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**Major Tendencies of the Agro Production and Export Development in the sector of Agriculture of Adjara Autonomies Republic**

**Abstract**

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## Introduction

**Actuality of the thesis.** In the process of ensuring compliance to the modern era of globalization of the agricultural market Georgia has to become part of the global market, forming part of the process, it is necessary for the production of agricultural commodity. For that, Georgian agricultural enterprises at their disposal, and the implementation of resource potential for additional resources should be allowed, which enables the formation to the World Food Market formation of internal food market and their strengthening of the positions. So far, the development of the Georgian agricultural sector of the internal market cannot meet those requirements, the rational use of the potential of this problem possibly will resolve export of agro products.

The issue of actuality extent due to the cross-border trade relations and improvement of regulations remains the key objective of the World Trade Organization (WTO), because it takes into account the globalization of the economy and the rapid variation of the current events, the development of economic relations and strengthening the integration processes.

As a result, it is necessity for some countries to set up the certain objectives in order to comply with the make of agricultural commodities export performance of business entities and permanent perfection of the processes. The agricultural sector in export activities of interest related with this idea has led to the study of the topic.

The formation of market relations in agriculture sector is especially complex, its reforms have been implemented in two directions:

1. Privatization of the Agricultural lands;
2. Reorganization and restructuring of the organizational forms of agricultural enterprises;

Nowadays the agriculture of AR of Adjara is facing new challenges. This raises the question of what the new role should play in the regional agricultural economy.

The issue is about, what is the potential of this filed, does it has a relative trade advantages at the development of rural productions and whether

it should be given special attention to local needs and the needs of export markets or not.

Today Georgia consumes much more imported food products than it produces. Hence we need to find out in Georgia what field structure takes place in this area. Whether is it worth to focus on policy (recognition of agriculture as a priority field)?

Compared to previous years the agricultural sector is being developed rapidly, but the small size of farms cannot provide the high effectiveness and efficiency. Facing with enormous and different obstacles, starting with the market introduction of low-cost production by importers and ending agricultural underdeveloped infrastructure, low level of qualified employees, various technologies and a lack of resources, the absence of private and state infrastructures and organizational uncertainties, which are related to the strategic role of agricultural development of Georgia.

In our country, in particular in the Adjara region of the food market, the present situation and the balance of foreign trade deficit (which is essentially due to the import of food) except that cannot improve or even provide the necessary physiological norms for dietary the people, practically eliminates the country's further integration into the world economy, hence the problem is very imperative.

Adjara's agricultural production sector and export development problem is possible only by properly arranging the organizational and legal forms of agricultural enterprises, their entrepreneurship and the creation of favorable conditions for the effective use of their productive potential.

**The goal of the thesis:** The study aims to determine the main recommendations of development of production and export. Adjara's agricultural sector analysis, evaluation and improvement of the processes of formation/offer of proposals, subject to compliance with the World Trade Organization (WTO) agreement, which should has stimulating effect to the agricultural export business activities.

**To accomplish the research were determined the following kinds of tasks:**

- ✓ Export and import dynamics of Agricultural products and influencing factors of determining the production potential of the agricultural sector's export enforcement detection and classification of reserves;
- ✓ Analysis of tariff and non- tariff mechanisms for the development of export stimulating impact of the regional agricultural sector;
- ✓ Advance mechanisms of extrapolated<sup>2</sup> trends and analysis of the agricultural export-import activities of the farms;
- ✓ Recommendations to agricultural business for food export development tariffs and mechanisms in order to improve the exporter firm's capabilities;
- ✓ Stimulating the development of models of the agricultural exporter's activities. Export-oriented agricultural activities of the exporter's methods of optimization algorithm and procedural structure;

**Research subject and object:** The **subject** of the research is the agriculture and the agro-food sector in the Autonomous Republic of Adjara, and the **object** stands for the reforms in agriculture as a post-production/export potential of integration and functioning of the cooperatives, the role of agricultural sector in the determination of the national food security problems; the concept of modern approaches to the analysis of the agricultural sector globalization, regionalization and integration; Georgian and European cooperation in the historical review.

The theme is relevant as a methodological aspect of the national so international food markets in the agricultural market behavior as well, regulatory mechanisms, especially the practical aspects of the research, modern economists in Georgia have proper ignore on them, this is due to many

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<sup>2</sup>Extend the application of (a method or conclusion, especially one based on statistics) to an unknown situation by assuming that existing trends will continue or similar methods will be applicable.

reasons, including domestic markets in the agricultural sector entities to the potential of lower levels of participation.

**Theoretical and methodological value of the research:** The role of agro-food sector should give the recommendations for development which will increase the exports of produced goods, theoretical studies of growth in scale of the region will become the basis for the future strategic development in export of agricultural products, this will enhance the socio-economic welfare, the growth to meet the existed demand of agro-food products and reduction of poverty.

The thesis of the proposed methods, approaches and recommendations can be used for the regional agricultural production and export strategy, which will contribute to the development of the agricultural sector of the population and high level of life standard.

**Scientific novelty of the thesis:** The scientific invention results of the research follow as:

- ✓ Has been developed the activities of mechanism to promote the agricultural exporter firms, is generalized their motivation to improve the methods of theoretical and methodological aspects;

- ✓ Has been developed export trades of supporting improvements and recommendations that should be considered by the competent authorities of the Adjara region in the agricultural sector production and to create a sustainable development of agriculture and its export potential to the maximum activation conditions;

- ✓ Was revealed the role in the field of agricultural sector about national and global food security problems, analyzed the development of the agricultural sector in the use of modern concepts in Georgia;

**Results of the research:** The main provisions and the results of 5 (five) articles of the study published in international conferences in the form of material, and international peer-reviewed magazines.

