

## Unlocking the export potential of Georgian agriculture

Georgia has excellent potential for the production and export of agricultural goods. While the limited land area with the present, highly fragmented ownership pattern limits Georgia's ability to compete in the markets for agricultural bulk products, its diverse climatic conditions enable the country to be competitive in different markets for high-value niche products. To unlock this potential, it is necessary to overcome present constraints. Low land productivity limits the amount of goods available for export whilst poor organisation of export chains leads to inadequate preparation of export consignments both in terms of the product itself and its documentation.

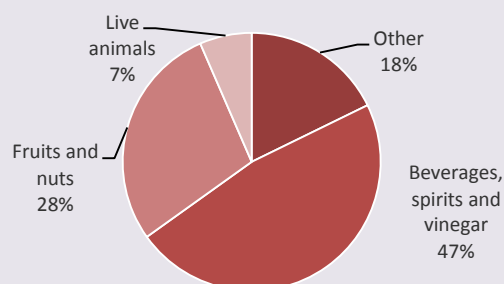
In order to develop its exports of agricultural and food products, Georgian producers should gradually target markets with more demanding standards instead of immediately attempting to serve high-end markets such as the EU. Agricultural clusters or Productive Alliances in individual value chains can help overcoming the present constraints and should serve as a focal point for government assistance.

### Concentration of present agricultural exports

Although Georgia's agricultural sector is quite large and constitutes 8% of GDP, the country exports fewer agri-food products than it imports, with its agri-food trade deficit amounting to 2.6% of GDP in 2016. Clearly, agri-food exports are underperforming.

This export weakness results from the fact that, presently, Georgia's agri-food exports are highly concentrated in few products: Wine, high-proof spirits, mineral waters and lemonade account for 47% of 2014-2016 exports; fruit and nuts account for another 28%. In exports to the EU, nuts even make up 65%.

### Composition of agri-food exports, 2014-2016



Source: UN Comtrade

Due to this concentration, Georgian agricultural exports are highly vulnerable to shocks on a small number of markets. At the same time, the competitive

advantages of Georgian agriculture, i.e. diversity of climatic conditions and ample water resources, create significant growth and diversification potential.

### Products with export growth potential

In order to boost agri-food exports, three main directions are available:

1. Upgrading the quality and boosting the quantity of current exports such as nuts or beverages
2. Improving products that are currently exported only to undemanding markets to high export-grade quality (e.g. fruit and processed fruits, honey, tea)
3. Producing new goods, especially certified organic products and high value-added niche products such as berries, high-value fruits, hybrid fruits or berries such as "grapple", a hybrid of grape and apple

All these directions should be worked on. However, within these directions, high value, niche products offer most immediate potential. As Georgia's land area is relatively limited, climatic conditions are diverse and ownership at present is highly fragmented, niche products are better suited to its production conditions than agricultural bulk commodities.

### Constraints to export growth

Two main constraints currently limit export growth:

Firstly, a shortage of raw materials/primary agricultural goods limits the quantity of goods available for export or processing. This is a consequence of the low agricultural productivity caused by the fragmentation of plots (75% of all land holdings comprise less than 1 ha), degradation of old plantations and orchards, lack of high quality seed and planting material, vulnerability to pests and plant diseases as well as the poor diversity of crops and varieties resulting in short season lengths. This low productivity is being preserved by a lack of knowledge and competence of farmers, a traditional mistrust of innovations, short planning horizons and the predominance of informal relations ("business by unwritten rules").

Secondly, most export chains are poorly organised due to weak or absent long-term linkages between stakeholders including producers, inputs and services suppliers, harvest collectors, consolidation and/or processing centres, exporters, financial and insurance companies. This results in bad preparation of export

consignments because of unsatisfactory sorting and calibration, lack of financial motivation to improve product quality, lack of quality control and comprehensive legal documentation. Hence, most export transactions do not lead to repeat clients or long-term contracts with predictable contract prices. As a result, present Georgian agri-food exports are largely confined to relatively undemanding markets in Russia and other CIS countries.

#### **Producers' options to overcome constraints**

Georgian producers of agri-food goods should take action in order to better utilise available potential. They should invest in modernised production structures and update their skills and knowledge about production, quality control and the needs of destination markets. Two compatible methods should be utilised to aid this process:

Firstly, producers should aim at gradually moving towards more demanding export markets. With the present quality of exports and documentation, boosting the export quantities to highly demanding markets such as the EU is not feasible in the short run. Rather, exporters should move gradually: From cash markets to retail networks in CIS markets, then to China, the Middle East and North Africa and finally to the EU or Japan. This enables them to gradually learn to conform to more demanding market requirements and to build durable business relationships.

Secondly, the self-organisation of producers in value chains through agricultural clusters or "Productive Alliances" (PAs) would help strengthen the linkages between actors in agriculture value chains, permitting better coordination of actors as well as improved quality control and documentation of products.

#### **Existing successes of Productive Alliances**

Several individual exporters, producers and consolidators have succeeded in overcoming constraints to export growth by setting up PAs to develop long-term contract relations between all or most key stakeholders. Examples include:

- **"Taplikatsi"** beekeeping farm. Though there are no formal contracts between the company and its 15 suppliers, Taplikatsi delivers training, extension services and inputs, ensuring a high quality and uniform honey, which is sold through duty free shops and exported to China.
- **Nergeta Co.** is a highly intensive, high-quality and modern kiwi plantation. Fruits are exported to Germany and Japan. Local farmers work under the supervision of company specialists, acquiring new skills, agronomic expertise and start providing Nergeta with their own kiwi.

#### **Policy implications**

In the long term, consolidation of the highly fragmented agricultural land is essential to provide Georgia with a competitive agricultural sector. The government should take steps to enable this, such as driving the completion of the land cadastre and disentangling agricultural from social policies so that small subsistence farmers can sell their plots.

In the short run, the government should help popularising the concept, and assist the formation of PAs, potentially in the context of a wider agricultural and industry cluster initiative. PAs as well as selected, high-potential "leader" companies in specific products should both be the addressee of and multiplier for government and donor efforts to improve and diffuse skills and know-how, both in the agricultural and commercial aspects.

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Note: A more comprehensive analysis of the topic is provided by the Policy Paper PP/01/2017 "Unlocking the export potential of Georgian agriculture"

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