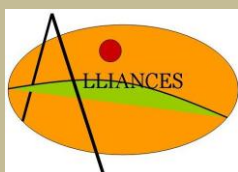


Market Alliances Against Poverty in the Kvemo Kartli Region of Georgia



ALLIANCES KVEMO-KARTLI



MARKET ANALYSIS

AUGUST 2011



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development
and Cooperation SDC

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List of Abbreviations

ABCO	Association of Business Consulting Organizations of Georgia
AI	Artificial Insemination
Alliances KK	Alliances KK
Alliances SJ	Alliances SJ
APLR	Association for the Protection of Landowners Rights
BDO's:	Business Development Officers
BEAT	Business Environmental Audit Tool
CENN	Caucasus Environmental NGO Network
CiDA	Civil Development Agency (Regional Georgian NGO)
CG	Caucasus Genetics
CNFA	Citizens Network for Foreign Affairs (formerly)
EC	European Commission
EIA	Environmental Impact Assessment
EMD	Emergency Management Department
FG	Farmer Group
FGS	Alliances KK Focus Group Survey
FMD	Foot and Mouth Disease
GDCI	Growth Development & Continuous Improvement of your Business (company)
GEL	Georgian Lira (currency)
GIS	Geographical Information System
GIPA	Georgian Institute of Public Affairs
GTZ	German Technical Cooperation
HACCP	Hazard Analysis and Critical Control Points
HFA	Hyogo Framework for Action
IAAD	International Association of Agricultural Development
ICCN	International Centre for Conflict and Negotiation
IFC	International Finance Corporation
INGO	International Non-Governmental Organization
KK	Kvemo-Kartli
LLC	Limited Liability Company
M4P	Make Markets Work for the Poor Approach
MCC	Milk Collection Centre
MCG	Millennium Challenge Georgia
MDGs	Millennium Development Goals
MIA	Ministry of Internal Affairs in Georgia
MOU	Memorandum of Understanding
MOA	Ministry of Agriculture
MRD	Ministry for Regional Development
NFA	National Food Agency
OMC	Outcome Monitoring Concept
RDA	Regional Development Agency
SROI	Social Return on Investment
RSC	Rural Service Centre
SDC	Swiss Agency for Development and Cooperation
SIDA	Swedish International Development Agency
SJ	Samtskhe-Javakheti
UN	United Nations
UNFAO	UN Food and Agriculture Organization
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
VIC	Village Infrastructural Census

Summary

Overview of Current Market Situation

The relative importance of the agriculture sector (including hunting, forestry and fishing) in Georgia has declined significantly in the last 14 years. What once accounted for 30% of gross output now accounts for under 8%¹. The main growth sectors have been public administration (2.6% to 10% over the same period) and construction (2.7% to 8.9%) together with smaller 1-2% rises across most other sectors. The rural population though has remained at around 47% having declined by around 1%². Over 99% of all cattle are on what the Government of Georgia terms “family holdings”³ which has not changed significantly in the last decade. Table 1 below gives a summary market analysis showing the relevance, pro-poor potential and intervention potential to the Alliances Programme in the three sectors in which it operates.

Summary Market Analysis

Table 1: Summary Market Analysis

	Relevance	Pro-Poor Potential	Intervention Potential
Dairy	High: the majority of SSLPs own cattle and consume, sell or exchange dairy projects	High: overall demand for dairy produce is not growing but the market is differentiating so that production form one segment will displace others. Dairy companies are sourcing more fresh milk from Georgia and branding accordingly.	High: the existence of numerous MCCs and processing entities that are running under capacity with large demand drivers means that SSLPs can step-up. Potential for origin branding & differentiation to pass on premium pricing.
Beef	High: the majority of SSLPs have cattle & may sell an animal into the beef market once per year	High: the beef sector is formalizing and demand is growing and serviced mostly by SSLPs who sell calves into the supply chain for abattoirs and butchers.	High: focused on market-driven breed and nutrition improvements and improving efficiency of supply.
Sheep	Medium: mainly relevant to the Azeri population.	Medium: small sheep producers can step up production fairly quickly in response to market driven demand.	Low: interventions mainly focused, potentially developing chilled cuts, driving demand and potentially raising farm-gate prices and increasing sales: limitations are placed through competition with other supply chains such as Australia. Some potential for the development of the wool sector through improved processing, marketing and breeding.

Dairy

Three lead firms dominate the market for liquid milk, yoghurt, butter and sour cream: Sante, Eco-Foods and Wimbildan. In comparison with Samstkhe Javakheti, dairy production in the project area in particular Dmanisi and Tsalka is a well structured market based on much higher volumes of production in both milk and cheese. There are large Milk Collection Centre's (MCC's) belonging to and/or supplying the lead firms supplied by numbers of villages but also privately owned smaller MCC's for own production of cheese or for selling to larger cheese producing factories⁴. A significant amount of operations even those without MCC's and who are collecting direct from farmers, straddle the value chain from collection to processing to sale with wholesale outlets in Tbilisi. *Imeruli* is followed in importance by *Sulguni* as the most important cheeses produced. There are several makers of higher value vac packed and labelled cheese selling at a premium to higher end outlets such as smoked *sulguni*, who source milk in the project area. Thus far the lead firms have concentrated on liquid milk but plan from this year to begin cheese

¹ National Statistics Office of Georgia, 2010.

² Ibid, 2010.

³ A holding operated by a family or group of families without a formal agreement.

⁴ A total of 16 MCC's operational in and sourcing milk from the in the project area. Alliances Programme Inception Phase Data 2011.

production. Potential in the dairy sector lies in the optimisation of capacity for MCC's and producers and in product differentiation for premium pricing.

Beef

Kvemo-Kartli has Georgia's third largest cattle population (and the third largest dairy cattle population), is the second largest producer of meat at around 10,400 tonnes (dead weight) per year which is down from 14,700 in 2006, and is the largest producer of beef at 6,300 tonnes (down from 7,400 in 2006). Overall in terms of output, the beef sector is in decline across Georgia as a whole. The governance structure of the beef sector is changing rapidly and dramatically with the enforcement of new food safety and traceability rules that mean that cattle will increasingly go through larger licensed abattoirs to be sold wholesale, instead of through small or back-yard operations by small butchers. Recent changes to laws on June 5th 2011 relating to the sale of meat in Tbilisi, limited slaughter to two main slaughter houses and resulted in an initial rise in prices by around 40-50% and a decline in demand by around 60%⁵. The overall long-term effect on demand for beef and on liveweight prices paid to farmers is not yet known⁶. However the larger emerging lead firms such as Iberula meats (the largest abattoir and wholesaler), M-Group (high-end HoReCa) and Populi and Goodwill (supermarket chains) are progressing towards greater control of supply and looking towards developing their own farms or out-growers. Improvements in breeding through cross-breeding with beef breeds such as Welsh Black or Angus, could therefore allow small farmers to attract much higher prices for their cattle through superior weight and conformation, especially when combined with improved grass-based diets.

Sheep

No official sheep meat consumption figures were available during this assessment. Domestic demand for sheep is highly seasonal among Georgians, confined mainly to Easter time when it is used to make a dish called *chakapuli* (with tarragon & sour plums). In addition sheep also have a ritual role for Orthodox Christians (the predominant religion) who sacrifice them outside churches on saint's days. Azeris however regularly consume mutton and lamb and there are specialist sheep butchers and mixed sheep and cattle butchers who cater for this demand. Export demand has surged since 2008 and now constitutes a major market for sheep. Demand for wool appears to be very low, and is in decline with only 1,800 tonnes produced annually in the country with Kvemo-Kartli vying with Kakheti for the region producing the most. Sheep production in Georgia has an ancient history with a large annual transhumance from the winter to summer pastures Kakheti to Kvemo-Kartli and Tusheti along historical transit routes, and the use of lambs for ritual purposes among the predominantly Georgian Orthodox community.

The sheep market is much thinner than that of beef and dairy, with no real lead firms and a large number of small producers feeding into small butchers, and a poorly connected export market to the Arabian peninsular and Azerbaijan. In contrast to beef and dairy, the potential in the sheep market lies in export and potentially through developing the wool sector and improving breeding practices.

⁵ According to butchers in Tbilisi, June 2011.

⁶ Beef is currently retailing in Tbilisi at 13 Gel/kg.