**The volume and structure of work:** Thesis goals and objectives defined structure of the work, which is built in a logical sequence, the relationship

between the individual issues, in-depth analysis of the principles of study. The work consists of 188 pages. It contains an introduction, three chapters, nine subtitle, conclusions, proposals, used (including a foreign language) literature and Annexes.

**The content of structure follows as:**

### **Introduction**

#### **Chapter I. The role of the agricultural sector as a solution in the national and global food security problem**

1.1. The world agricultural development trends, food capacity, reality and predictions.

1.2. Contemporary condition of the agricultural sector and the strategic directions of Georgia.

1.3. Development of the agricultural sector and the potentials to use modern concepts of analysis in Georgia.

#### **Chapter II. Importance of agricultural sector and its potential in AR of Adjara to resolve the socio-economic and food security problems in Georgia**

2.1. AR of Adjara Historical aspects for the development of agrarian sector.

2.2. Government priorities of the Adjara's agricultural production trends at the current stage.

2.3. Expansion of AR of Adjara production and purpose of export potential in the agricultural sector.

#### **Chapter III. Production problems of the export-oriented goods in agricultural sector and the main directions of expansion in AR of Adjara**

3.1. The legislative base and the regulation directions of the export productions.

3.2. Perfection of basic guidelines of cooperatives and farmers material stimulation in increasing of the production export goods.

3.3. Development perspectives of Adjara farm industry and upgrading ways to optimize the production and the export economic effectiveness

### **Conclusions and Recommendations**

### **References**

### **Appendix**

### **A brief summary of the thesis:**

Introduction of the thesis presents actuality of the research, goals, and methodology.

The first Chapter **“The role of the agricultural sector as a solution in the national and global food security problem”** describes the role and importance of different stages of agricultural development in modern world.

For centuries, all around the world agricultural production existed in the form of subsistence farming (mostly individual farming). In fact, we are going back to that initial stage. It is well known, that the main goal of the business is making profit, which in many cases collides with the interests of the farmer – small, private farm houses, which in many cases have to cope with the unfair business deals, because they simply cannot compete with the mechanized farms in both processing and distribution.

Corporate integration is the type of integration, during which Integrator Company acquires part of the assets of the farmers. At the same time, those companies also have processing factories. Vertical integration gives the chance to the farmers to transfer some of the risks to the integrator company.

It is better to be called a farmers' cooperative an agricultural cooperatives as a modern commercial combined farms. It represents a form of organization of production, in which the common economic goals voluntarily are united in the agricultural producers. Farmers' cooperatives can cover all farmers and thus seize the entire market. If market economy allegedly is prohibited as it struggles with monopolistic tendencies in the state, family-run business should merge to the cooperatives, which might occupy small portion of monopolized positions in the market.

Above mentioned does not allow us to prove a form of cooperative production as a whole. The cooperative often suffers from a lack of investment because they represent less mobile forms of an organizing production because they can slowly adapt the market changes. It should be noted that this form of isolated small market allows farmers to be involved in the overall economic system. The first and most common form of agricultural



cooperatives are product supply/delivery cooperatives, which provide the collective selling of products. In This approach they are encouraged to compete on the market for larger enterprises and do not sell only raw materials, but also finished products too- with higher income. So the cooperative itself takes function as a processor of products.

Another form of cooperatives is the common logistic supply and service. Vertical integration is a more common form of cooperative than the agro-industrial integration. The so-called "Cooperative" countries, such as Sweden, the Netherlands, Denmark and others, series of products according to the sales they hold up to 100% of the market, in the USA - 30%. In our country where the products have become a major manufacturers of a small family farms, the cooperatives of a large scale is inevitable.

The representatives of the classic theory (Adam Smith and others) as discussed in the economic development process that is required for the production factors in the distribution of low labor productivity in the agricultural sector from the dominating traditional to the high-tech sectors. During this period agriculture was responsible and was considered as a passive role in the employment and food production sector. In addition, there was an expectation that the development of agriculture as a traditional sector a substantially reduced depending on how the country would be transformed from a traditional economy to a modern open international globalized economy.

It is more advantageous if farmer's cooperatives are referred as agricultural cooperatives, because they also include modern commercial farms. It represents organizational form of production, in which producers of agricultural products are united to achieve common goals. Farmers' cooperatives could unite all the farmers and thus dominate the whole market.

Control from the governments side on the activities of the cooperatives is limited only to observation and control, in other words, are the activities conducted by the cooperatives in accordance with the legislation and cooperatives charter. Despite the fact that historically cooperatives were created with the support from the government's side, there are many

differences in regulating the cooperatives activities by the governments. Good example could be the experience of the European countries, which is presented in details in the subject thesis, for instance:

In **France**, differing from the other European countries, traditionally government has been more involved in support of the agricultural cooperative activities, the main reason is to stop dishonest individuals from using the government subsidies and other tax deductions.

On the other hand in **Finland**, there is no government support for the agricultural cooperatives. Similar to Finland, many Scandinavian countries have very limited or no support system for the agricultural cooperatives, as well as in Netherlands, Belgium and United States.

In **Italy**, cooperatives are exempt from taxes for the first 10 years of their establishing. In **Germany**, farmer's cooperatives, which are producing, processing and selling the agricultural products are tax exempt for the economic activities conducted between the members of the cooperatives.

