

Georgia's Agricultural Sector

First steps to sustainable growth

Georgia | Agriculture
 April 11, 2014

Georgia's agricultural production delivered strong growth of 12.1% y/y in 2013 and accounted for 9.3% of GDP. Agricultural investments in Georgia have increased significantly in 2013, however FDI was only 3.5% of the total FDI inflows. Agricultural exports received a boost last year with the re-opening of the Russian market. Exports to Russia ran up to US\$ 107mn last year, almost at the level of US\$ 129mn in 2005, just before the Russian embargo was introduced. Many agriculture support programs have been launched by the government in 2013, but there is still a large room for sector growth resulting from efficiency gains.

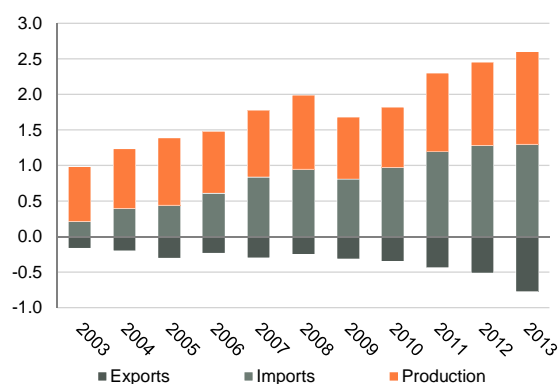
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Agricultural output increased 12.1% y/y in nominal terms in 2013, above the 2.5% nominal GDP growth. Although agro production has been volatile in recent years, we believe the state's recent development programs and financing support are driving the strong growth. The sector posted one of the highest real growth rates of 9.8% in 2013 and contributed 1.0% to real GDP growth.

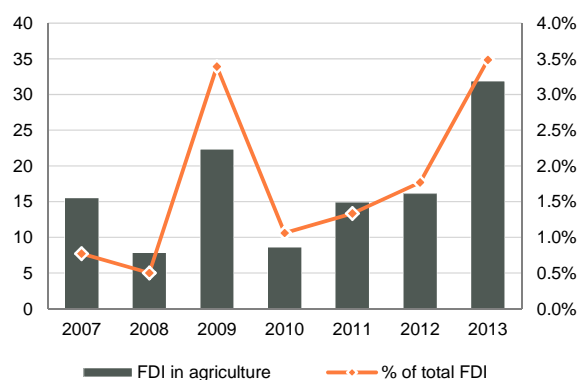
FDI in the agro sector continues to show promising inflows, with the 2013 number doubling that of 2012. The government has earmarked GEL 264mn (US\$ 150mn) in funding, around 2.9% of budget expenditures, for the Ministry of Agriculture in 2014. The majority of this funding (around 82%) will be distributed to agricultural development program including: popularization of Georgian agricultural goods, supporting development of agricultural cooperatives, subsidizing interest costs on concessional loans, funding small farmers and developing irrigation systems. The government plans to increase the irrigation area 8x to 200,000ha in the next few years from the current 25,000ha. Georgia's Agriculture Development Fund and Agricultural Projects Management Agency (APMA) are also providing funding support.

Figure 1: Output and trade of agricultural products, US\$ bn



Source: GeoStat

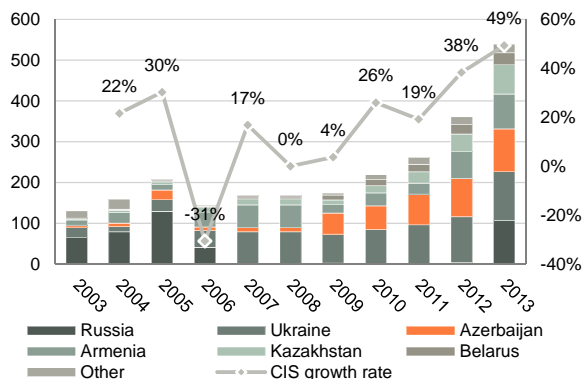
Figure 2: FDI in the agricultural sector, US\$ mn



Source: GeoStat

The CIS is still the dominant export market for Georgian agricultural goods, accounting for around 70% of agro exports. The Russian market is recovering after an 8-year embargo – exports ran up to US\$ 107mn last year, almost at 2005 level of US\$ 129mn, just before the embargo. Overall, Georgia's agricultural exports to the CIS surged 49.4% y/y in 2013 to US\$ 539mn, of which 28.7% was due to re-opening of Russian market. Even excluding Russia, exports to CIS would have grown 20.9% y/y in 2013.

