

Development of a Policy for Less Favoured Areas in Georgia

Entwicklung einer Politik für benachteiligte Gebiete in Georgien

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Summary

This paper discusses the chances of success in adapting the EU LFA scheme to improve competitiveness, based on the example of a project in Georgia in the years 2014-2015, "Consulting services on Less Favourable Area Development", as part of a broader FAO project on the topic of capacity development. The definition of appropriate LFAs and the introduction of LFA direct payments were identified as the central challenges for the project. The results show that the administrative, technical and financial conditions for an LFA policy implementation similar to those in the EU are currently lacking in Georgia. A workable solution might be to implement LFA policies initially in pilot regions in Georgia and evaluate the results as a next step.

Keywords: Agricultural Policy, Georgia, Less Favoured Areas (LFA), Rural Development

Zusammenfassung

Das vorliegende Paper diskutiert die Erfolgchancen einer Adaptierung des EU-Schemas zur Förderung benachteiligter Regionen am Beispiel eines FAO Projektes in Georgien in den Jahren 2014-2015, „Consulting Services on Less Favourable Area Development“ im Rahmen eines breiter angelegten Projektes zum Thema Capacity Development. Die Abgrenzung geeigneter benachteiligter Gebiete sowie die Einführung eines Schemas von Unterstützungszahlungen für landwirtschaftliche Betriebe waren die Herausforderungen. Die

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Resultate zeigen, dass die administrativen, technischen und finanziellen Bedingungen zur Einführung einer Politik für benachteiligte Gebiete wie in der EU in Georgien gegenwärtig nicht vorhanden sind. Eine Lösung könnte sein, mit vereinfachten Regelungen in Pilotregionen zu starten und diese in einem nächsten Schritt zu evaluieren.

Schlagerworte: Agrarpolitik, Benachteiligte Gebiete, Georgien, Ländliche Entwicklung

1. Introduction and objectives

The contents of this paper are based on experience and results of the FAO project "Recommendations for Defining Less Favourable Areas (LFA) in Georgia". It was carried out by an Austrian consortium consisting of Agrarmarkt Austria, the Federal Institute for Less Favoured and Mountainous Areas and the Federal Institute of Agricultural Economics in the first months of 2015 (GMEINER et al., 2015). The objectives were to:

- Outline existing LFA policies and practices in the EU and CEEC,
- Show delimitation options and proposition of indicators defining Georgian LFAs,
- Analyse data availability and gaps, administrative capacity and responsibilities,
- Show potential impacts of a future LFA support in Georgia,
- Make recommendations on policy options to support LFAs in Georgia.

The problems in Georgia have a natural, an economic and a political dimension. The natural conditions, with large areas of mountainous regions (Greater Caucasus in the north up to 5,000m above sea level, Lesser Caucasus in the south up to 4,000m above sea level), are obstacles in development as well as related problems such as the ageing population and depopulation in rural areas, lacking infrastructure and a very small-scale, outdated agriculture - mostly subsistence farms (table 1). Georgia is a net food importer with 80 percent of food requirements are met from abroad. Agricultural production is fragmented and productivity is low. In 2012, the five top agricultural products in terms of value in Georgia were cow milk,

grapes, cattle meat, hazelnuts and potatoes (FAO 2014). Georgia is still suffering from the economic collapse after 1990 and of the Russian embargo whereas previously the whole economic system was oriented on Russia.

Table 1: Structures of agricultural holdings in Georgia 2013

Number of agricultural holdings	729,542
of this in per cent:	
Family holdings	98.8
Holding operators aged 55-65 years	18.5
Holding operators aged >65 years	36.2
Holdings with agriculture as the operator's main activity	73.8
Holdings with production mainly for self-consumption	81.5
Holdings with an area <2ha	93.2

Source: NATIONAL STATISTICS OFFICE OF GEORGIA, 2013.
http://www.geostat.ge/index.php?action=page&p_id=428&lang=eng (9.6.2015)

2. Theory and methods

The neoliberal economic concept of development and growth was considered as appropriate for the project. It is mainly characterised by the opening of markets, government de-regulation (rule of the markets, cutting public expenditure for social services) and privatisation of state-owned enterprises, goods and services (GLOBAL THINKING 2.0, 2015). In this context world-market integration of developing countries is seen as a suitable way for economic development. Hence the requirement that support for organisations, structures and activities in industrialised countries should also be adopted and implemented in the agricultural sector of developing countries like Georgia in order to stimulate positive development (growth). Our hypothesis was that it would be possible to apply the EU LFAs support system and thus improving competitiveness of the agriculture in Georgia. But in the academic discussion there are growing differences over social, political, economic and cultural impacts of the neoliberal concept of economic globalisation and its benefit for developing countries (BERNAUER, 2008; WISSEL, 2012; KRATZWALD, 2012; UNCTAD, 2013).