Cross-Sectoral Drivers & Pro-Poor Opportunities in the Dairy, Beef and Sheep Core Markets

Table 2: Pro-Poor Drivers & Opportunities

Systemic Constraints	Drivers & Pro-Poor Opportunities
Dairy Core Market	
<ul style="list-style-type: none"> • Inefficient coordination between private MCCs and dairy factories means that milk may be collected and not sold, leaving farmers unpaid. • Lack of investment capital (expensive or unavailable credit) means that MCCs & small cheese factories are unable to expand, upgrade to higher standards, or diversify or invest in equipment and staff capacity building e.g. invest in appropriate transport • MCCs and smaller factories are not linked to sources of information and advice on dairy hygiene, and there is a reluctance to pay for such services as they are relatively expensive and they have yet to be made aware of the significant changes in the law governing their practices. Hence farmers also lack awareness of good practice and are potentially vulnerable to changes in market conditions. 	<ul style="list-style-type: none"> • The newly enacted food-safety law gives provision for “traditional” cheese manufacture and also cheese sourced from remote areas, however neither of these are well defined. If a definition could be agreed upon, production and hygiene standards could be developed and disseminated to enable SSLPs to continue to produce and sell cheese. • The medium-high end HoReCa market is becoming increasingly interested in niche cheese products which could be sourced from small “traditional” producers (see above) and branded with an origin branding. M-Group are leading this at present. • Sante and Eko-Foods are developing cheese plants in Tbilisi which will come on-line in 2012 and expand their demand by 80t/d. Whilst current MCC capacity could take this up, it does present opportunities for those who are within these catchment areas to expand their catchment areas and even for new MCCs to emerge.
Beef Core Market	
<ul style="list-style-type: none"> • There is an overall inefficiency in coordinating supply of live cattle from more remote villages arising from a lack of linkages between farmers and buyers, currently solved by the regional livestock market which leads to high transaction costs and poor welfare. In addition lack of appropriate transport, weighing and handling facilities means that livestock suffer poor welfare, decreasing their quality at slaughter. Farmers have disadvantaged transactions due to lack of transparency and choice on pricing which is also influenced by collusion and monopolies. All of this means that the market is not able to meet current rising demand through the formal channels that are emerging due to new rules. • The quality of the Caucasus Mountain cattle for beef does not lend itself to the demands of the growing and formalizing slaughterhouses and wholesale markets as the margins are too small to cover the costs of more sophisticated operations which require economies of scale for profit. 	<ul style="list-style-type: none"> • With rising demand for higher quality animals there is potential for the poor to upgrade their production through cross breeding with beef breeds, leading to higher growth rates and animals with better finishing and better confirmation more valuable for the market. • Whilst at present the poorer farmers lack housing for fattening animals, higher value animals and a strong demand might provide the incentive to invest in this and better feeding. • Expansion of small regional abattoirs for slaughter to order and reduced transport costs and cost slaughter/kg/live weight could potentially give the poor access to a higher quality market.
Sheep Core Market	
<ul style="list-style-type: none"> • There is no licensed halal sheep abattoir in Georgia. • The risk climate means that potential investors are very reluctant fearing powerful monopoly holders with close political links who may undermine their success. • Breed quality for wool, uneven poor quality wool and little processing⁷ beyond household level in-country, barring any export opportunities to Azerbaijan and Turkey. 	<ul style="list-style-type: none"> • Export demand for sheep is high and Georgia is well placed to engage in this market. There is potential to diversify into exporting chilled halal cuts. • There is some interest in developing the wool trade in Georgia and the low price gives value addition potential.

⁷ A wool processing plant is located outside of Telavi in Kakheti supply dyed wool yarn and dyed wool to Tbilisi knitting shop, craft circles and some carpet makers.

Systemic Constraints in Supporting Functions and Rules of the Dairy, Beef and Sheep Sectors

Table 3: Systemic Market Constraints in the Supporting Functions & Rules

Systemic Constraints Supporting Functions	
<ul style="list-style-type: none"> • Low outreach & quality of financial services constrains growth and efficient functioning of SME's serving farmers and buying their products. Farmers currently spend a lot of time and money simply paying utility bills and collecting payments; buyers of milk face difficulties in servicing payments in cash. • An overall lack of awareness of incoming food-safety laws and their implications for dairy and beef value-chain actors stems from the lack of structured outreach of the NFA, and partly of private sector consulting firms. • Poor village road connections to some areas leave farmers cut off from some agricultural services and inputs (vets, seeds, machinery etc). • Inadequate and expensive livestock transport gives rise to relatively high transaction costs for farmers and traders. High cost is partly related to poor infrastructure (long journey times; wear and tear). Inadequate quality of transport (trucks are not converted for livestock and do not have loading, or divisions to prevent injury). • Weak vet services including for vaccination, arise from an overall lack of demand for anything but drugs for farmers to administer themselves. Licensing of vets is still in a state of confusion. • Inadequate availability of machinery services for hay making arising from high replacement and investment costs of new machinery for new entrants. • Weak media & information services means that farmers have little or no formal access to information to aid decision making such as market prices, vendors of services and inputs, buyers and sellers of products and on new production techniques etc. • Pasture access is restricted to a degree by uncertainty over tenure due to some sales by the government and a weakness in the mechanisms that would make information on ownership and sales available. Mediation services also have poor outreach. • Quality of pasture may be poor in some places due to heavy stocking and poor grazing practices, although more investigations need to be conducted to verify this. • Weak trade associations with weak outreach. 	
Systemic Weaknesses Rules	
<ul style="list-style-type: none"> • A lack of transparency and outreach by the National Food Agency on changes in the law and its impact on the dairy and meat sectors is potentially damaging to the industry. SME's who need to be made aware and plan and implement changes to their businesses currently only have rumours to go on and are not preparing adequately. • There is currently no livestock registration system which places limitations on traceability of meat products. In addition the NFA has little capacity to conduct veterinary inspections of cattle prior to sale (although this is in place for sheep export). • There is uncertainty about pasture land tenure and access among rural residents and SSLPs which is not helped by a lack of outreach of relevant government bodies that are responsible • Monopolies, oligopolies and rent-seeking is a feature of the livestock and dairy sectors, but has recently emerged more strongly with developments in the rules around slaughter. 	

The Poor and Their Context

According to the Focus Group Survey, the poor in Kvemo-Kartli are small-scale livestock producers (SSLPs) owing up to 5 breeding female cows and/or up to 40 breeding female sheep. They have access to up to 2ha of agricultural land, and may also access some summer pasture. They are primarily livestock producers but will grow some potatoes and other crops to support this. They do not own machinery, and generally do not possess their own transport. Generally they produce primarily for home consumption, with surpluses being sold or exchanged. Overall, they earn less than 350 GEL per month. Participants identified that around 70% of households fall into this category.

Future Vision

The overall vision of a well functioning market is one that responds to the main market drivers described above and addresses the systemic constraints, allowing the poor to engage in the market on favourable terms. Analysis of the three sub-sectors (Beef, Dairy & Sheep) conducted by Alliances-KK revealed that cattle ownership is highly prevalent, but sheep ownership is much more prevalent among the ethnic Azeri community. Hence changes in the beef and dairy market systems potentially impact larger numbers of SSLPs than in the sheep system.

Alliances-KK's vision is in line with the IFC's analysis (2009) which scored Georgia's meat and dairy industry 2.7/5 for competitiveness, 2.5/5 for attractiveness to investment and 3.5/5 for impact on income

and jobs⁸. The major obstacles lay in production, especially stemming from weak supporting functions (nutrition, vet services & breeding), competition from imports from more efficient producers, and a lack of infrastructure such as larger abattoirs and phyto-sanitary standards. However the market has changed rapidly since then with the enactment of the food-safety law in January 2011, and the emergence of several large abattoirs. With this come potential market incentives for small farmers to invest in improved inputs and services and increase their incomes.

The sustainability matrix below gives an overview of the current situation in the market. At present the private sector performs and pays for the majority of market functions, with donors & NGOs involved to some degree in paying for some supporting functions. SSLPs have poor access to markets and services and on unfavourable terms, and are adversely impacted by rules. The future vision of a more sustainable and better functioning market sees players strengthening their legitimate roles in the market and being more inclusive of SSLPs.

Table 4: Alliances KK Sustainability Matrix

Market Function	Who Performs?	Who Pays?
Core Market		
Milk, Meat & Sheep Production	Private Sector (Small, medium & large farmers)	Private Sector
Milk Collection	PS (integrated & private MCCs)	PS & NGOs (establishment costs)
Dairy Processing	PS (Households, Small-Med-Large Processors)	PS
Animal Slaughter	PS (small butchers & large abattoirs)	PS, Govt (cheap loans)
Meat Butchering and Wholesale	PS	PS
Retail	PS	PS
Supporting Functions		
Food Safety Consulting	PS (6 companies)	PS & Donors/NGOs
Development of Food Safety Consulting Capacity	IFC & EC	IFC & EC
Artificial Insemination Services	PS (Caucasus Genetics)	PS & NGOs (Alliances) & Govt (NSA in planning)
Machinery Services	PS, Gov	PS & NGOs (establishment costs)
Media	PS and Gov (online regional news)	PS, Gov (subsidies to newspapers) & NGOs
Veterinary services e.g. vaccination	PS and Gov	PS & Gov
Financial Services	PS	PS
Road Upgrading	PS	Gov't & Donors
Business Services	NGOs & PS	Donors & PS
Rules		
Food Safety and Hygiene Inspections	NFA	Gov
Livestock Registration	NFA (Gov) for the system PS for the tagging	Gov PS (possibly some NGOs)
Disease Notification and Controls	Ministry of Ag, NFA some Private vets	Gov
Animal Quarantine & Inspection (export)	PS & NFA (Gov)	PS
Access to Land & Mediation Services	Gov & NGOs	Gov & NGOs
Monopolies, Oligarchies & Cartels	PS	Gov & PS

⁸ International Finance Corporation (IFC). 2009. Georgia Sector Competitiveness Overview.

1. Introduction

Methodology

Key Informant Interviews

Key informant interviews were conducted with key market actors for the three value chains covered by Alliances KK i.e. Dairy, Beef and Sheep with focus on obtaining information and analysis on core markets, supporting functions and rules from May 13th to June 30th. The interviews were conducted primarily *in situ* i.e. in the farms, fields, premises, offices, markets, shops and factories of the key informants in locations in the three municipalities, in the two key regional markets of Marneuli and Rustavi, the two main licensed slaughterhouses in Teleti and Natakhtari and in head offices in Tbilisi. The key document detailing this process is the Key Informant Interview Table in *Annex 1*.

