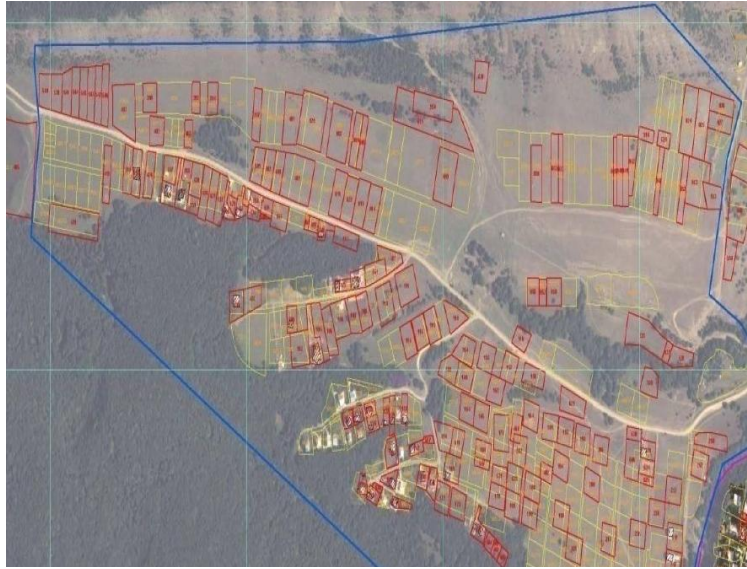


Summary Report
Land Ownership and the Development of the Land Market in Georgia

A Report Commissioned by Alliances KK and Undertaken by a Private Consultant

Alexander Gvaramia
Translation edited by Helen Bradbury



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This report was produced by a private consultant Alexander Gvaramia a legal expert on land laws and issues and a member of the Swiss Development Cooperation funded Mercy Corps Georgia implemented Alliances Kvemo Kartli Programme, Helen Bradbury, a market development programme working in the dairy, beef and sheep value chains in Dmanisi, Tetrtskaro and Tsalka municipalities of Kevmo Kartli. The International Centre for Conflict Negotiation (ICCN) a partner of Alliances KK was responsible for facilitating the concept and production of the report.

For more information please go to www.allianceskk.ge

EXECUTIVE SUMMARY

The following report was commissioned as part of a suite of research conducted under the auspices of the Mercy Corps Georgia implemented Swiss Development Cooperation project the Alliances KK Programme (www.allianceskk.ge). It aims at tackling the availability and transparency of information surrounding the issue of agricultural land in Georgia. Pasture land and hay form the basis of the grass fed system on which the majority of livestock in Georgia is reared and the Swiss Development Cooperation who currently has four market development projects in Georgia working in livestock value chains is highly aware of the pivotal nature of pasture and its use and management.

This suite of research consists of : *A Remote Sensing Research carried out to Assess the Condition of Rangelands in Kvemo Kartli and Samstkhe-Javakheti Regions of Georgia (2011)*, *A Literature Review Regarding Hay and Pasture Land in Georgia (2012)* and *The Characteristics of Hay Production in Dmanisi, Tetrtskaro and Tsalka (2013)*¹, which consists of four parts: the aforementioned literature review, a random sample survey of small scale livestock producers with statistically significant results, key informant interview surveys with larger farmers, machinery service providers and government representatives and an economic survey concentrating on profit and loss calculations related to the production and provision of hay farmers and machinery service providers. The aggregated data of the various research will be used to design and underpin successful interventions in this critical area of livestock production.

Whilst the remote sensing survey, literature review and subsequent hay survey have focussed on the characteristics of the land and on production it has become increasingly clear that without better clarity and information on the laws surrounding land use and the sale of land and on the roles of the various actors involved e.g. national government agencies, local municipalities and private agents such as brokers, efforts to improve the situation would continue to be hindered.

The full report available at www.allianceskk.ge/downloads aims to provide a comprehensive understanding of agricultural land in Georgia and the development of the land market to date following the collapse of the Soviet Union. The report consists of four Chapters:

Chapter I: Private Ownership of Agricultural Land gives the history of the Soviet Period and Land Reform in the 1990's, the creation of the Public Registry, the definitions and rights of ownership of agricultural land, forms and methods of privatization, prices, challenges within the process which include mention of brokerage services and pasture land, and the municipal role in the legislation of land privatization. It also includes a Table in which shows the legal authority of state and municipal bodies with corresponding laws in terms of the management of agricultural land.