The set of methods used in the project was partly predefined by the client FAO and partly developed by the Austrian consortium. The methods consisted of intensive analyses of literature, respective EU

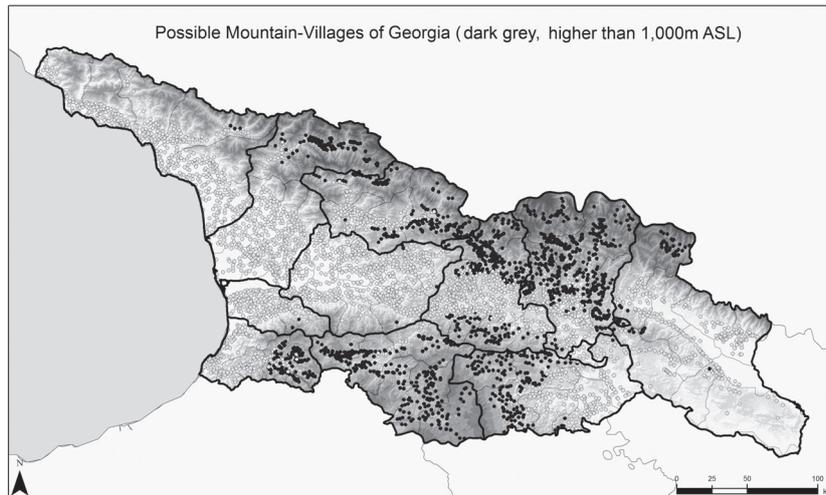
regulations and the implementation of EU regulations on LFAs in various countries (EU as well as Central and Eastern European Countries), followed by stakeholder workshops, expert interviews, data mining and collection and a field trip in Georgia. The challenge was to draw conclusions on whether an LFA policy similar to EU regulations would make sense under the specific circumstances in Georgia.

3. EU policy for Less Favoured Areas in relation to the specific Georgian situation

Policies and practices – based on EU regulations for LFAs – show the long tradition of support for LFAs and very sophisticated systems of LFA delineation and shaping of the support for farmers via direct payments depending on natural handicaps and farm size. For the 2007-2013 period, 54% of the overall Utilised Agricultural Area in the EU was classified as Less Favoured Area in three different categories (15.6% mountain areas, 35.5% areas other than mountain areas and 2.9% areas affected by specific constraints). The extent of LFAs, the amount of absolute and per hectare payments and the differentiation of payments vary widely from one EU member state to another (IEEP 2006; EUROPEAN COMMISSION 2012). The great variety of delineation criteria for areas other than mountain areas within the EU has long been criticised (EUROPEAN COMMISSION 2009). In the new programming period 2014–2020, eight biophysical criteria such as climate, soil and terrain have been specified for areas other than mountain areas, which are to be applied by the member states from at least 2018 onwards (EUROPEAN UNION 2013). The LFA policy implementation needs a very detailed data base and an extensive administrative and control system. For various reasons the non-EU member states implement simpler systems, not delineating all three categories and establishing no direct payments to farmers but using the LFA delineation to argue for higher percentages of aid or as a selection criterion for subsidised projects (GMEINER et al., 2015).

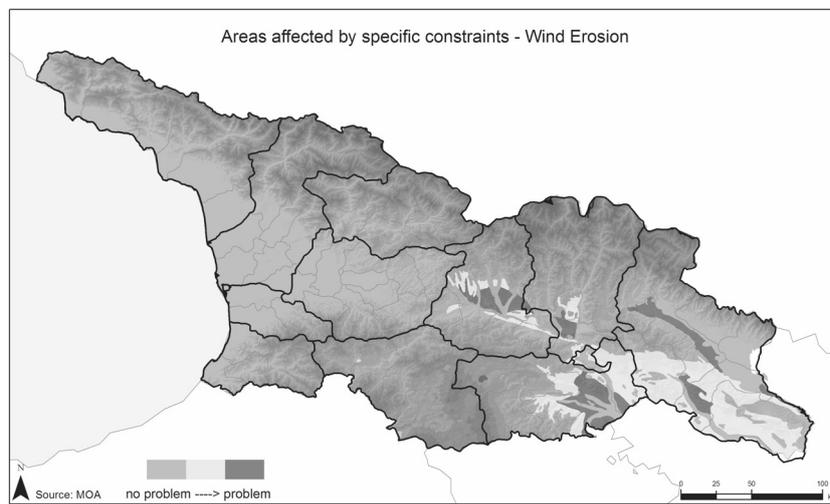
In Georgia many preconditions for public support are lacking and only slowly improving in pilot projects, e.g. land registration, definition of farm holdings, animal registration, large-scale soil and climate data.

