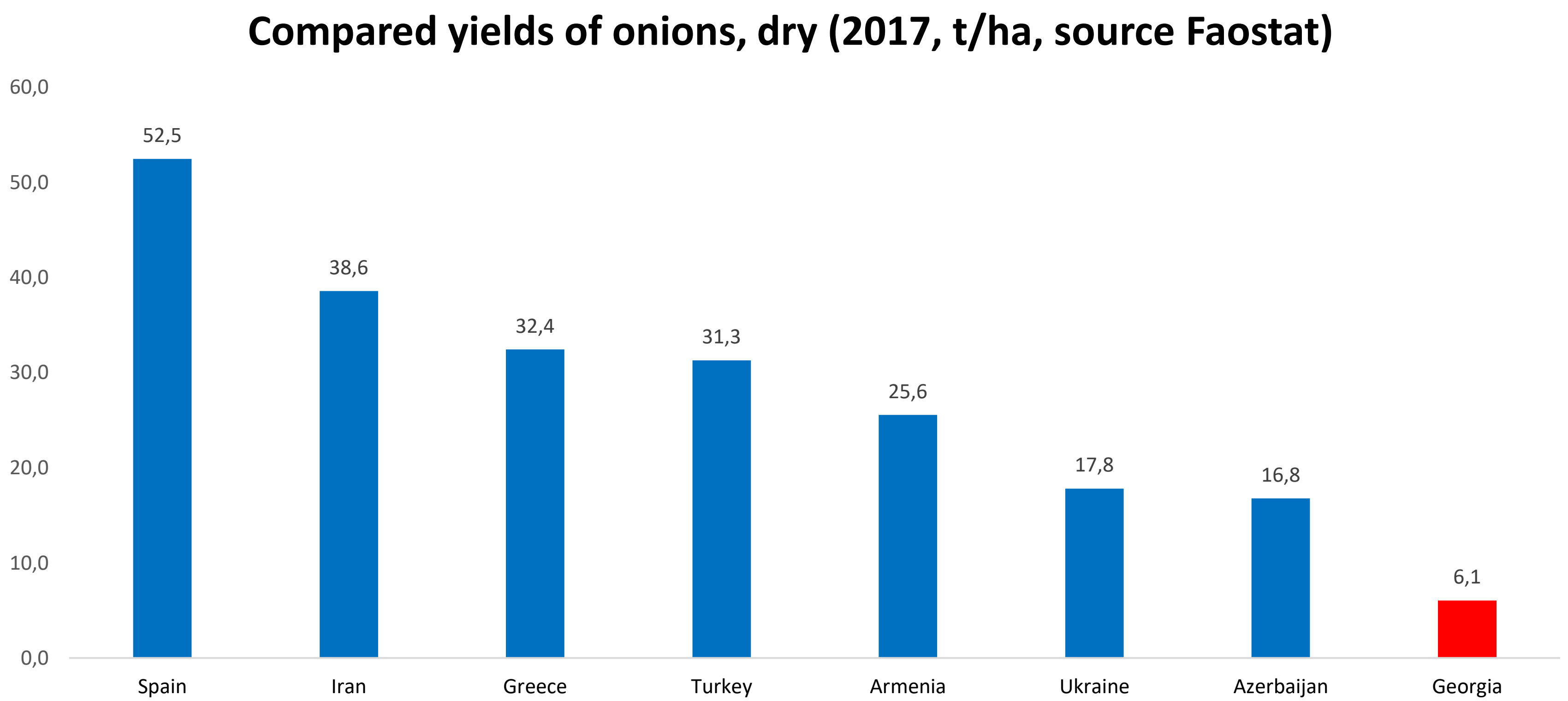
The case also for tomatoes, which have suffered much from unfair competition with Turkey where they are very largely subsidized, despite excellent growing conditions in particular in Marneuli region