Review of Key Information Sources

The following information sources were reviewed and utilized for the Market Analysis and the formation of this report:

- FG Survey
- Gender Survey (including FG's, key informant interviews and literature review)
- DRR Survey (including FG's, key informant interviews)
- Key Informant Interviews
- Government Publications: National, Regional and Municipal level information
- NGO UN Agency and Donor Publications
- Media: Newspaper, Web and Television Reports

Resulting in the following presentation formats:

1. Focus Group Survey Report
2. Gender Survey Report
3. DRR Survey Report
4. Data Sheets and Milk Collection Centre Map for the Three Municipalities of Dmannisi, Tsalka and Tetrtskaro
5. Data Sheets and Cheese Producer Centre Map for the Three Municipalities of Dmannisi, Tsalka and Tetrtskaro
6. Livestock Movement Map
7. Media Frequency Mapping of Key Sectoral and Supporting Functions
8. Market Analysis Report: Dairy and Meat Sector Survey including Milk, Cheese, Beef and Sheep Value Chains and Market Mapping
9. Directory of Players
10. Sustainability Matrix

The bibliography for the literature review can be found at the end of the document.

Alliances-KK Program Area

The Alliances-KK target area covers three municipalities of Kvemo Kartli region: Tetrtskaro, Dmanisi and Tsalka. The population of Kvemo Kartli is at present about half a million people and from them, 45% are Georgians and 45% Georgian citizens of Azeri ethnicity. There is also significant representation of Armenian and Greek minorities.

Tetrtskaro municipality: is located at an altitude of between 450 m above sea level in eastern part up to 1,400 m above sea level in the western part. The municipality includes a town, a borough and 83 villages, united into 20 administrative communities. The entire registered population of the municipality is 27,900 people. From them 74.34% are Georgians, 10.43% - Armenians, 6.5% - Azeri, 5.07% - Greeks.

Dmanisi municipality: is located at about 1,000-1,300 meters above sea level. The entire registered population of the municipality is 29,233 people. From them 31.26% are Georgians, 66.79% - Azeri. The municipality includes a town and 12 administrative units.

Tsalka municipality: is located at about 1,400-1,700 meters above sea level. The entire population of the municipality according to the official sources is 21,707 people. From them 12.11% are Georgians, 45.41% - Armenians, 22.14% - Greeks, 9.61% - Azeri. During Soviet times the majority of Tsalka municipality's population were Greeks, however a greater part of them (about 30,000 people) left for permanent residency to Greece. Though officially there are 2,510 Georgians in Tsalka, there is significant number (8,000-10,000) of unregistered Georgians living in the municipality. These are mainly migrants from West Georgia (Adjara and Svaneti), and they occupy the houses of the Greeks, who left in 90s, but do not own them officially.

2. The Poor and Their Context

Wealth & Poverty in Georgia

The combination of the August 2008 conflict and the global economic crisis sent Georgia into negative growth in 2009. Georgia has yet to recover to pre-crisis growth rates of 9-12%⁹, and the economy is currently growing at around 6% (1st quarter of 2011).

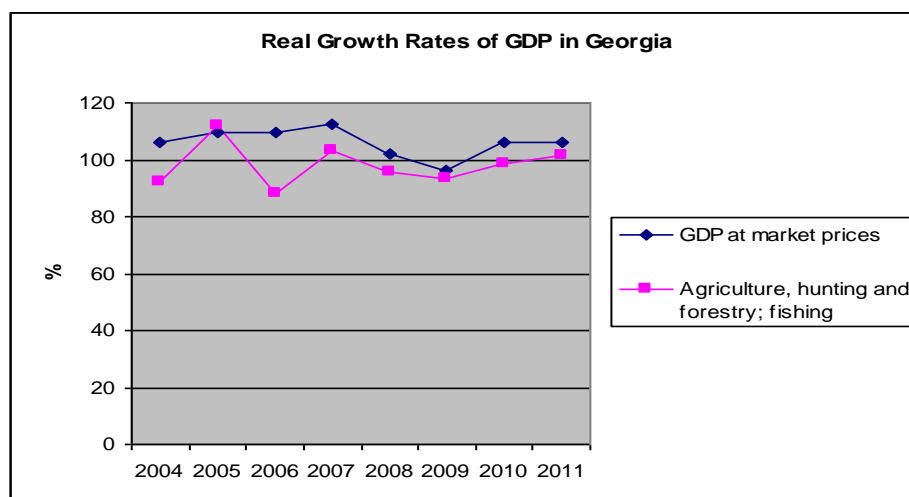


Figure 1: Real Growth Rates of GDP in Georgia

Georgia has a Gini¹⁰ index of 40.8 meaning that there is unequal income distribution among the population¹¹. Georgia Ranks 74th on the Human Development Index¹² and is categorized as having “high human development”, with Brazil and Venezuela either side in the ranking.

⁹ Department of Statistics of Georgia Website Accessed 1/7/2011.

http://www.geostat.ge/index.php?action=page&p_id=119&lang=eng

¹⁰ The Gini Index is a measure of inequality in the distribution of wealth.

¹¹ CIA Website accessed 1/7/2011. <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2172rank.html>

¹² United Nations Development Program (UNDP). Website accessed 1/7/2011.

<http://hdrstats.undp.org/en/countries/profiles/GEO.html>

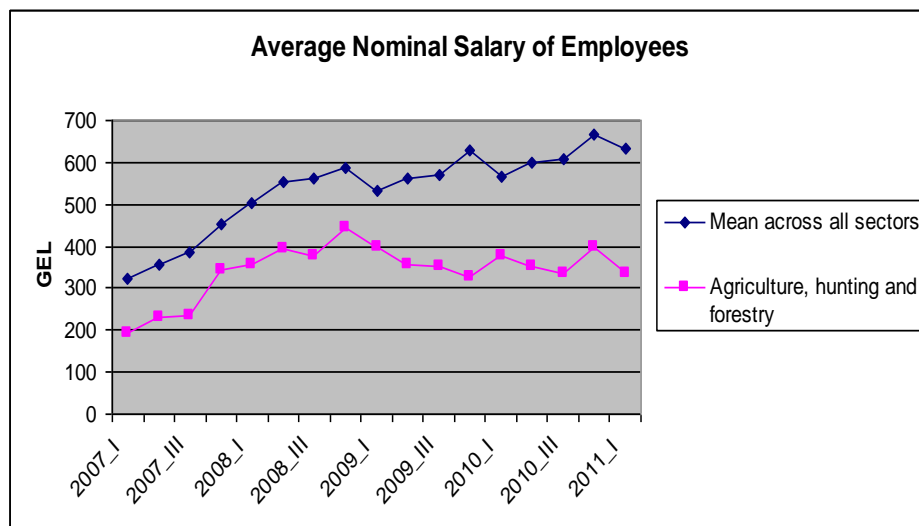


Figure 2: Average Nominal Salary of Employees

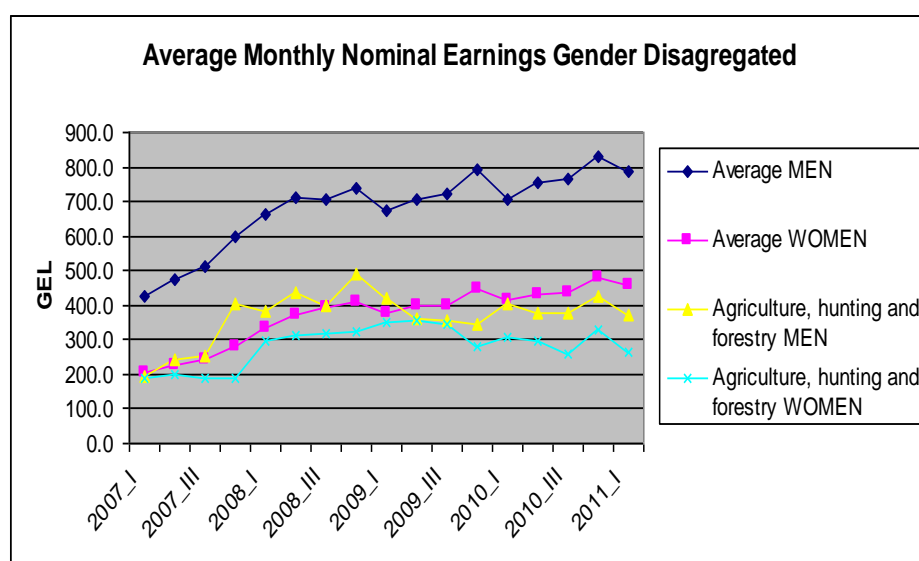


Figure 3: Gender Disaggregated Nominal Monthly Earnings

The World Bank Georgia Poverty Assessment (2009) revealed an overall decrease in poverty in Georgia from 2003-2007, but showed 60% of the poor concentrated in rural areas, with rural poor relying heavily on subsistence agriculture with low incomes that had stagnated. The Government of Georgia uses the Integrated Household Survey to measure poverty levels, comparing household income to the median household income at 40% and 60% levels (see Figure 4). However CARE (2010) suggested that a more accurate measure is to examine the government's system of targeted income assistance given to the poor households¹³. Figure 5 shows this figure compared to the World Bank's poverty estimate¹⁴.