Graph 1 shows that about 1,500 out of 4,472 villages would be able to be classified as mountain villages (dark points, 1,000m above sea level).



Graph 1: Possible mountain villages

Source: GMEINER et al., 2015



Graph 2: Regions with specific constraints (wind erosion)

Source: GMEINER et al., 2015

In addition there are other specific constraints; graph 2 for example shows regions in Eastern part of Georgia endangered by wind erosion which is a major problem in Georgia and might be an important criterion for the delineation of LFAs other than mountain areas. Wind erosion reduces the capacity of the soil to store nutrients and water, thus making the environment drier.

4. Project results and recommendations for LFA support in Georgia

Problems in Georgia's rural regions are evident and concern natural constraints on agricultural production, infrastructure deficits, rural depopulation and other demographic problems and a low agricultural education level (MINISTRY OF AGRICULTURE, 2015). There is currently not sufficient administrative and financial capacity in Georgia to delineate LFAs in the agricultural sense across the country. As the budgetary situation is very tight, the introduction of LFA direct payments in the near future is unlikely, but impacts of LFA direct payments would be mainly positive. Such payments mostly act in combination with various other measures. Efforts to improve the rural situation are being undertaken. The MINISTRY OF REGIONAL DEVELOPMENT AND INFRASTRUCTURE'S draft bill on mountainous areas and settlements (2015) and the already adopted Strategy for Agriculture of the MINISTRY OF AGRICULTURE (2015) comprise various strategies and measures for rural and regional development but need to be coordinated horizontally (among ministries and NGOs) and vertically (at administrative levels). The project work resulted in the following main recommendations:

- Improvement of coordination and communication of Ministry of Agriculture with other ministries, relevant stakeholders and NGOs. A prior task is to set up a common working group with all relevant stakeholders at national, regional and local level, including national and international experts as well as donor organisations.
- Coordination of the existing two strategies. The Strategy for Agricultural Development of the Ministry of Agriculture and the Bill on Mountainous Areas and Settlements of the Ministry of Regional Development and Infrastructure follow similar objectives and show a potential of synergies.

- Coordination with forestry policy (Ministry of Environment). Currently there is hardly any link between agriculture and forestry which could help to mitigate certain handicaps and hazards for agriculture.
- Defining a hierarchy of the main objectives for rural development and of the measures to implement them. Various measures are in discussion but under the given restrictive financial and administrative resources a clear priority should enable a better targeting.
- Starting LFA payments in pilot regions. For the same reasons as above it seems not realistic to implement the LFA policy for the whole country right from the start. Precondition for a pilot region selection is sufficient information on the LFA criteria.
- Combining and coordinating the implementation of an LFA measure with other rural and regional strategies. Goals could be reached for example by using the LFA status as a criterion for the selection as beneficiary or for higher funding rates of other measures.

With regard to the delineation of less favoured areas in Georgia the following recommendations are key:

- Setting up of necessary administrative capacities and filling of data gaps to enable statistical analyses.
- Building a data management system for available data (based on EU INSPIRE). Up to now various datasets are kept in several ministries and agencies and are not centrally structured or accessible.
- Delineation of only two categories of LFAs: mountain areas and other LFAs (not three categories as in EU). Owing to the regional situation, the importance of socio-economic factors, the data availability, the financial capacities and the bureaucratic efforts it is suggested to merge the EU categories "other than mountain areas" and "other areas affected by specific constraints".
- Delineation of LFAs mainly at the municipal level to keep the amount of necessary data and administration on a low level. In case of huge different economic range of farm enterprises a differentiation on farm level might be necessary.
- Predominantly natural criteria (altitude, slope) and biophysical criteria (soil quality, climate, etc.) should be used for delineation; supplement required with socio-economic criteria.

5. Conclusions

Georgia is a net importer of agricultural goods and the productivity of agriculture is much less than in the EU. Therefore trying to achieve global competitiveness of agriculture, as suggested by the neoliberal economic theory, cannot be the primary goal for Georgia. The generally difficult situation of Georgia is also reflected in the results of the project, whether and in what form the EU model of support for LFAs could be transferred to Georgia to improve productivity and competitiveness of agriculture. Because of the lack of budget resources, the absence of the necessary administrative capacities and the existing of major data gaps for delineation of LFAs an introduction of LFA direct payments in Georgia similar to the EU model is unrealistic in the near future. A workable solution may be to implement LFA policies initially in pilot regions in mountain areas where the LFA status could be a criterion for the selection as a beneficiary for higher funding rates. But any LFA payments should be part of a wider rural development initiative or programme. As a next step an international consulting service could evaluate the results of such an approach.

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