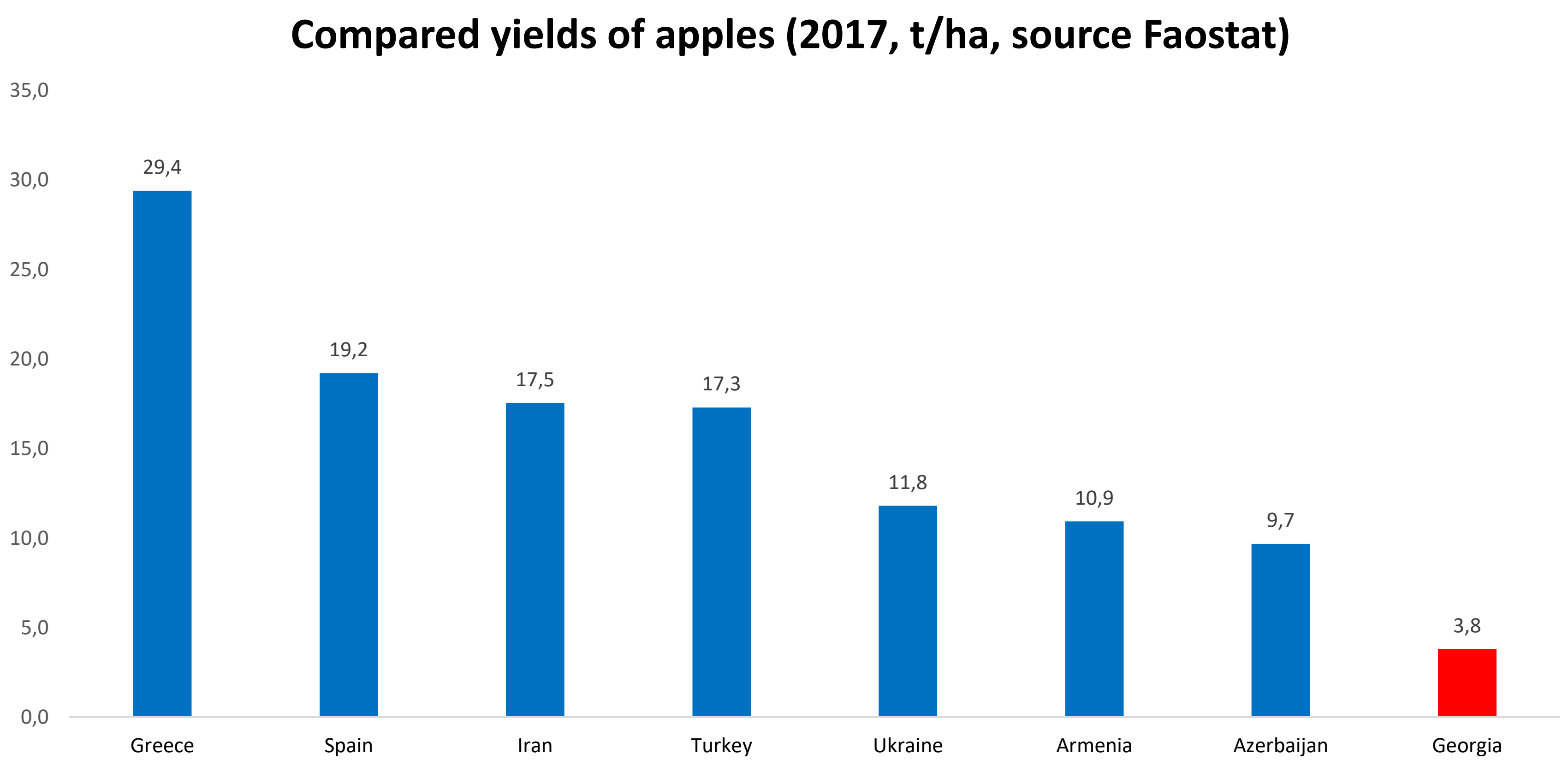
The case for potatoes, for which low yields mainly reflect the lack of use of good quality supply of seeds despite excellent growing conditions in mountainous areas where the pressure from viruses is limited