In **Denmark**, differing from the business entrepreneurship, agricultural cooperatives are being taxed with the lower rate: 50% for business enterprises, and only 20% for agricultural cooperatives.

In **Spain**, where common tax rate is set on 35%, agricultural cooperatives have to pay only 10%. In addition to tax subsidies, government also provides financial support to the agricultural cooperatives in the country.

In countries like **Sweden**, **Norway** and **Finland** issues like: prices on the agricultural products, budgetary expenses on the agricultural sector, support of the small size agricultural product producers, subsidies on the exports and similar issues are approved only after extensive negotiations between the governmental agencies and representatives of the agricultural cooperatives.

**European Union** by providing common agricultural policies influences development of the agricultural cooperatives. European Union uses cooperative policies in the member states in order to support the integrational process of the agricultural cooperatives on the common market.

**Baltic States** are being presented in the subject thesis as the comparison with Georgia, considering historical and other similarities between these countries. Baltic States are in many fields exemplary countries considering the reforms they implemented, especially in the agricultural field.

In **Lithuania** about 227 000 people are employed in agriculture, which forms 6% of GDP. Agricultural land area of 3.5 million hectares (ha), of which 2.95 million ha is arable. Main exported products are: fish, milk, butter, cheese and etc.

Lithuania declared its goal soon after the general privatization process, which is the first stage of a relatively haphazard manner, but the process has provided a rapid transition to a market economy on the principles of inevitability.

Lithuania privatization of state property was carried out in two stages. The first phase which lasted from 1991-1995 over the years, including the privatization of the general preferential terms. In the framework of a strategic private owners pay a sum of money, as well as in the investment commitment. Since 1996, starting the second phase of privatization was relatively liberal, and only against payment of private property right granted by the owner.

Reforms of the privatization processes and the legislative acts carted 19 state enterprises in Lithuania agricultural profile which exists nowadays, but none of these companies are not the manufacturer of the products. Most of them are the standards and quality of agricultural products and food safety agencies to protects native enterprises. For example, the Ministry of Agriculture, founded by one of the enterprise "Pieno Tyrimai", is authorized by the country of milk quality control agency. Such enterprises ranks among "the Lithuanian agricultural and food markets agency regulations", which has been implemented since 1998 by the Lithuania produced food products quality monitoring.

**Latvia**, according to official figures, 1.86 million hectares of agricultural land is owned by the state, of which 1.2 million ha are tilling. Total employment in the sector are employed 1.3%, while the main export deliv-

ers to Russia, much of which goes for vegetables, fish and dairy products. Like Lithuania, in Latvia post-independence period the privatization process were very active. Agricultural enterprises of state assets and privatization of assets was registered with the Commission which were determined by the sale and/or purchase agreements, according which the buyer signified their business plan by the implementation of its liability.

It is significant that Latvian agricultural enterprises assets alienation process of agricultural land reform was similar with the Soviet Union after the collapse, first of all, the land transferred to their original owners and/or their offspring, while the rest of the resource could be transferred and sold to any interested person except the foreigners.

Land reform and privatization processes in Latvia promoted cooperatives were setup as a result of privatization, 60% of agricultural lands, state-owned enterprises and their property were sold to the cooperatives, and the rest 40% of these enterprises to the former owners of the property. The Latvian land reform and agricultural enterprises alienation based to the Latvian "Institute of Economics" by Doctor Andris Miglavsis "The organization for economic cooperation and development," written in collaboration with the study of agriculture policy and its effectiveness, entitled: "review agricultural policies"

**Estonia's** agricultural sector is relatively small, out of 945,000 hectares of agricultural land only 632,000 ha is arable. Here is a well-developed animal husbandry sector, while the total area of more than 3% is employed. Despite the downward trend, the Estonian agricultural products for export in large part still come on Russia.

Farmers' behavior were based on the independence and individualism. Even before the collapse of the Soviet Union, Estonia has dared and the collective farms lands owned by the farmers were given the right to own land in order to reunite with their neighbors. These cases were the first Western-style cooperative germ in the former Soviet Union.

First year of the independence of the Estonian authorities openly declared free market and price liberalization policy. The system changed at

the legislative level. Since 1991 the agricultural enterprises and the full accomplishment of the land, which was completed before the end of 1997.

A good example represents story of the former, “Estonian irrigation systems and the agricultural tractor services companies”. Where the State owned 23 regional enterprises, drainage, irrigation and reclamation systems of service, as well as state-owned agricultural machinery services in this field. Their public auction resulted the sales and currently on the basis of 23 enterprises 125 converted to the private enterprises.

**Georgia** is one of the few post-Soviet countries which in 2010, according to its GDP level was far beyond the level it had in 1990 (25% less than in 1990). At the same period the rise in GDP in Estonia was 63%, Latvia – 28%, Lithuania – 24%, Armenia – 66%, Azerbaijan – 87%. In case of Azerbaijan, it could be explained by the oil production tendency. But on the other hand Ireland is not oil producer country, and even in the time of the crises managed to double the GDP, the same with South Korea with 137% rise. Both countries managed to achieve it by implementing the effective economic policies. In Georgia, from 1997 to 2003 the rise was at 70%, from 2004 to 2010 only – 36%.

In many cases success of the governments are achieved by manipulating the numbers and data: for instance in April of 2012 it was well PR-ed that the prices on groceries went down by 8%, but nothing was said about the fact that the prices on the same products in 2011 went up by 28%, and in reality the prices in 2012 were still up for 18% than in 2010. Which unfortunately became a tendency for the country and thus brings the same results for the years 2012-2014.