Chapter II: The Leasing of Agricultural Land,

Chapter III: Asset Tax over Agricultural Land and Tax Exemptions and *Chapter IV: Conclusions and Recommendations*, which is in two parts Privatisation of Agricultural Land and Transferring Pasture Lands into Use

¹ All document can be found at www.allianceskk.ge/downloads

INTRODUCTION

Land is Georgia's greatest resource and the correct planning of its use is a vital precondition for the socio-economic and political development of the country. Georgia is located in south-east Europe, between Russia, Azerbaijan, Armenia, Turkey and the Black Sea. The total area of the country is approximately 7 million hectares of which 3 million hectares is agricultural land. Private land ownership, the creation of land owners and the establishment of civic relations in the country are preconditions for the overall effective development of Georgian agriculture. Transparent and secure private land ownership is the main basis and guarantee of a country's stable development and is fundamental in allowing the development, growth and investment at all levels in the farming sector. In Georgia, land is under state, private, municipal and church ownership and a large portion of the land is still under state ownership. Land privatisation processes officially started in 1992 and still continue to the present day. Previously, land in Georgia was in the sole ownership of the government whilst during the Soviet period, it was under common possession belonging to all people. After gaining independence in 1991, the government began the introduction of private institutions and the privatisation of state property became a priority. Private land ownership in Georgia is based upon normative acts of the Executive Branch of the Government of Georgia, issued from 1992 which are fully documented in the report

The following are highlights of *key issues* which emerged in the report

CHALLENGES IN THE PRIVATISATION PROCESS

The biggest problem now facing agricultural land privatisation is that *the agency in charge of privatisation is unable to effectively and efficiently implement the process*. There are frequent cases when initiators of requests for the privatisation of agricultural land wait for the announcement of the auction for several months before it takes place with bureaucratic processes significantly slowing down the process of the privatisation of agricultural land. *Another serious challenge is a lack of awareness on the part of the population on the procedures for privatisation*. There are frequent cases when the population does not or cannot participate in the auctions simply because of their lack of knowledge of the procedures for which they cite different reasons.

BROKER SERVICES

The purchase and sales of agricultural land have developed however these have not been achieved through broker services which remain undeveloped with only a small number of individuals in the country dealing with these issues and without the existence of qualified brokers (companies) working with agricultural land. As for country-houses and household private plots, there are a number of brokers (fixed assets agencies) working in the sector. *Developing broker activities in the regions and especially in Kvemo Kartli is highly desirable*. Currently, there are only two brokers in Kvemo Kartli (LEPL Association for Protection of Rights of Land Owners, LTD Mamuli 2) which falls far short of the demand for the provision of this service. *Improving broker services during the land privatisation process would simplify communication between the Ministry and the buyer of the land and would make the privatisation process more transparent. The growing tempo of privatisation would support the development of the land market as well as the agricultural sector in general.*

PASTURE LAND

A further issue concerns the prohibition of the privatisation of pasture land. Currently, the state owns up to 1 million hectares of pasture land which are not under the use of any entities or subject to privatisation (there are frequent cases of illegal use, in fact). *The lack of the regulation of pasture land significantly damages the agricultural sector in Georgia. It is also necessary to privatise animal transportation routes (if not privatised, serious management mechanisms need to be developed)* and forest lands that are used

for agricultural purposes (allowed by the law, but not actually implemented.²) The issue of the privatisation of the abovementioned types of land is not high on the agenda at the moment but could become subject to privatisation.

MUNICIPAL OWNERSHIP OF AGRICULTURAL LAND

Even though the legislation explicitly states that the Ministry of Economy and Sustainable Development of Georgia is the owner and manager of pastures, no specific acts have been currently instituted to recognise municipal pasture lands as state property by registering them into the Public Registry. This issue is currently open and lacks regulation. As from 2006-2010, legislation allowed agricultural land and, more specifically, pastures to be under municipal ownership and during this period, a great many pastures were registered into the Public Registry as municipal property which are still registered as municipal assets even today.