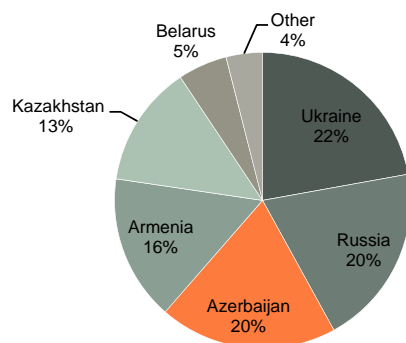
Figure 3: Georgian exports to the CIS, US\$ mn



Source: GeoStat

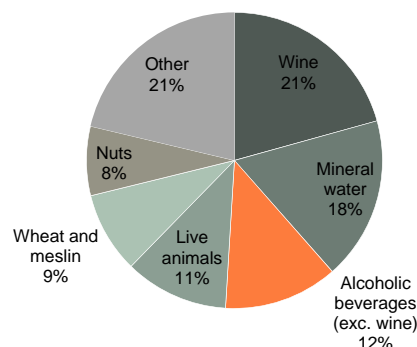
Ukraine, Russia, and Azerbaijan were the top countries, with a joint 61.5% share. CIS countries mainly import wine (20.7%), other alcoholic beverages (12.5%) and mineral water (17.8%).

Figure 4: Georgian exports to the CIS by countries, 2013 (70% of total agricultural exports)



Source: GeoStat

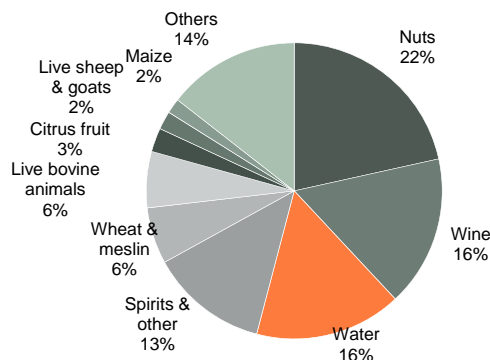
Figure 5: Georgian agricultural exports to the CIS by products, 2013 (70% of total agricultural exports)



Source: GeoStat

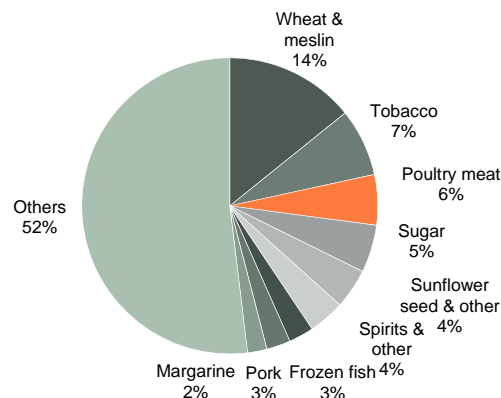
The total value of Georgia's agro exports increased 51.1% y/y in 2013 to US\$ 774mn, with major drivers including nuts (+99.3% y/y), wine (+97.1% y/y), and water (+54.9% y/y). Georgia's other major agricultural exports include wheat and live animals. Agricultural imports remained at US\$ 1.3bn (+1.3% y/y) as grain, the most dominant category, dropped significantly (-14.9% y/y), partly offset by growth in fruit imports (+30.8%). Imports are more diverse than exports with a large number of minor products accounting for more than half of the total.

Figure 6: Main agricultural exports, 2013 (US\$ 774mn, total exports - US\$ 2.9bn)



Note: Other includes a long and diversified list of products
Source: GeoStat

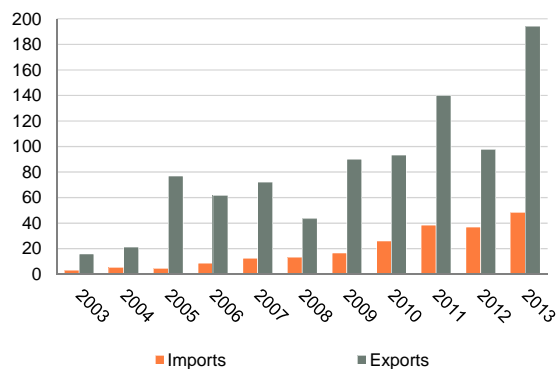
Figure 7: Main agricultural imports, 2013 (US\$ 1.3bn, total imports - US\$ 7.9bn)