According to the prognoses published by the United Nations, the population of the Earth will rise from current 7 billion to 9 billion. In addition to that climate change and other challenges create problems in creation of sustainable supply of agricultural products to the population of Earth. If we add the current financial and economic problems the situation gets even worse. Of course, Georgia as the part of modern world economy will not be separate in this situation. Despite the process of economic transition, Geor-

Georgia still faces the poverty among its population as well as the problem in supply of the population with agricultural products. Thus, one of the most important challenges for the country is creation of the model of development of agricultural sector in the way to be able to provide sustainable supply of quality agricultural products to its citizens.

Nowadays, out of the overall population 54% is involved in agricultural sector, out of 98% are self-employed. Considering this data, it is important to create additional work places and jobs in the agricultural sector, development of the family owned agricultural entities and economic diversification. Current situation in agricultural sector has a great influence on the poverty level throughout the country. On the current level, the GDP accumulated from the agricultural sector in Georgia counts only 12%. As for the export, the share of the agricultural products and goods is set to 24%. It is clear that for the country with vast possibilities and variety of agricultural products the results are far from being satisfactory.

Before 2012 the agricultural sector was not viewed as priority sector (although it was declared) and, therefore, the budget expenses were variable. In 2010 government expenditures for the agriculture development reached to absolute minimum. Their share of the total budget expenditure remained only 0,44%. 2007-2011 years, the Ministry of Agriculture budget was allocated and focused for the programs of socially disabled people, all those expenses partially was spent on support of the population with flour, food and fuel.

We believe that the elimination of current conditions of the agriculture crisis should be an urgent task of our government. Overcoming the agri crisis and the efficient functioning of the sector to the current situation in terms of agro-industrial complex integration processes, the regulation of agriculture is impossible without integration. Resolving the problems which require the analysis must be based on modern methodology.

Since 2012, the new government has radically changed the attitude towards to agricultural development. Georgia declared agriculture as a priority sector, accordingly budget of the Ministry of Agriculture's has been

increased by several times, Special attention was paid to the reclamation works, agricultural technology and its use, small landowners and farmers' assistance in implementation of the program, livestock Disease control the conduct of preventive measures, the allocation of funds for the purchase of laboratory, technical equipment which allows passing of accreditation. Special attention is paid to the diversification of the international markets.

Georgia was actively embarked on an open economic development. National Agricultural Market transformation was most painfully and seriously smashed to agriculture sector, as food production and potential should be based by the relative balances of its import and export.

Local firms are competing on equal conditions with foreign companies which are posting strong sales significantly, in result the locals are hindered to the establishment of markets for their products. Significantly reduced domestic production and sales of the native products (especially in export) volume. Consequently Georgia revealed in danger to the loss of food security, according to international standards, the country may face certain problem if the food imported share on the domestic food market will exceed 30% of the total volume. In this regard, Georgia really appears in alarming situation, because on the local consumer market 3/4 of agricultural products is sold from the imported products.

In 2013-16 years the portion of ploughed lands has drastically risen, it was a result of governments special program aimed to support local farmers, unfortunately private sector will not be able to replace the government programs for long period and keeping already achieved results will be a challenge. Georgia has free trade agreement with Turkey and Ukraine, almost with all CIS countries Georgia has bilateral trade agreements. Despite the fact that new trade agreement with the European Union “Deep and Comprehensive Free Trade Areas (DCFTA)”, which opens many opportunities for exported products, a lot has to be done in order to support the agricultural industry in Georgia. it is important to take into account **7 main directions** and supporting activities aimed to strategically develop agricul-

tural sector of Georgia. in addition to that corresponding action plan has been developed as well as the time schedule and sources of financing:

- I. Increasing the competitiveness of the agriculture workers;
- II. Institutional development;
- III. Land reclamation and soil fertility;
- IV. Regional and sectorial development - the value added and product life cycle development;
- V. Ensuring of food security;
- VI. Food safety, veterinary and plant protection;
- VII. Climate Changes, the preservation of environment and biodiversity.

The second **Chapter Importance of agricultural sector and its potential in AR of Adjara to resolve the socio-economic and food security problems in Georgia** shows different directions of agricultural development of the region. It is represented as the way of lowering the poverty and potential way of job creation. As you are well aware, Adjara represents agricultural region and the most common directions are represented with subtropical cultures, tea and citrus. Other strategic fields of economy represent: tourism and agriculture.

We can consider agricultural sector as one of the biggest contributors to the economy of the region, and as the sector which has a huge potential of developing. Besides the technical and other type of assets needed for successful agriculture, there are four important aspects of agriculture in the region: land, plants, animals and people.

Nowadays very important issue is to use to the maximum the possibilities of development of the traditional agricultural directions of tea cultivation and growing citrus in the region. Intensive usage of the tea plants for the last decades drastically decreased the harvest as well as the quality of the tea. More than 21% of tea plantation in the region are more than 40-50 years old; 37% is even older than that. At the same time, the fact that previously no attention was paid to the quality of tea, no action has been made in order to modernize or technologically advance tea production.



Agricultural products produced in Adjara provide great potential for thriving of the factories producing canned food. Despite the fact that there is huge need and will from the population to produce canned food, no sufficient investments have been made in this regard. In addition to that, import of the lower quality and cheaper agricultural products makes it less likely to happen soon.

Strategic development of Adjara agricultural sector should be based on sustainability, which should create environment where competition among the farmers and producers will rise, as well as stable growth of the agricultural production, quality protection and fighting the poverty in the rural areas. The region of Adjara is known for small plots of land per farmer, in addition to that problems are caused by the high level of amortization of existing plants and low level of modernization in the sector.