Agriculture consistently underperforms the rest of the economy. The sector has only just recovered from three years of negative growth¹⁵. Agricultural earnings are stagnating, where in most other sectors they are rising¹⁶. Women also consistently earn less than men (42% less at present), but this difference is less pronounced in the agricultural sector (28% less at present). As well as lower earnings, rural households are also characterized by a high reliance on in-kind consumption (32% of disposable income), with a mere 5% of disposable income arising from the sale of agricultural produce. Table 5 shows household agricultural assets.

¹³ CARE. 2010. Reducing Poverty and Social Injustice in Georgia's Rural Communities.

¹⁴ World Bank. 2009. Georgia Poverty Assessment.

¹⁵ Department of Statistics of Georgia Website Accessed 1/7/2011.

¹⁶ http://www.geostat.ge/index.php?action=page&p_id=119&lang=eng

¹⁶ World Bank. 2009. Georgia Poverty Assessment.

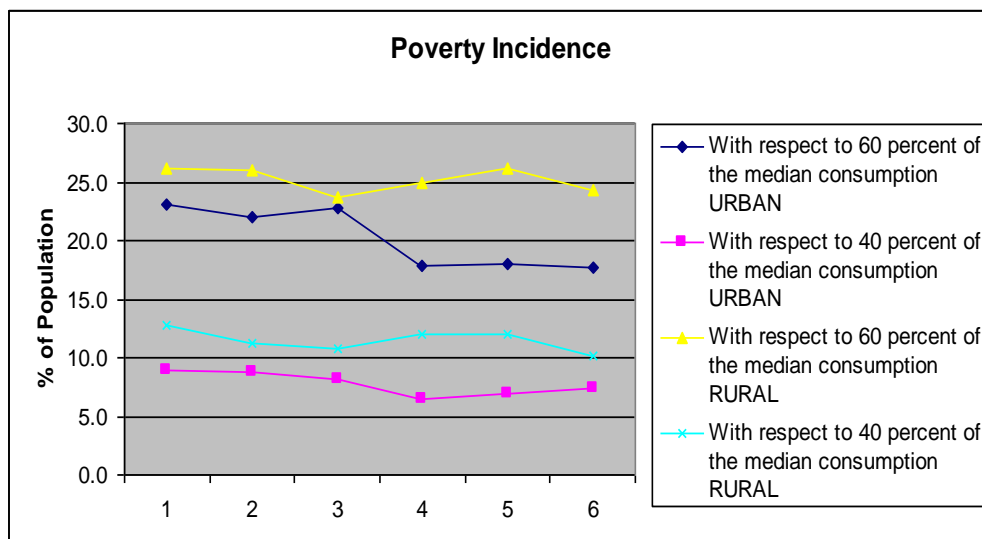


Figure 4: Poverty Incidence

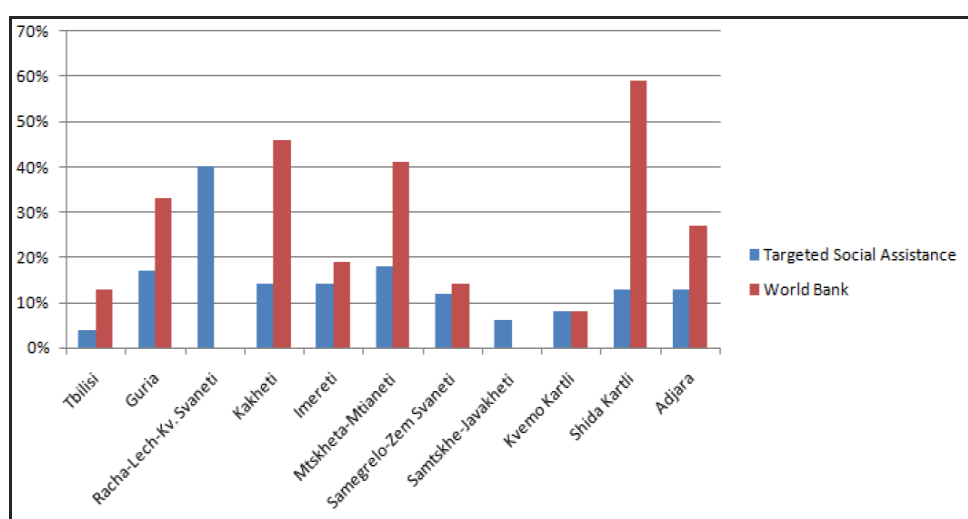


Figure 5: % of HHs Receiving Social Assistance Compared to % of HHs Counted as Poor¹⁷

Table 5: HH Agricultural Assets¹⁸

	Non-Poor	Poor	Extremely Poor
% HH Using Agric Land	78.3	64	49.8
% HHs with a Garden	44	29.5	18
% HHs owning Livestock	68.9	47.5	30.9
% HHs with Soviet Vehicles	10.3	4.4	3.2
% HHs with Imported Vehicles	3.7	1.4	0.9
% HHs with Tractor, Combine or Seeder	0.9	0.2	1.8
% HHs with Small Tractor	1.8	0.7	0
For Agric Land Users			
% Total Area	0.7	0.4	0.2
Annual Crops (ha)	0.3	0.2	0.1
Orchards & Plantations (ha)	0.3	0.2	0.1
Pasture (ha)	0.1	0	0
Garden (m)	270	202	81.4
For Livestock Owners			
Cattle	1.18	0.65	0.68
Poultry	9.35	6.1	4.79
Pigs	0.36	0.19	0.13
Sheep & Goats	0.31	0.44	0

¹⁷ CARE. 2010. Reducing Poverty and Social Injustice in Georgia's Rural Communities.

¹⁸ World Bank. 2009. Georgia Poverty Assessment.

According to the Focus Group Survey, the poor in Kvemo-Kartli are small-scale livestock producers (SSLPs) owing up to 5 breeding female cows and/or up to 40 breeding female sheep. They have access to up to 2ha of agricultural land, and may also access some summer pasture. They are primarily livestock producers but will grow some potatoes and other crops to support this. They do not own machinery, and generally do not possess their own transport. Generally they produce primarily for home consumption, with surpluses being sold or exchanged. Overall, they earn less than 350 GEL per month. Participants identified that around 70% of households fall into this category.

Kvemo-Kartli is by all measures one of the wealthier regions of Georgia (see Figure 6&7). According to World Bank statistics, Kvemo-Kartli houses 10.4% of the population. 17.3% of the region's population earn beneath the poverty line (72.6 GEL in 2007), 7.6% of the national figure¹⁹. Extreme poverty is lower, with 5.4% of the country's extremely poor population (47.1 GEL in 2007) which amounts to 4.8% of the Kvemo Kartli's population falling into this category. By contrast neighbouring Shida-Kartli, extending into the North Caucasus) houses 7.5% of the population but 18.9% of the country's poor and 25.9% of the extremely poor, 59.4% and 32.3% of the regions populations respectively falling into these categories (see Figure 7). These relatively low poverty rates are attributed to well watered agricultural land on the lower ground and proximity to Tbilisi and Rustavi markets for produce and off-farm income, especially for Marneuli and Tetritskaro municipalities.

Nevertheless, there is still a significant number and proportion of rural poor in Kvemo-Kartli particularly in the remote rural mountainous areas concentrated in the municipalities of Dmanisi, Tetritskaro and Tsalka.

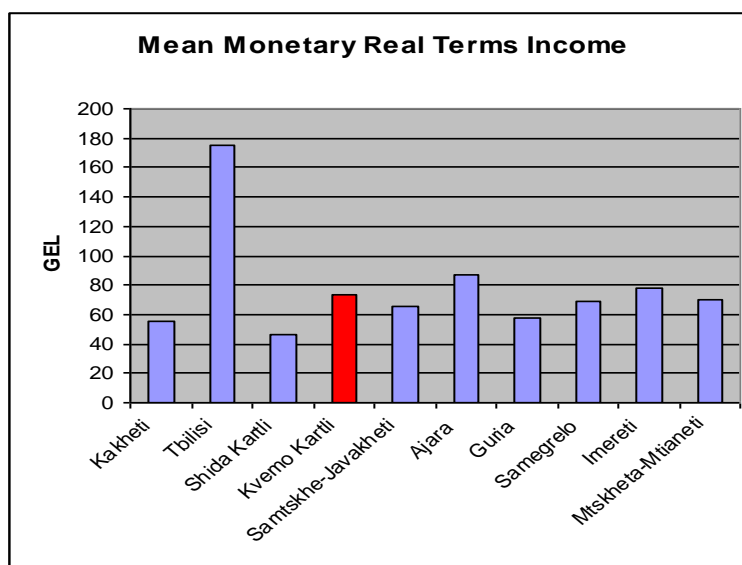


Figure 6: Mean Real Terms Monetary Income

¹⁹ World Bank. 2009. Georgia Poverty Assessment.