THE LEASING OF AGRICULTURAL LAND

The lack of the regulation of the use of pasture significantly damages local farming. The governments as well as municipalities are losing income that they could be generating from a leasing amount with municipalities further losing income from the land tax. The leasing of agricultural land was prohibited from 29 July 2005 after the Law of Georgia on Privatisation of Agricultural Land was adopted. This law explicitly stated that land that was subject to privatisation was not to be leased. It should also be noted that land that did not fall under the privatisation category—pasture land, agricultural forest land and including arable land—could still be leased. After 2005, leasing continued but mostly for pastures which were leased until autumn 2006 when the Law on Local Self-Governance entered into its legal force and annulled district gameobas as local self-governance bodies and from which time no state-owned agricultural land was leased. Some municipalities leased out pasture lands during 2007-2010 although generally³ no pastures registered as municipal property have been leased out for the past two years. Legally, however, they are able to lease such pastures since they are registered as municipal property. It is important to regulate the issue of the management of state-owned and municipal pastures as soon as possible. Up to 1 million hectares of pastures are still under state ownership with the lack of management seriously damaging agriculture, in particular, as well as the economic development of the country overall.

The report came to the following *conclusions and recommendations*:

1. PRIVATISATION OF AGRICULTURAL LAND

The privatisation of agricultural land is regulated through legislation. There are, however, a number of issues that require refining and improving.

1. First of all, the activities of *the Ministry of Economy and Sustainable Development deserve mention. The structure of the services within the Ministry, responsible for the privatisation of state-owned land, cannot realistically meet the needs of the land market. More specifically, there is a greater demand upon land privatisation than the auctions announced by the Ministry for available land plots.* There are frequent cases when initiators of a privatisation are required to wait for a time period of several months before the electronic auction is announced. Bureaucratic processes that exist within

² Law of Georgia on State Assets.

³ There are a few exceptions

the internal structures of the Ministry are unable to ensure a full satisfaction of the requirements. However changes are planned to improve the situation⁴.

2. *One of the important issues for working to refine privatisation is the development of broker services.* There are a maximum of five brokers working with the Ministry on the privatisation of land which is a very low number and falls far short of the demand. If more brokers were involved in the privatisation of agricultural land, there would be less discontent from the side of the local population regarding the transparency of these processes.
3. *It is highly desirable for the agency in charge of privatisation to conduct regular awareness-raising sessions with the population* in order to provide information on new procedures and regulations owing to the fact that regional communities typically have very little information on privatisation procedures and often precludes them from participating in the auctions announced.
4. It can be concluded that there have been significant improvements in the process of the privatisation of agricultural land in the past year as compared to previous years. *The process of reform needs to continue which also includes easing regulations and procedures and, most importantly, simplifying communication between farmers and state agencies.*

2. TRANSFERRING PASTURE LANDS INTO USE

The situation is more complicated when it comes to the use of pastures. As mentioned above, the changes made in 2010 have resulted in stasis and lack of management in the field of agricultural land and, more specifically, the use of pastures.

1. *Pastures currently lack sufficient and realistic management mechanisms.* Even though such management is legally delegated to the Ministry of Economy and Sustainable Development of Georgia, the Ministry is unable to adequately handle this issue. No procedures for electronic auctions are currently in place and the lease rent amount for the use of pastures is very high. Even though the rental amount was reduced to GEL 15, the price increases drastically with the accompanying land tax of GEL 15.
2. *The process of leasing pastures should start immediately.* The market demand for this is real and apparent. There are dozens of farmers in Marneuli and Tsalka, for example, who go to different authorities upon a daily basis to request the leasing of pastures.
3. It should also be noted that as much as 1 million hectares of pasture still remain under state ownership. *The regulation of the use of pastures will first of all support the development of specific socio-economic fields and create a mobilisation of money within the state budget as well as the budgets of local authorities (lease rent and tax payment for land assets).*
4. *Another serious and so far unaddressed issue is pastures registered as municipal assets.* First of all, it should be decided whether or not these pasture lands are to remain under the ownership of the municipalities. Until this issue is resolved, however, *it is still unacceptable that municipalities do not lease out pastures when the demand is very high.*
5. This issue should also be addressed as soon as possible. Finally, it bears emphasis that privatisation is the most important method for resolving the issue of pastures.

⁴ It should also be mentioned, however, that the Ministry is intending to make serious structural changes directly linked to land privatisation within the immediate future. More specifically, the National Agency of State Assets, a legal entity of public law is created which will be tested to implement the management of state assets including agricultural land. It is difficult to currently discuss the changes being planned but significant improvements are envisaged to be in place from autumn 2012.