The tendencies in development of the regional agricultural sector give us the chance to group subcategories according with the importance of strategic development:

1. **Oriented to the export:** citrus, subtropical cultures (Persimmon, Feijoa, Actinidia, Bay leaf), tea plantations, fruit farming (fresh and processed), hazelnut, tobacco, honey production.

2. **Import replacing and oriented on touristic demand:** fruit and vegetable farming, potatoes, stock-breeding, fishing, tea plantations.

3. **Oriented on self-sustainability:** potatoes, wineries, fruit and vegetable farming, stock-breeding, etc.

Adjara region has a great potential to develop export oriented agricultural products. Considering the fact that there are many investors interested in participating in the ongoing process, it is vital that informational campaign is carried out so that the local producers and investors are connected. It is also important to regularly conduct the analyses of the expectations of the investors as well as their needs.

Development of the export infrastructure implies implementation of the certain activities, including preparation of the exported products, i.e. packaging, in addition to that important issues are demand analyses of the

foreign markets, finding the cheapest ways for transporting the products to the destination markets, overview of the product sales and developing the proper monitoring procedure, etc. Development of the export sector in the region is under competence of the Ministry of Agriculture, the same way it is obligated to support sales of agricultural products from the region. In addition to that people who are interested in exporting the products are mainly the farmers and businessmen working in the agricultural sector.

The users for the maintaining an organizational system the Ministry of Agriculture provides certain services for free (e.g., consultancies of farmers, agricultural production in various aspects of the agri-business associations, institutional development etc.).

Part of the service will be at minimal price compared to the market value which will be available much lower prices. Public legal entity (LEPL) "The Ministry of Agriculture Laboratory" and (Non-commercial) legal entity (NAPR) "Agro Service Center" paid services aims not generate profits, but mainly to cover the cost of the service, It will enables to these institutions to make services available to many customers. Thus, the Ministry of Agriculture organizational system faces the challenge to take into account the solvency of customers to implement flexible pricing policy.

Development of the agricultural business skills is one of the priorities of the regional development plan. The strategy itself implies compensating the lack of professionals in the sector by educating people in abroad, most of students currently studying this sector.

In 2014 the decision of government enacted the agricultural insurance pilot program that provides insurance of agricultural harvests form the following risks, such as: hail, excessive rainfall, hurricanes and the autumn frost. The program aims to: a) Insurance of agrarian sector market; b) Promoting the agricultural activities; c) Increasing the competitiveness of Persons employed in agriculture sector; d) Maintenance of income and risk reduction of those individuals who are involved in agricultural activities.

According to the legislation the program is implemented by the Agricultural Projects Management Agency, which contracts with insurance

companies licensed and allocated in Georgia. Insurance risks such as the Autumn Frost - the insurance applies only to citrus crops from September 1 to December 10 periods, the sharp drop in temperature as a result of thermal damage to citrus crops.

Third Chapter of the thesis **Production problems of the export-oriented goods in agricultural sector and the main directions of expansion in AR of Adjara** shows the analyses of study results of the agricultural products for export.

Since 2012, the main goal is still unchanged and represents building united, strong, law obeying, and democratic state. The government initiated number of fundamental reforms which transformed country on to the new tracks of development. Government continues working to reduce poverty and create more jobs. This cannot be achieved without changes in agricultural sector, focusing on supporting small and medium sized businesses as well as the agriculture in general; in addition to that the idea of private property and workers' rights have been improved; government ensures integration of the country into the global economy.

One of the aspects in empowering the agricultural sector is increasing the competition between the farmers, and thus farmers register has been created; agricultural sector will be provided with respective services and needed materials; in addition to that it is planned to develop market of the agricultural lands, crediting, leasing and insurance services provided for the agricultural sector; active development of the agricultural cooperatives and associations is still in process.

The system of subsidies in the agricultural sector is justifiable for several reasons: firstly subsidizing is important to ensure stable income for the farmers, because the harvest strongly depends on environmental and climate conditions, it is considered that lack of the harvest should not affect the farmers involved in the sector. Secondly, this will support local production in competition with the foreign counterparts. If European and US farmers would have open completion many participants would suffer from the consequences.

The project of crediting also makes it possible to finance startups. Commercial banks have specific demands and conditions that the potential creditor has to meet, i.e. financial conditions, guarantees and quality of the business plan. One of the most important aspects is how well is informed the farmer about the market. After the analyses of all the risks, the bank makes the decision. From the government's side, there are no restrictions. On the contrary, startups are always supported, in fact statistically every seventh financing goes to creation of the new business. The maximum interest rate is 14%, whereas 12% is subsidized. The **8<sup>th</sup> component** was added to the program titled “**produce in Georgia**”, which allows not only the farmers to generate ideas and create processing plants.

One of countenance concessional lending to the agricultural sector is the use of the system of state support for export enterprises. Furthermore, there is a many other mechanisms of state support for the production of exported goods and relevant measure of the study, and the stimulation of the most favorable proportion between options should be selected the optimal alternate. Therefore, properly the governing authority of the exporting countries, at the present stage of the economy does not prevent, but holds its stimulation. There are many methods to stimulate exports of which the most common form is export subsidy.

According to the norms of international law direct financial subsidies for the export sector is prohibited and it is considered as a variety of “unfair competition”. Export subsidies means, export enterprises compensation for losses or other losses which can be expressed in a variety of provided services to the exporters. Currently, the export subsidies are used in the international keenest competition trade sectors: Agricultural products in international trade with airplanes, ships and other transports.