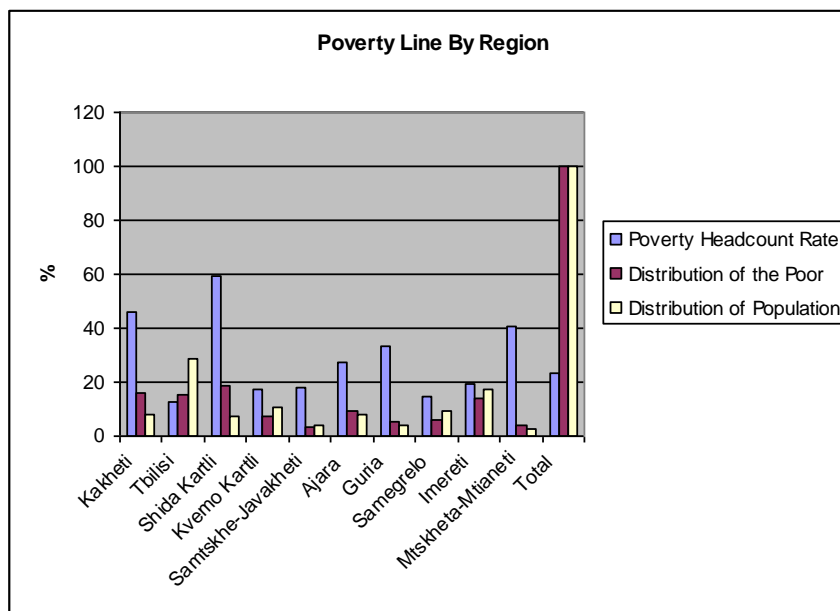


Figure 7: Poverty Line by Region

Community & Farm Profile

Communities are groups of between 1 and 7 villages. The majority of the following data are taken from the Community Focus Group Survey conducted by Alliances-KK unless otherwise cited.

Livelihoods

Dairy cattle production is the predominant income source (92-100% of communities) followed by cattle production for meat. In Tsalka, cattle production was lowest (92%) and Sheep production highest (34% compared to 32% in Dmanisi & 8% in Tetritskaro). Potatoes are the most important crop, especially in Tsalka where 88% of communities are engaged in production. Off-farm income opportunities are mostly in the public sector (such as teaching) and the private sector (trading & shop keeping).

Livestock Ownership

Livestock numbers vary considerably according to the location of the community. In terms of mean ownership, Tsalka residents own the most cattle, and Dmanisi's residents own the most sheep. *See Annex 2 Map 1 & 2 Livestock and Sheep Ownership in the Project Areas.* Table 6 below shows the means figures for cattle and sheep ownership per household.

Table 6: Mean Figures for Cattle and Sheep Ownership Per Household

	Mean Cattle/HH	Mean Sheep/HH
Tsalka	4.8	3.4
Dmanisi	4.0	5.5
Tetritskaro	2.5	3.6

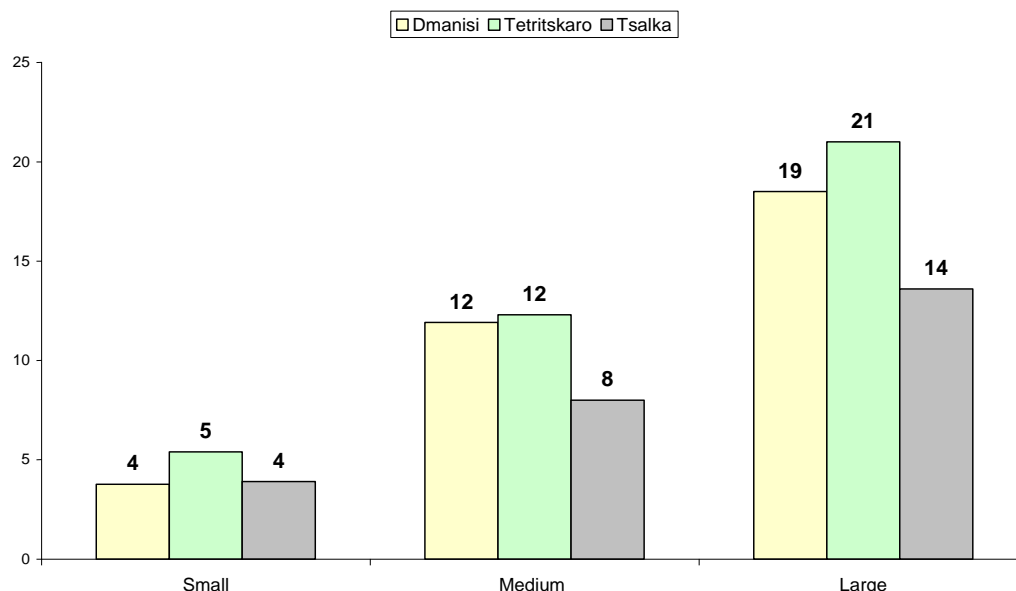


Figure 8: Community Self-Categorization of Cattle Ownership (Breeding Female)

Communities categorized themselves according to three categories of cattle breeding female ownership, with small farmers owning 4-5 cows which is largely in accord with the livestock census data presented above. However sheep ownership differed radically from the census data with small sheep holdings (of those who own sheep) of 15-23 ewes.

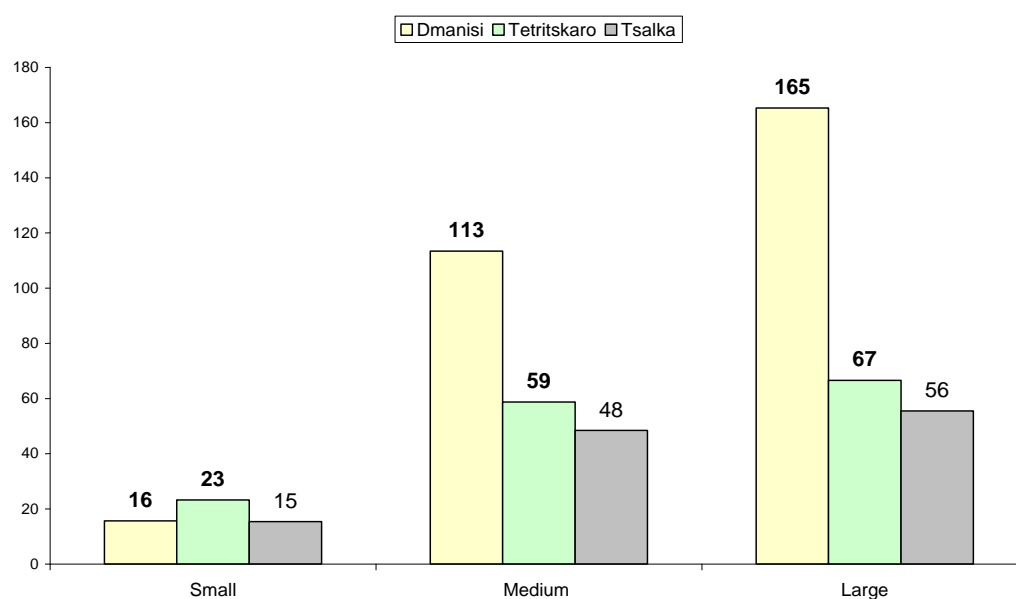


Figure 9: Community Self Categorization of Sheep Ownership (Breeding Female)

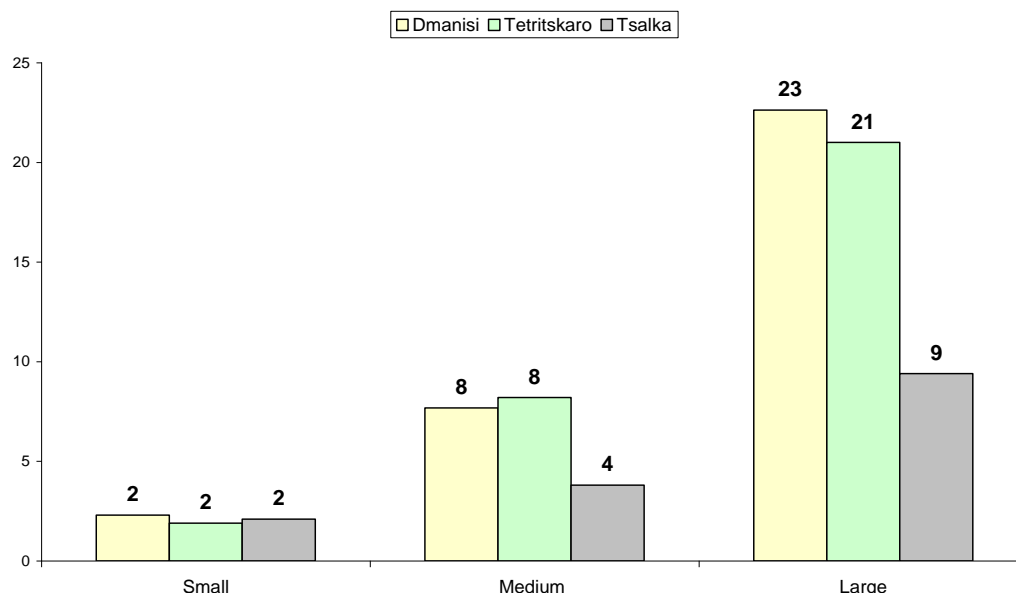


Figure 10: Community Self Categorization of Land Ownership (ha)

