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## THE ROLE OF AGRICULTURE IN THE DEVELOPMENT OF THE GEORGIAN ECONOMY

### РОЛЬ СЕЛЬСКОГО ХОЗЯЙСТВА В РАЗВИТИИ ЭКОНОМИКИ ГРУЗИИ

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#### ABSTRACT

AGRICULTURE, PRODUCTIVITY,  
AGRICULTURAL SERVICES, ORGANIC  
AGRICULTURAL FOOD SECTOR, EXPORTS

*The article analyzes the structure of agriculture, considers the main agricultural products, agricultural services, organic agricultural food sector; assesses export products and markets. The role and importance of agriculture for the development of the Georgian economy is substantiated.*

#### АННОТАЦИЯ

СЕЛЬСКОЕ ХОЗЯЙСТВО, ПРОИЗВОДИТЕЛЬНОСТЬ, СЕЛЬСКОХОЗЯЙСТВЕННЫЕ УСЛУГИ, ОРГАНИЧЕСКИЙ АГРОПРОДОВОЛЬСТВЕННЫЙ СЕКТОР, ЭКСПОРТ

*В статье проанализирована структура сельского хозяйства, рассмотрены основные сельскохозяйственные продукты, сельскохозяйственные услуги, органический агропродовольственный сектор; проведена оценка экспортных продуктов и рынков. Обоснована роль и значение сельского хозяйства для развития экономики Грузии.*

In 2018, the agricultural production of Georgia was \$1 billion, which accounted for about 6.7 % of the country's GDP. The role of agriculture in employment is significant with 42.9 % of labor force. Rural area in Georgia is home for almost 41.4 % of total population. Contribution of agriculture to foreign trade is notable for agriculture exports accounting for 29.3 %, and the import constituting 15 % of the total.

In Georgia, most of the arable crop land and perennial land is privately owned. Georgian agriculture is characterized by a large number of small size private farmers or, it would be more accurate to say, rural households involved in farming activities. Land structure is very fragmented. There are smallholders with an average of 1.3 ha agricultural land.

**Key agricultural products.** As of 2018, 45 % and 50 % of agricultural output was from plant growing and animal husbandry sectors, respectively. Agricultural services comprise 5 % of

total agricultural output.

Plant production includes, particularly:

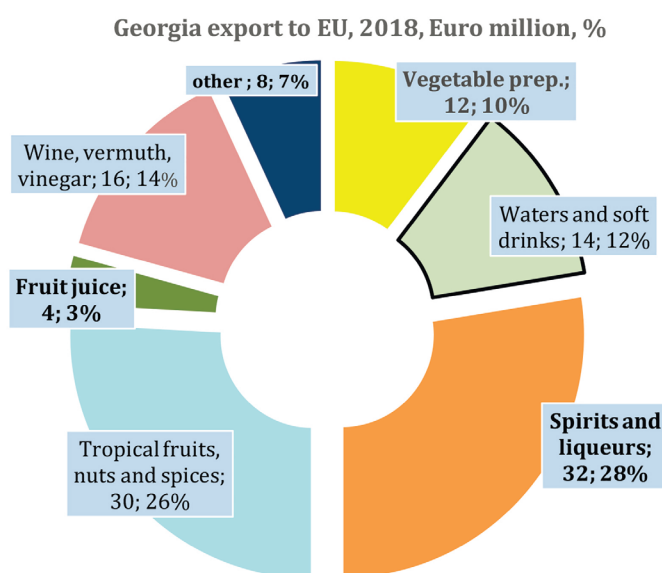
- vegetables (cucumbers, tomato, onions, garlic, pepper);
- fruits (apples, cherries, plums, peaches, pears);
- grapes (mostly for wine);
- melons;
- citrus fruits;
- cereals (wheat, barley, corn);
- potatoes.

Animal husbandry includes, in particular, cattle breeding; sheep breeding; milk and dairy production; poultry.

Key exported products include: wine of fresh grapes, cigars, cigarillos, waters, natural or artificial, alcohol < 80 % vol., other nuts, fresh or dried.

The main export market for Georgian agricultural food products is the Russian market, which contributes for the lion's share of export of alcohol, and mineral waters. In 2018, around 25 % of total agricultural food exports from Georgia were destined to Russia.

Other key agricultural food markets are the markets of the EU and Ukraine. Total agricultural food export from Georgia was \$ 960 billion, of which over \$130 million was shipped to the EU market (Fig. 1) [1].