Modern international economic relations can be observed in a similar pattern, such as: Export promotional countries undertake the import restrictive policies, this while, when at the same time export subsidies means the subsidization of import, because the export subsidies are causing an

increase in currency exchange rates, which reduces the price of the imported goods in the country.

The growth of export subsidies by the exporting country of the native products in abroad increases the sales value, thus the country does not lose from the world market but gain. But if the importer country imposes compensation duties on the imported subsidies, then the trade volume (sales level) and the prices will still remain in the early pre-existing level of subsidies. But the difference will be part of profits, which remained before pulling subsidy to the exporting country, in this case this part of the profits will be shifted to the importing country, since the manufacturers of the exporting country, in form of customs authorities with taxes and customs fees annually sends back "invisible checks" to the importer country, which corresponds to the volume of export subsidies.

The minimization of risks and motivation of export-oriented production and diversification of business and assets in foreign markets. In a perfect competitive environment the risks should be minimized which is aspiring companies to engage in an active investment policy in abroad to turn their full controlled branches.

In Adjara none of the investors will not invest whole investment basket only in one sector of agriculture, which will generate unified profit or will completely lose them. But also should find other ways of raising capital and making the same profit opportunity with a lower risk. Thus, the investors which are characterized and striving for diversification are oriented to minimizing risks, do not want to cause some enterprises to seize control package.

The export development competitive strategy of Adjara agricultural local firms usually have some kind of advantage comparing to foreign investors.

Certain management of agricultural operations "from remote distance" (communication and transportation) is expensive. It is riskier for investors to beat the advantaged local firms, it is necessary to have the advantage of access to local investors. The preferences of such a technology and patents

related to ownership will result a large sources of the capital access. According to their international status local firms usually are denied for the preference.

Majority of exporter firms in Adjara do not perform their operations seasonably but by accidentally. Primary export activities they will encounter many difficulties. So at the beginning of this process is necessary to elaborate real and effective strategy, insight into their needs the following issues should be resolved:

1. To attract qualified experts and before export activities the start of the marketing plan. Training of top management and revival necessary financial resources.
2. Selection of overseas agents and the wholesale merchants;
3. Modification of products according to the cultural preferences of other country;
4. Preparation of commercial and warranty documents in understandable language for the overseas affiliates, etc.

The competitive development strategy for export-oriented firms in Adjara can be divided into several stages: At first the firm assesses its competitive potential of the resources and opportunities. Then, the competitive situation gets expert instruction, which is very essential for the beginning of the export activity. The next step is the selection of the market. Based these materials the firm should develop its own strategy of competition that requires four factors to be considered:

1. The aim- latest and prospective;
2. A specific tactics;
3. The schedule of activities;
4. Allocation of resources.

At the end, the firms surely in advance have to determine how they will supply the goods on the chosen market. The competitive plan should be a base of an organizing activities and not an expectation of what will happen by itself.

As for the promotion of fair pricing regulation, the importance anti-dumping law has been discussing in Georgia. The aim of the WTO multi-lateral agreements compulsory based on the members of the organization to regulate the trade and economic relations, and its main objective is the liberalization of international trade, its fairness, predictability and transparency in which it should facilitate the process of economic development and welfare of the population growth.

Georgia is currently actively diversifying the export market, specifically to the European Union, which creates good basis for the future sustainable growth of the GDP and development of the inner market and production of goods in the country. Differing from other markets, including Russian, this cannot be achieved. In order to increase the export of goods produced in Georgia, priority is not to increase the quality of the exported products (although it is also one of the most important components), but standardized certification, and this issue has to be supported and solved.

Agricultural subsidies are reasonable by several reasons: first of all, it is necessary for farmers to considered and ensure stable incomes after subsidizing them, since the yield depends on the environment and climatic conditions, it is considered that by the effect of poor harvests should not harm the population engaged in agriculture. On the other hand the process provides a protection of the local farmer's production from the foreign competition. Totally free competitive conditions lead the US and European farmers into bankruptcy.

According to the international practice, a higher tariff on an imported agricultural product is stimulating and makes reliable the domestic agricultural firms. Part of the society agrees with this assumption, while the other part does not agree and believes that only a liberal economic policy should be advisable to implement.

Tariff incentives for the Agricultural products will stimulate not only local farmers in Adjara region but also those industries that are delivering raw materials for agricultural manufacturing.

Fact is that some of the region's agricultural raw materials and partly as finished goods has been diversified to the EU export market, which is noble for the future prospects of the stable raising of GDP growth and competitiveness for the local production development. As regards to other markets, in particular to the Russian market, at this stage it is practically impossible. Georgian product exports growth over the next productions to the EU market will not so much to improve the quality of products (although, it is also an important component), but also should be solve the problem of certification which needs support of local government.

**The research work has led** to the importance of Adjara the agricultural sector which has responded to the problems identified them and found ways of solution. Specifically:

Out of 92 companies operating in the region of Adjara and currently involved either in production of agricultural products or exporting them abroad, 26 companies agreed to participate in the study. Majority of the respondent companies were established: Year 2002 – 15.4%, 2007 – 19.2%, 2014 – 19.2%. According to the company representatives, motivation to register companies is in direct connection with the changes in the policies carried out by the government and birth of the new hope. The second important period starts from 2014, when special programs to support agricultural sector were announced. Agricultural credits, creation of the cooperatives and other tax subsidies initiated boom in the region, namely in Khulo, Shuakhevi, Keda, Khelvachauri, Kobuleti and Batumi. Unfortunately, mountainous regions are not sufficiently involved in exporting agricultural products. Biggest exporters are Kobuleti, Khelvachauri and Batumi.