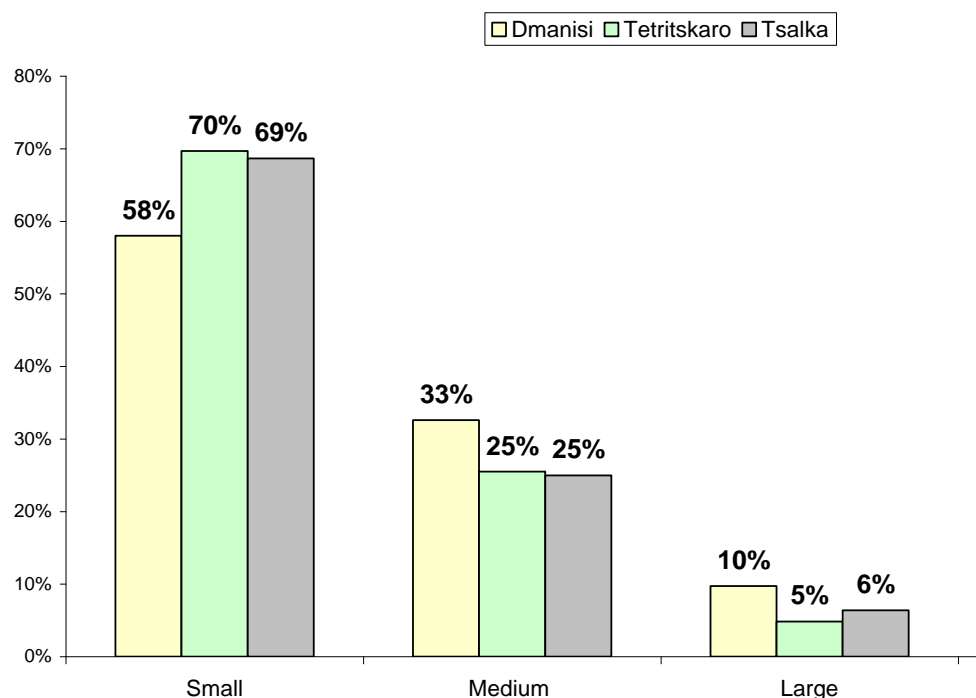


Figure 11: Community Self Categorization of Farm Size Cohorts (%)

Farm expenditure:

Very little work has been conducted on farm expenditure in Georgia. Work undertaken by CARE in Samtskhe-Javakheti²⁰ is indicative. By far the most common expense is hiring tractors which is unsurprising given the low level of tractor ownership (4%), however given the small land area this would equate to a very high unit-cost if this were solely for cultivation. Whist the authors of the report do not disaggregate this figure, it probably reflects a number of separate cultivations as well as making hay on communal and rented pasture.

²⁰ CARE (2006). Status of Social and Economic Conditions in Selected Villages of Samtskhe-Javakheti.

Table 7: Farm Expenditure (Care 2007)

	GEL/yr	%
Hiring of tractor and necessary equipment	172.7	69.3
Seeds, seedlings and other planting material purchase	123.4	59.8
Purchase of fertilizers, chemicals	133.5	51.5
Veterinary services pay, purchase of medicine for animals	117.8	34.3
Purchase of forage/hay	329.3	33.5
Purchase and rent of other agricultural machinery	115	18.3
Other expenses on land plot	110.4	17.3
Purchase of calves, poultry	474.2	14.7
Purchase of bee-keeping equipment	1236.9	6
Advisory services	7.5	0.7

Access to Markets

Men generally go to market centres more frequently than women (up to 11 times a month in Dmanisi compared to 2 for women). Overall women are overwhelmingly more engaged in dairy transactions than men and men more involved in livestock transactions than women.

Labour

Hired labour is important in the majority of communities (58-73%) and local labour is favoured over labour from outside. Men and women are employed for different tasks, with men doing heavier work such as herding and haymaking and women performing tasks such as milking and weeding. Daily wages are generally higher for men than for women (19 GEL compared to 13-14 GEL per day) although in Dmanisi daily wages were equal at 16 GEL per day.

Services

Most communities are well served by shops and mechanics, with approximately one in every village.

Table 8: Community Services & Enterprises

Service/Enterprise	Average Number Per Community ²¹		
	Dmanisi	Tetritskaro	Tsalka
Shops	9	7	4
Bakeries	1	1	0
Bank/Microfinance	1	1	0
Mechanic	10	9	9
Blacksmith (metal worker)	1	0	0
Doctor	3	3	2
Ambulance	1	1	0
Kindergarten	0	1	0
Primary School	2	1	0
Secondary school	1	1	1

²¹ Groups with up to 7 villages.

3. Demand

Consumer Profile & Trends

General Consumer Trends

In general, Georgian consumers are more concerned about the price of their food than they are about its safety or quality²².

Research conducted by Alliances-SJ with GDCI and CRRC on consumer attitudes and preferences revealed some interesting trends²³:

- Consumers remain quite loyal towards single vendors of meat and dairy products, trusting them as to the quality, safety and hygiene of the product. However there are those who trust supermarkets more on issues of quality and hygiene, and prefer them for convenience.
- The research confirmed (though not through a statistically valid dataset) that there is a difference between poorer and richer consumers in their purchasing practices, with richer consumers preferring the supermarket and poorer consumers preferring the main market.

However there is some evidence that this emphasis solely on price is changing. Food safety is more in the public forefront through increased media attention²⁴. There have been a number of television programs dedicated to food safety, the head of the NFA has participated in radio talk shows.

Dairy Consumption

The average Georgian household consumes around 72Kg of dairy products annually which is mostly comprised of fresh milk and cheese (71% & 16% respectively). However when converting these figures to raw milk equivalent (RME) the importance of cheese is elevated, comprising 59% of total milk consumed²⁵. Per capita consumption declined by over a kilo per head between 2003 and 2008, however the market is differentiating, with a wider variety of branded products available in shops (in urban centres). Larger firms are expanding the range and volume of products they produce opening up demand for raw milk but with a likely displacement effect on traditional products sourced directly from small producers.

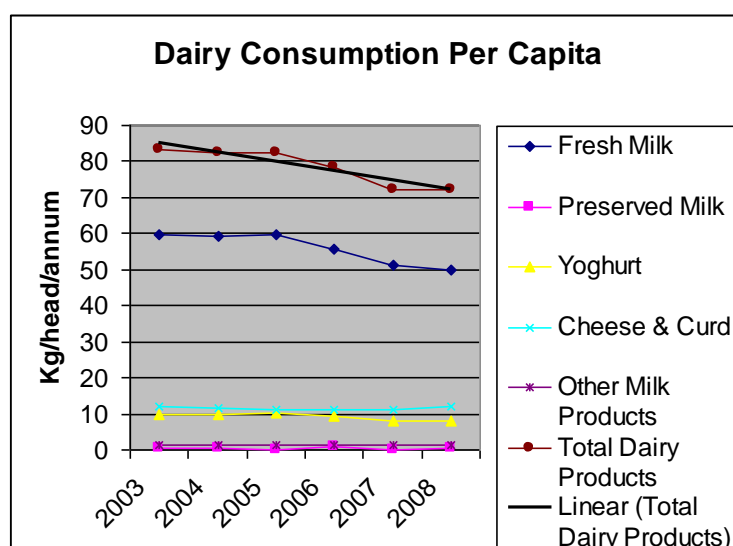


Figure 12: Dairy Consumption

²² GDCI. 2010. *Food Safety in Georgia*. In conjunction with Mercy Corps & CRRC.

²³ Ibid

²⁴ See Annex 3 Food Safety Related Media Hits

²⁵ Department of Statistics of Georgia. 2009. *Statistical Yearbook of Georgia: 2009*

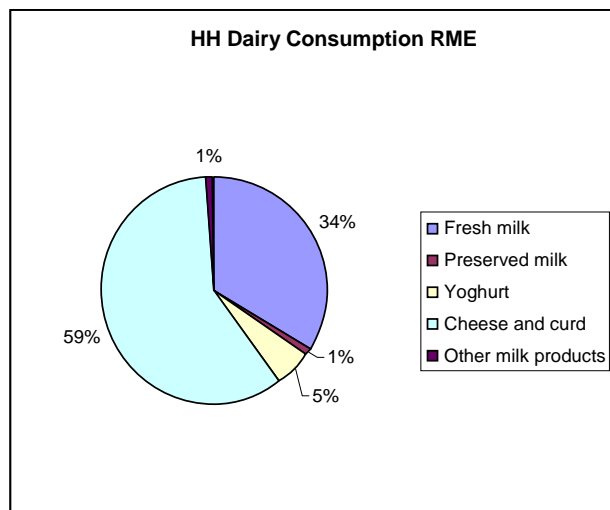


Figure 13: HH Dairy Consumption RME

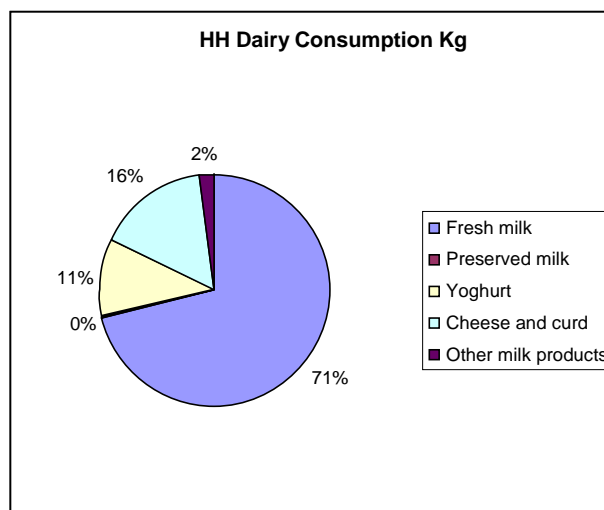


Figure 14: HH Dairy Consumption Kg

Price Fluctuation

Cheese prices fluctuate significantly, affected by seasonality and the price of milk as well as wider market drivers. The following graph shows the fluctuation in the price of Imeruli cheese from sales in Akhaltsikhe from January 2010 to June 2011.