Source: estimated by the author

**Figure 1 – Georgia export to EU, 2018, million euros, %**

**Georgian organic agricultural food sector** involves over 100 business entities, mostly focused on wine, tea and nuts. Among registered organic operators in Georgia, there are three livestock and dairy producers, and two dozens of beekeepers that are yet listed as conventional. Key organic products - wine, tea, hazelnuts, wild plants, berries and fruits, rose oil, honey.

A large share of wine and other alcoholic drinks produced in Georgia is exported to the EU market (together accounting for around 30% of agricultural food export to the EU). Other key exports to the EU include tropical fruits (with 26 % share), mineral waters and soft drinks, and vegetable preparations. Main exports from Georgia to the EaP

market is wine, and other alcohol beverages, waters and soft drinks, tropical fruits (citrus). The largest export markets among EaP countries are Russia and Ukraine. There are around 180 wine producers in Georgia, of which 100 were engaged in export. About a dozen of wineries produce in the range of 100,000-1,000,000 bottles of wine per year. The wine growing sector is fragmented.

Georgia signed an Association Agreement with the EU in 2014, which became effective in July 2016. EU-Georgia trade relations are determined by the free trade area set up by the DCFTA part of the Association Agreement. The DCFTA sets up a free-trade area between the EU and Georgia in line with the principles of the World Trade Organization. The DCFTA allows for the following:

- removal of import duties for most goods traded between the EU and Georgia;
- provision for broad mutual access to trade in services for both partners;
- both EU and Georgian companies can create a subsidiary or a branch office on a non-discriminatory basis. This means they undergo the same procedures as domestic companies in the partner's market when setting up a business.

Overall, the EU is Georgia's main trade partner. Around 27 % of its trade is with the EU, followed by Turkey (13.6 %), and Russia (11 %). There is scarcity of land resources, and, at the same time low utilization of those scarce resources. Agricultural land is about 2.4 million ha, which also includes pastures and meadows, and forest area is over 2.8 million ha.

Despite the reduction of water withdrawal throughout many years, Georgia still remains a water-stressed country, with water stress level of 56.4 %. The largest share of water withdrawal is attributed to agriculture. Agricultural water withdrawal (including agriculture, aquaculture and forestry) comprises around 72.54 percent of total water withdrawal in the country, including losses [2]. Due to various inefficiencies in the irrigation infrastructure as well as in the management of the irrigation water, water losses in the irrigation system were significant.

**Agricultural machinery and equipment** has been improved through a government supporting program. However, there are inefficiencies in managing and utilization of agricultural machines and equipment. There is also low use of protection equipment and technologies against natural disasters such as heavy rain, hail, and frost.

Insufficient use of advanced technologies, and techniques and means of production leads to low productivity and low quality, and, thus, low competitiveness of agricultural products. Most of the productivity indicators of animal husbandry, crop farming and horticulture are well below those of the EU average. Insufficient use of advanced techniques and means of production is due to the lack of knowledge about effective farming and marketing practices among farmers, and low level of investments in agricultural production and marketing.

Thus, agricultural and food production may suffer from inefficiencies in the agricultural production and in markets. Low level of mechanization of agriculture as well as limited use of modern technologies and practices result in low labor productivity and low incomes of

farmers, which leads to limited opportunities to ensure a satisfactory quality of life through the farming and high levels of poverty.

The prevalence of fragmented smallholders in agriculture, who more often than not are non-professional and non-commercial, creates additional logistical complexities, increases the transportation costs and, thus, the overall cost of production. Small farmers have a weak bargaining power in the market and are highly dependent on market prices dictated by medium and large processors. Primary producer-processor relationships are usually not contract-based, due to which farmers often face problems related to collection of payment for milk from middlemen or processors. This latter issue is a very acute factor that negatively affects the functioning of the milk market today.

The ineffective price formation process in agricultural markets leads to a distorted quality-price relationship, which discourages farmers from improving the quality (as well as processors from seeking high quality primary products and producing high quality products). As a result, food products are often of low quality and are thus priced below the market reducing competitiveness of processors and their margins.

In terms of gender involvement, it is important to note that a large proportion of the female workforce is employed in agriculture, while only every third male person being in this sector. The misplacement of skill and lower rate of representation is likely to hit the sub-segment of the market by more women being engaged in small scale farming, so when devising programs, it is important to factor the gender dimension as it has implications on the choice of activities that would lead to positive change.

## REFERENCE

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