Note: Other includes a long and diversified list of products
Source: GeoStat

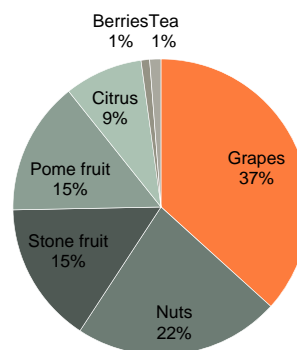
The surplus in Georgia's fruit trade expanded further in 2013 as exports hit a record high of US\$ 194mn (+98.5% y/y) and imports added 30.8% y/y to US\$ 48mn. Exports were dominated by nuts (85.9% of all fruit exports), one of Georgia's most important agricultural export categories along with citrus fruit (10.4% of total fruit exports). Notably, tangerine cultivation increased 40.6% y/y in 2013 to around 100,000 tonnes as the government increased subsidies 7x for citrus products to GEL 13.8mn (US\$ 8mn). The country exports tangerines mainly to former CIS states. On the imports side, trade was dominated by bananas (37.9%) and citrus fruit (30.4%).

Figure 8: Fruit imports and exports, US\$ mn



Source: GeoStat

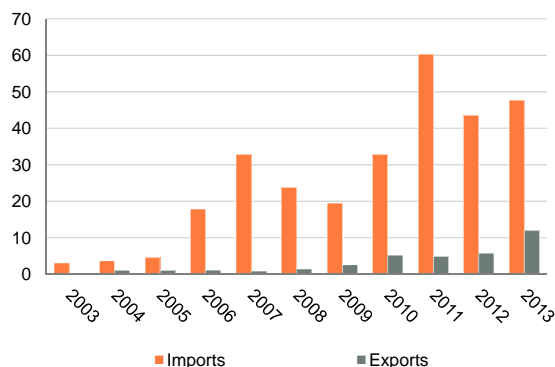
Figure 9: Structure of fruit production, 2012



Source: FAOSTat

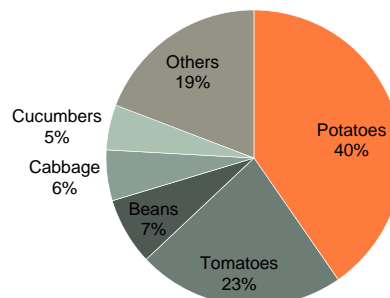
Vegetable exports more than doubled y/y to US\$ 12mn in 2013, whereas imports added just 9.6% to US\$ 48mn. Vegetable exports were diverse in 2013; potatoes were the largest item at a 29% share of total vegetable exports. On the imports side, onions and other alliacious vegetables accounted for 25.8%, followed by tomatoes at 20%. Most harvested vegetables are sold seasonally and only a small proportion is stored for non-seasonal consumption. The high percentage of locally produced goods does not meet storage facility requirements as small farmers do not use post-harvest handling practices. However, Georgia has 100,375 tonnes cold storage and 524,200 tonnes silo capacities – sufficient to replace large share of imports by local production.

Figure 10: Vegetable imports and exports, US\$ mn



Source: GeoStat

Figure 11: Structure of vegetable production, 2012



Source: FAOSTat

The Parliament last year adopted a law suspending agro land sales to foreigners until the end of 2014. Land plots already owned by foreigners are exempt from that restriction. We see this ban as a barrier to the sector development and once it is lifted, it should result in higher FDI.

The Georgian government is continuing to support the agricultural sector with unprecedented projects for the second straight year. Projects like the Concessional Loan Program, land reclamation and drainage rehabilitation program, and the Small Farmers Assistance Project (Spring Project) are being actively pushed forward.

Small Farmers Assistance Project (Spring Project)

The Small Farmers Assistance Project is a three-year government initiative, started in 2013. It is aimed at assisting the rural population to develop into small, self-sustained farmers by providing them the means to purchase agricultural goods (fertilizers, pesticides, seeds, inventory, etc.) and help with field cultivation. In particular, farmers owning less than 1.25ha are eligible for the project. The Agricultural Projects Management Agency (APMA) implements the project and provides general oversight.