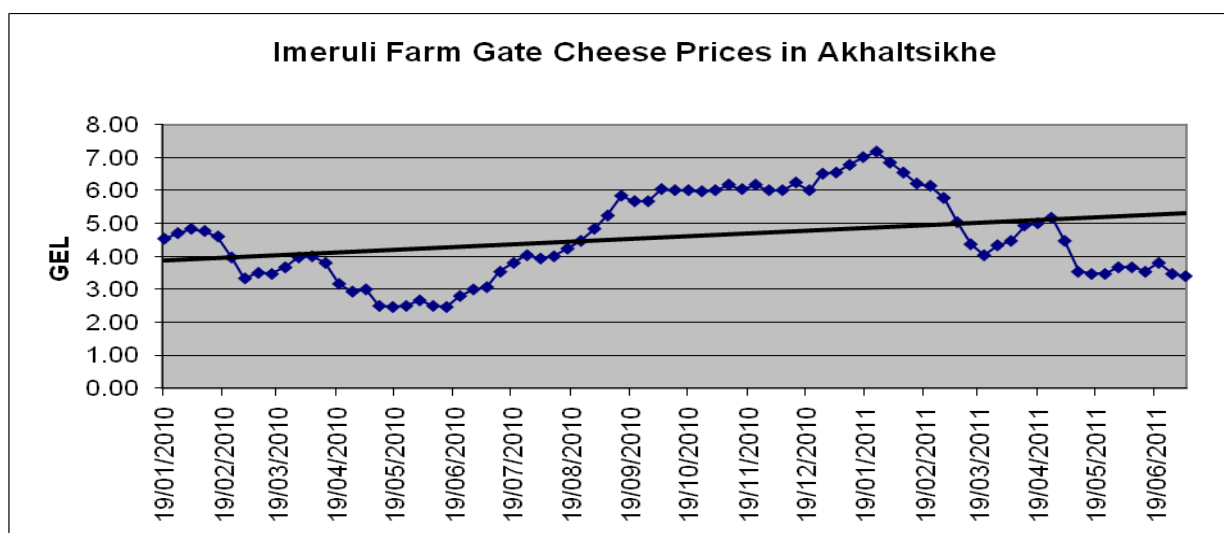


Figure 15 Imeruli Farm Gate Cheese Prices in Akhaltsikhe

Beef Consumption

Georgians consume around 16.6 kg of meat per person per annum²⁶ which is mostly beef, followed by pork and poultry (a breakdown is not available). Overall meat consumption declined by around 1kg per head per annum between 2003 and 2008. Whilst consumption patterns are not changing dramatically with regards to the type of products purchased (i.e. raw meat as opposed to cooked or processed), the channels through which cattle are purchased and slaughtered are changing dramatically with more formalization and involvement of lead firms, which is leading to demand for a higher number and quality of beef animals.

²⁶ Department of Statistics of Georgia. 2009. Statistical Yearbook of Georgia: 2009.

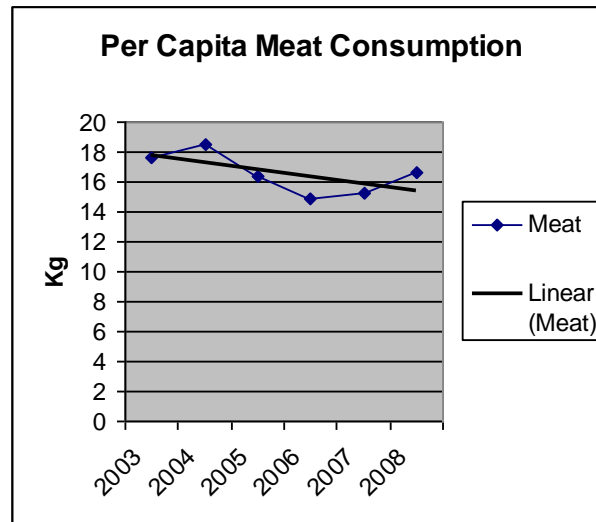


Figure 16: Per Capita Meat Consumption

High-End: Supermarkets & HoReCa

Consumers at the high-end are mainly rich Georgians and expatriates concentrated mostly in Tbilisi who shop in supermarkets (mostly Good-will & Populi) and eat in medium-high end restaurants (e.g. MacDonalds, Vong Asian Fusion) and hotels (Sheraton, Marriott, Radisson). They also take their vacations in Turkey or on the black-sea coast (Batumi & Kobuleti) in the summer and in Gudauri & Bakuriani ski resorts in the winter which are large seasonal markets.

It is difficult to estimate the total demand from this slice of the market as figures vary widely. A market study published by GTZ in 2007 estimated the annual demand for prime cuts with a price premium of 25-50% to be 750 tonnes, and the total high-end to be 1,500-2,000 tonnes per year²⁷. However key informants interviewed for this assessment gave lower figures: one, a leading supplier to the industry, estimated it to be far lower at around 26-30 tonnes per year²⁸, however M-Group, one of Georgia's leading restaurant and catering management firms, has a monthly demand of 15 tonnes of prime beef which they source from Georgia which would equate to 180 tonnes per annum²⁹.

Supermarkets

The Populi supermarket chain have 45 food retail outlets and serving over 100,000 medium-high income households, making it the biggest chain in Georgia³⁰. Goodwill supermarket has three outlets (2 in Tbilisi & 1 in Batumi) and cater mostly for high-income Georgian and expatriate households. It is the only HACCP and ISO 9001-2008 certified food retailer in Georgia and is thus often used as a supplier of meat to small high-end restaurants.

Tbilisi Mass Market

According to one key informant, the daily demand for beef in Tbilisi is around 300 head. Before the sudden change in structure in June, the majority of this went through the central market. Since then however, supply goes through one of 5 slaughterhouses licensed to supply Tbilisi (of around 32 in the country).

Branded Butchery Retail Outlets & Wholesalers

There are a few branded retailers of meat in Tbilisi. *Vake Meat Products* have been in existence for around 50 years and make their own brand processed meats (sausages and smoked joints) and cuts. *Iberula* is a newcomer and is the retail end of the Natakhtari slaughterhouse selling differentiated cuts in eight shops (soon to be 10). Natakhtari slaughterhouse is also a meat wholesaler.

²⁷ Gerhard Hiese, G & Tkeshelashvili, D. 2007. *Market Study Beef Market Georgia*. GTZ

²⁸ KI-11. Simon Appleby. Tbilisi. 13-6-2011

²⁹ KI 13. Kakhabe SiradzeFood and Beverages Manager M-Group.

³⁰ Populi website. Accessed 20-6-2011. <http://www.populi.ge/index.php?m=117>

Minimarkets & Butchers

There are numerous smaller chains and independent minimarkets in Tbilisi that serve a small locale. In addition there are independent butchers that are located in the suburbs that operate in much the same way as those in the central market.

Central Market 'Desertirebi'

Until June 2010, the majority of meat was retailed through around 100 independent butchers in the central market. These operated in largely the same way as the regional butchers, buying cattle in livestock markets, holding them and slaughtering themselves and bringing into the market to retail or going through a small abattoir on the outskirts of the city. However this is in considerable flux at present with changes in the rules which mean that all meat sold in Tbilisi has to come through one of five licensed abattoirs³¹. A recent discussion with butchers in the market revealed that they now have to purchase directly from the new licensed abattoirs which in reality means either Natakhtari of Teleti at an additional cost of 100-250 GEL per cow (depending on the source: the CEO of Natakhtari quoted the lower price³², the butchers the higher price). The additional wholesale cost and transport has meant that prices have risen by around 50% and sales have dropped by an estimated 60%, with fewer customers purchasing smaller amounts³³.

Low-end HoReCa Market

Mega Food is a subsidiary of M-Group and supplies the military and prisons. They currently import Indian buffalo meat to service their large catering contracts with the military (feeding 15,000 troops per day) and prisons (feeding 18,000 prisoners per day). Other small domestic restaurants and hotels mainly source from the central market, buying 5-10kg per day³⁴.

Processed Meat Products

Canned Meat

Canned meat and pre-packaged *khingali*³⁵ production is based on the use of on imported frozen meat. MANGLISI – 2007” LTD. is a typical canned meat enterprise. Their production is based on orders. Their current production is to fulfil an order from the Special Affairs Department of Ministry of Internal Affairs of Georgia which begun in May of 2001 and will finish in September of 2011 providing 500 000 GEL of canned meat to the ministry during this period. Each can of meat costs 2.72 GEL.³⁶

Export

The export market for live cattle up until recently has been small, sporadic and opportunistic. The National Statistics office recorded no or negligible live exports in recent years until 2008 (\$0.58m), then a sudden increase in 2009/10 to \$16.9m & \$15.9m respectively. It is not known what caused the sudden increase and where these animals went. Recently Iberula Meats (linked to the Natakhtari abattoir) won an export license and intend to grow this part of their business, although at present they are experiencing difficulties fulfilling domestic demand³⁷. In terms of small scale export, focus group members have reported ‘Azeri’ traders coming to the villages to purchase cattle, they do not know where the traders come from or where they are going to and prices are fixed by the traders.

Cattle Liveweight Prices

There are no records of liveweight prices from Marneuli market. The following table shows the fluctuation and trends in liveweight prices from the Alliances SJ data collected from Akhaltsikhe Livestock Market. Prices can be highly volatile but have stabilized of late, although the impact of rising consumer prices and reduced demand have yet to be recorded.