Kobuleti – 38.5%, Batumi – 30.8%, Khelvachauri – 23%. It is interesting to find out what makes a difference between the municipalities. Firstly, we have to take into account mass production. Kobuleti and Khelvachauri are famous for export of the citrus, which makes it easier to find foreign buyers and partners. As for Batumi, it doesn't produce agricultural products, but plays the role of the hub, thus gathering produced goods and exporting them.



As a result, it is obvious that citrus production is one of the most important direction in the region. 31.8% is the export of citrus, majority of which is tangerines, the rest of citrus like lemons and oranges is only small portion of the export. The second place – bay leaf export with 18.2%. Tea and vegetables – 13.6%. The attitude of the businessman participating in the study is very interesting, considering the potential of the tea plantation, they are very interested in privatizing the plantations.

Our aim is to create optimal model for the farming industry in a way that producer of the agricultural products would be able to get maximum profit considering shortages of the resources, constantly changing prices of the products, and other market conditions. 62.5% of the producers sell for the export raw products, which means that in country and specifically in Adjara majority of the prioritized products are sold in a raw state. Processed products are represented only by tea and bamboo products.

Companies and private entities that are producing agricultural products are selling for the export around 70-80% (raw products, processed goods). 73.1% of the exporters sell 100% of the products in the other countries. As for the other data, it is clear that 7.7% of the organizations sell for the export 80-90% of the products and supply local market only with 10-20%. Of course these numbers are alarming, because in the developing countries 80-85% of the produced goods should be supplied to the local markets, and acceptable import should be 10-15%.

#### **SWOT analyses of the exporters:**

When filling out this question, exporters wrote the answers the way they understood the question, resulting with the following information:

**Strength:** low/ adequate prices, location, vast experience and being well known to the markets. In addition to that, strength for some exporters is the new technologies used in production and processing, good management, experience and professional staff.

**Weaknesses:** deficit of the raw products, low income comparing to the competitors, not enough level of motivation among the employees, which

affects activities of the organization. High competition on the local market in sense of the experienced staff and technologies.

**Opportunities:** privatization of 10 hectares of tea plantations, improvement of financial aspects and competition on the market, privatization of 4 hectares of land for bamboo production and purchase of new technology, sale of different products and finding new markets.

**Threats:** closure of foreign markets, unstable monetary conditions, less land for plantations and farms. Climate issues and problems with insurance of the products.

Majority of the respondents, i.e. 57.7% consider the role of the government in the processes as positive, 34.6% consider it very positive, mostly because they see less bureaucratic barriers. Only 7.7% state that preparation of the needed documents is complicated, which means they have to travel a lot from the village in order to get needed documents from the ministry of agriculture, which for them means losing needed money and resources.

Traditional market like Russia has a huge potential for the region of Adjara. The questionnaire gave the following numbers: respondents had to indicate the percentage of exported products by the destination countries, for instance: Armenia 0-20%, Russia 20-40%, Ukraine 40-60%. Since the question was very general, we can assume that the export to Armenia is 15%, Russia 30-35%, and the rest (50%) to Ukraine.

Only small portion of citrus, vegetables and fruits are being exported to Baltic countries and other European countries. Respondents were saying that they had to go through lots of paperwork in order to be able to export the products to these countries, because of demand on high quality. Without preparing all necessary documents it is impossible to export anything there.

What type of barriers are facing the exporters from Adjara. Majority of the respondents declare that in most of the cases they do not face any challenges when exporting goods in the destination countries. The study shows that **61.5% of the exporters do not insure** their products and do not

use insurance while transporting the products. **26.9% systematically use insurance** when transporting the goods.

We were also interested to find out how educated are local exporters in this business, namely in legal side of it, how well do they know what type of documentation should be prepared, how should the cooperative be registered, etc. We can say that the situation is positive, because more than 60% is well educated in this respect.

In order to support actual integration and stimulate agricultural enterprises in international trade relations it is very important to constantly improve the means of export activities of national agricultural producers. One of the key elements is state regulation of international trade, improvement of the elements in a way to support the increase in exports, which will help local producers integrate and enter the foreign markets. Study shows that 31% of the exporters state that the government doesn't help at all in exporting the products to the other markets and on the 10-point scale consider governments efforts with 0 point. 30% give only 6-7 points in this regard, and only 10% consider it with 9-10 points.

The mission of Adjara's agricultural producers and exporters appears an export business and sociable environment by adopting protectionist measures in the entire complex, which must comply with the rules of the modern world and the local entrepreneurs considered a priority. In addition, it should be noted that the internationalization and globalization of the economy due to foreign trade, movement of capital and the financial relationship between the need for liberalization should be beneficial for our exporters.

Should be mentioned that, what guarantees would be included in the statute of the cooperative, family owned property has lost their protection mechanisms, the quality of trust is still beyond the limit. Even the fact that the population bitterly remembers how the state illegally took their agricultural property. Today many of them are sold to entities which have nothing to do with the agricultural sector, the largest part is irrelevant. The farmer has nothing except their own homestead plots and other assets.

Therefore, Kartli, Kakheti and other regions can be found in subjects who are able to fund large enterprises, but by fewer members of the cooperatives are less effective in Adjara region.