In 2013, 710,000 farmers participated in the project and around 800,000 farmers are expected to participate in 2014. Last year, over GEL 190mn (US\$ 109mn) was distributed to participants. The funding is estimated at GEL 90mn (US\$ 51mn) in 2014 - significantly lower than in 2013, when more funding was required in the initial project stage. The project is financed by the state budget, the Agriculture Development Fund (non-government organization), and the APMA (non-profit organization established by the Ministry of Agriculture).

Concessional Loan Program

Under the Concessional Loan Program, implemented by the APMA, around GEL 264mn (US\$ 150mn) in loans have been issued as of February 2014 by participating banks. The funding decisions are based on projects' commercial viability. The program started in early 2013 with financing provided to winemaking, livestock and poultry-raising, construction of storage warehouses, grain dryers, and greenhouse farming projects. The structure of financing implies subsidizing of interest costs on concessional loans. As a result, the farmers have to pay only around 2-3% of the interest on loans for fixed assets and 6-7% for working capital. By sectors, livestock, sheep, and winemaking received the largest financing.

Project: Financing Processing Companies

While implementing the Concessional Loan Program, the APMA identified 40 underfinanced regions and allocated US\$ 0.2-1.0mn to each within the framework of a grant program aimed at financing 50-60 processing enterprises. The program expects 40% of the total cost to be financed by the agency as a grant and 50% as a bank loan (with an interest rate not above 14% of which 12% is subsidized by the agency). The funding recipient will contribute the remaining 10%.

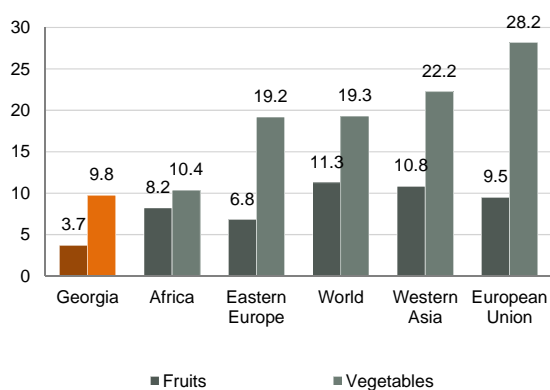
Additional programs and developments

- The Ministry of Agriculture is continuing with land reclamation and drainage rehabilitation works at the total estimated project cost of GEL 9.5mn (US\$ 5mn).
- The government also began a new project to enable farmers to achieve the status of a co-operative (as current agricultural land ownership is very fragmented) and secure the resulting benefits that include tax credits and grants. Co-ops will be eligible for exemptions on income taxes on revenues and grants, as well as land tax.
- The Georgian Co-Investment Fund, a new US\$ 6bn private investment fund, is expected to begin two new agricultural projects (dairy and tomato) with a total investment of around US\$ 59mn.

In addition to the above, there are number of international support and development programs.

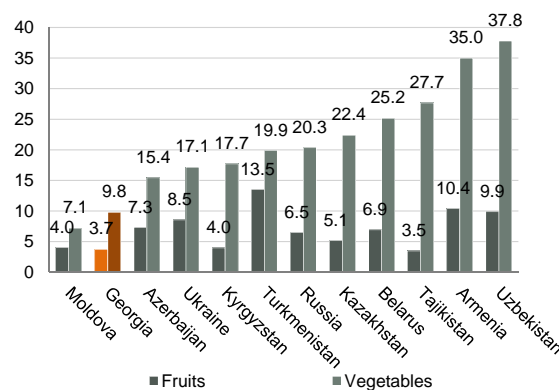
Although many programs are being implemented, there is still a large room for growth in the sector. There are many private sector opportunities given the efficiency and yield gains to be yet achieved. The country's agricultural yields continue to significantly drag behind regional and other peer countries as well as global averages. Yields were as low as 3.0x below the world average on fruit and 2.0x on vegetables in 2012, and 1.8x and 2.0x lower than Eastern European fruit and vegetable yields, respectively.

Figure 12: Agricultural yield comparison, 2012, tonnes/ha



Source: FAOSTat

Figure 13: Agricultural yields vs. CIS states, 2012, tonnes/ha



Source: FAOSTat

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