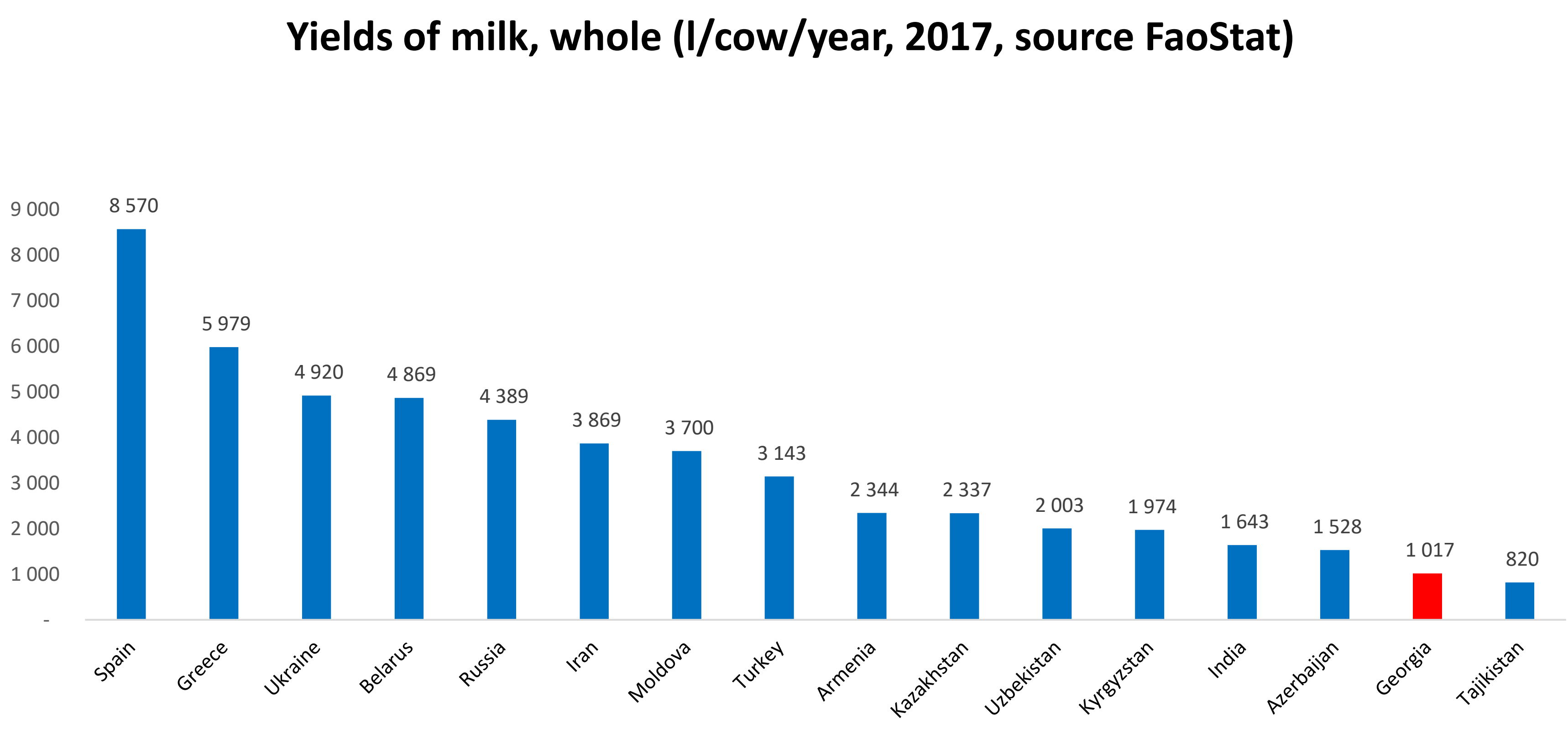
That of onions, for which agronomic factors are also excellent but for which yields remain miserable



That of apples, despite the fact that Gori used to be a key production zone in FSU and for which Georgia is now a net importer



The case also, among so many others, for animal production. Yields of milk are among the lowest in the world and reflect the same depressing lack of productivity, despite large availability of mountain pastures



Time to harvest the upside

- There is no fatality of low productivity of labor and land in Georgia. It reflects the impact of poor agrarian decisions since the end of FSU that the Covid 19 crisis forces policy makers to now radically address to ensure sustainable development of the sector and national Food security
- There are few countries in the world where the distance between agronomic potential and general level of education on the one hand and results in agriculture on the other hand is so wide
- By combining a strong increase of irrigated land with higher yields, and a full mobilization of its huge areas of fallow land, Georgia could reasonably double its agricultural output in less than 10 years as has been the case in some other small-scale agriculture FSU countries which have managed to promote a new class of medium-size farm entrepreneurs
- Yield increases can go on par with limited dependence on agro-chemicals and veterinary products by transferring best practices of ecologically intensive agriculture currently being promoted in advanced countries, the EU in particular. Georgia could potentially jump straight to smart agriculture technologies which are framing a new revolution in agriculture
- For Georgia, it is high time to make use of its splendid agronomic potential: Time to harvest the upside. There is no better opportunity for growth and socially-inclusive development in the current Covid 19 environment

Thanks for your attention!