Taken individually legal form of non-agricultural profile of subjects and agricultural representatives such as farm/rural partnership version of the system would be difficult, but possible. Certainly, the agricultural reforms should be based on the international experience. In Georgia this process is accepted, but it is necessary to review the country's socio-economic conditions, specific economic conditions, traditions, mentality and etc. Consideration of Ministry of Agriculture is carrying out a policy of innovation and these remains important in terms of "Agro service Center" steps: such as preparation of new collectible plots and implementation of improved agricultural crops, processing, use of new technologies and mechanization, farmers training and consulting and other destinations as well.

In Adjara agricultural cooperatives should continue the process more intensively because of the agricultural sector development. However, this process is a systematic approach has not yet been observed. The reasons are diverse, both subjective and objective. Our vision is the most effective use of international assistance programs to promote its wide dissemination.

To do that, the state should use internal resources to form a favorable environment for business entities. It often happens to prove that the state aid should be provided only to the target preferential agricultural associations who have significant assets.

In our opinion the minor financial resources and logistical based has a potential NOT to be excluded from the coverage of long-term financing of projects which will be presented in terms starting polynomial property of cooperatives. With the help of this kind of high-quality agricultural products can be implemented in a large amount of export to Europe and the trading partner countries. The following important innovations in the cooperative effort of the products and innovative production follow as:

✓ The branding of the product should remain in the direction of a food products which are produced from plant growing and livestock products.

✓ For Agricultural cooperatives are important the promotion of diseases and pest control regulated dosage schedule.

✓ Tangerine flower extract will greatly contribute to the field of citrus growing effectiveness after the alcoholic soft drinks production and usage of confectionery manufacturing technologies will increase the profitability of the sector by 40-50%.

The accomplishment and implementation of innovative policies of the effective and efficient use of existing resources will support the projects and programs which are applied in the agribusiness model. Even some so-called point track objects and teaching counseling, innovative of new technologies will allow the transition period. Therefore all the innovation and expansion of the agricultural cooperatives will increase the efficiency of immense exports.

## Summary and Recommendations

The results of the survey indicate that in the conditions of the existing trade regimes Georgia has the potential to supply the export market in agriculture.

The implementation of the Georgia Agriculture Development Strategy 2015-2020 will sustain sound growth and commercialization of the agriculture. The new approach, innovations, and technologies will contribute to the optimization of production and successful development of the economy.

The critical problems of the food business operators are out of the close focus; no mechanism in place that would ensure their support and feedback. The same is applicable to the training and provision of the technical needs which remain unidentified.

The analysis of the positive and negative aspects of producing agricultural products and export development trends in the AR of Adjara agricultural sector uncovered a number of problems that require the following measures to be taken:

- ✓ Cooperation with different Georgian institutions when elaborating the action plan for the producers in the AR of Adjara agricultural sector, scientific research and educational institution, Agricultural Scientific Academy of Georgia, and international organizations, private sector, non-governmental organizations, and other parties.

- ✓ Establishment of indicators for monitoring and evaluation system, such as: growth of the added value, production growth, increased efficiency in the primary processing, and expansion of the crops area, and water-supplied and water-dried areas, amount of the credit portfolio in the food sector, number of the insured beneficiaries in the agriculture, etc.

- ✓ gender-related data collection for further analysis to develop the policy securing women's involvement in the agriculture and agricultural business;

- ✓ Increase of land enhancement and productiveness; cadaster lining and establishment of the databank for the agricultural plots.

- ✓ Limitation of the land alienation of land by the law in the event when the act does not aim at land enhancement, development, and economic security;

- ✓ The prices of the agricultural lands have to be settled on the rational basis considering characteristics of the administrative-territorial units they are located in, and the prices have to be verified by the specifically assigned board of experts.

Creation of the cooperatives should increase the power of local settlers and the way they use the lands.

In the process of production and export of agricultural products in Autonomous Republic of Adjara, many issues became visible in connection with the current legislation; need to increase participation of local executive agencies, simplification of notary procedures, etc.

- ✓ Introduction of the population to the contemporary technologies for food producing and stimulate their wider application;

- ✓ It is important to decrease intensive use of the land and to introduce modern agricultural technologies;

- ✓ Agricultural cooperatives should have more means to use the resources present on the village and settlement territories;

- ✓ It is important to set the policy of introducing modern types of agricultural machinery and processing technologies;

- ✓ Rational model of cooperation between different categories of agricultural cooperatives as well as the common network of cooperative systems should be created;

- ✓ In order to increase production on the village level and export in general, it is recommended that the government develops the existing crediting systems for the agricultural sector.

Implementation of above mentioned measures will significantly support creation and production of the agricultural products in the region of Adjara, development of the export and innovation in the sector.

**The Results of the Doctoral Thesis are Reflected  
In the Scientific Articles:**

1. **Tkhilaishvili G. "Adjara A/R sustainable development potential of the agri-culture sector".** Actual problems of Sustainable Development of Natural Economies. Pg. 502. Tbilisi 2015.
2. **Tkhilaishvili G. "Export Development Prospects of the Adjara Farming Industry".** The Journal "Innovative Economics and Management" Vol 3. Pg. 83. Batumi 2015.
3. **Tkhilaishvili G. "Agriculture of Georgia as a Sector of the Economy, Distinctiveness and Essentials of the Agro-Economic Relations"** Gori State Teaching University. Pg. 245. Gori 2015.
4. **Tkhilaishvili G. "Importance of Anti-Dumping Law as a Solution of the National Food Safety"** Periodical Scientific Journal N1 "Agro NEWS".pg. 170. Kutaisi 2016.
5. **Tkhilaishvili G. "Importance of Logistics and Transport Development Strategy in Georgia"** Modern Management: Problems, Hypotheses, Researches. Pg. 163. Batumi 2015.