³¹ See Table 11 P29 Abattoirs Licensed to sell in Tbilisi

³² KI-18

³³ KI-27

³⁴ KI-26

³⁵ “Ioli”, “Nikora” and other producers are making Khinkali and other meat products using 90% frozen imported meat. George Tvildiani pers comm.

³⁶ IAAD Report June 2011

³⁷ KI-4. Iberula Meats. 16-6-2011

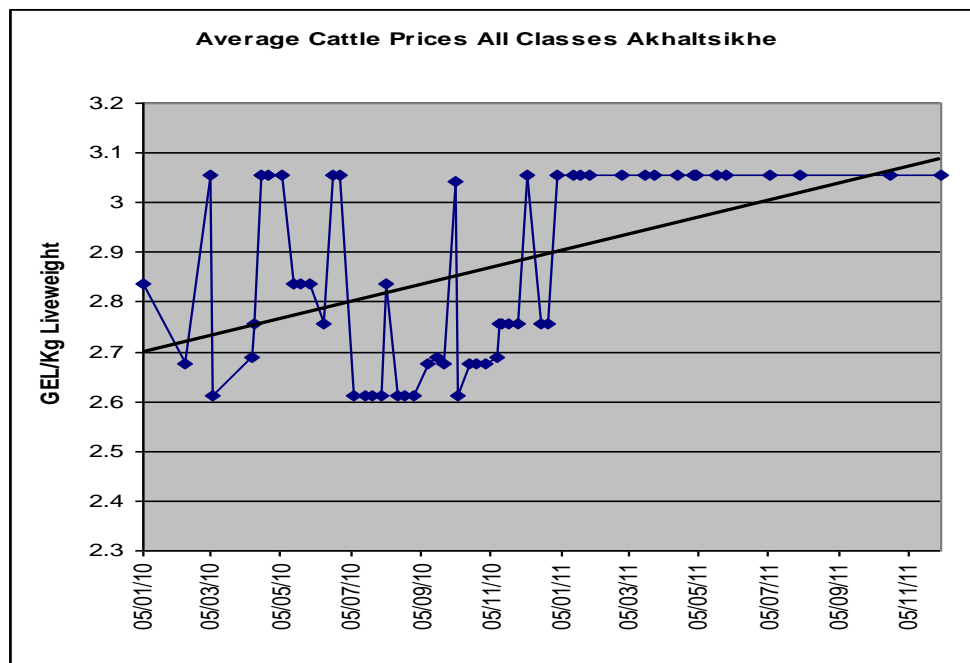


Figure 17: Average Cattle Prices All Classes Akhaltsikhe

Sheep Consumption

Domestic

No official sheep meat consumption figures were available during this assessment. Domestic demand for sheep is highly seasonal among Georgians, confined mainly to Easter time when it is used to make a dish called *chakapuli* (with tarragon & sour plums). In addition sheep also have a ritual role for Orthodox Christians (the predominant religion) who sacrifice them outside churches on saint's days. Azeris however regularly consume mutton and lamb and there are specialist sheep butchers and mixed sheep and cattle butchers who cater for this demand.

Export Markets

The export markets for sheep are to Lebanon by sea from Poti, Azerbaijan³⁸ and Armenia by road, Jordan, Syria, Kuwait, Kurdistan, Israel, Egypt, Iran, Iraq, Dubai and Qatar by air freight from Tbilisi. Exports were historically very low, then rose suddenly in from 2008-2009 then declined again in 2010 (see Figure 18) due to a rise on prices after the high demand in 2009 and a shortage of males which are in high demand from Arab importers for sacrifice³⁹.

Wool

All key informants in the sheep sector reported that there was little market for wool. Farmers cannot sell wool despite low prices: 1kg wool ranges in cost 50 tetri to 1.5 GEL⁴⁰. Sheep are sheared by hand or by electric clippers powered by a generator, wool is in practice given away but when washed is used for stuffing mattresses in the home or those sold in specific locations in Tbilisi⁴¹. Washed and carded wool is sold in sacks in Marneuli agricultural market by traders for 13GEL/kg. One scouring and carding plant processing 15/20t of wool a year is located outside Telavi and supplies dyed wool and yarn to knitting shops and craft enterprises. A number of small scale carpet enterprises also source wool.

³⁸ One market player controls the sheep export trade to Azerbaijan, the sheep are taken from quarantine by truck are herded over the border to a holding centre near the border crossing. KI23

³⁹ The smaller Georgian sheep is very popular for sacrifice in Middle Eastern, North African, countries of the Arabian Peninsular and Iran and Iraq as it is a fat tailed breed like the local breeds but is smaller and therefore costs much less. Ibid

⁴⁰ The highest figure was sourced according to the information from the Dmanisi Food Safety Agency, farmers and specialists and refers to scoured wool. IAAD Report 2011. Price also depends on location (if the wool is already in the lowlands the price is better) it also depends on the level of contamination of the fleece with dirt/vegetative matter. Shepherds in Tusheti are getting as low as 50 tetri/kg (KI11) and generally leave it to rot, 80 tetri/kg is paid for reasonable quality wool and a scouring/carding factory in Kakheti pay 11ari/kg.

⁴¹ Near the metro station "Isani", in specific shops.

Overall production of wool is in decline according to government statistics⁴², (although these also suggest that a lot of wool is not marketed since the weight of the average clip would be only 50g on average according to these figures rather than the 2.5kg greasy/year that is the reality in Georgia). This is backed up by one key informant shepherd who said that they practically give it away. KI23 the Director of a large sheep export company stated it to be his goal to find a market for wool but having analyzed samples from his flocks has met the constraint of uneven and poor quality fibers unacceptable to markets in Azerbaijan and Turkey. Efforts to improve breed and fleece quality are currently restricted to YuFengNong Natural Fibre Technology Company⁴³ who is importing Merino semen from Australia for a crossbreeding programme with indigenous Tushi ewes, to produce a stable hybrid retaining the vigour and fertility of the Tushi, with the higher fleece quality of the Merino, pilot flocks will be established in locations in the North Caucasus. The company is also planning an initiative⁴⁴ to improve shearing and sorting methods which will result in cleaner, more even fibre quality with potential for use once processed in insulation and quilts⁴⁵.

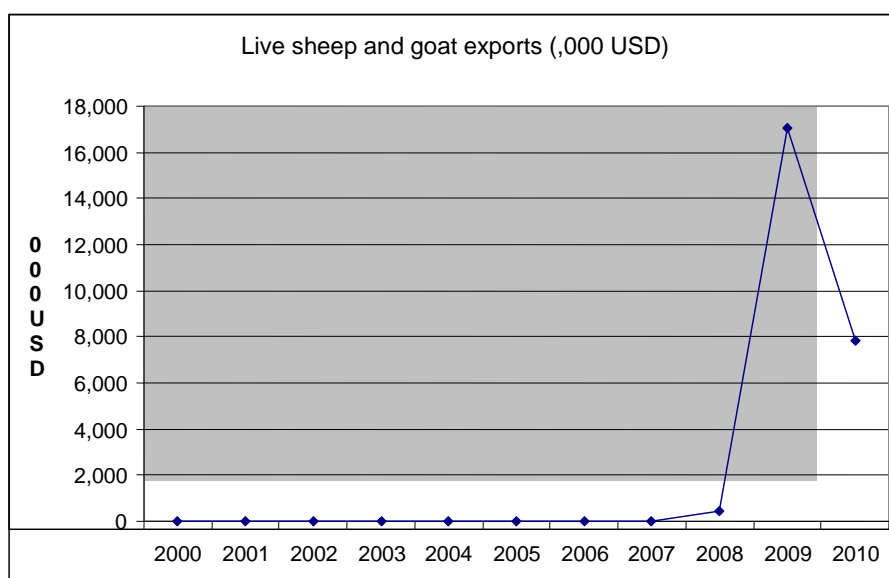


Figure 18: Live Sheep & Goat Exports

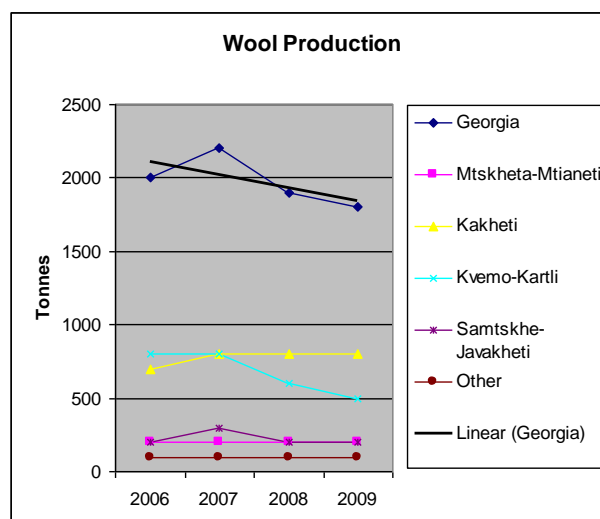


Figure 19: Wool Production

⁴² National Statistics Office of Georgia, 2010. *Agriculture of Georgia, 2009*.

⁴³ KI13

⁴⁴ Involving a mobile shearing unit which negates the need for shearers to hold the sheep and shearing and sorting training.

⁴⁵ Ibid

4. Dairy Core Market

Summary

In comparison with Samtskhe-Javakheti, the dairy market system in Kvemo-Kartli is much deeper and broader with more lead firm involvement with more formal linkages and also a number of smaller cheese producers manufacturing a variety of products. The proximity to Tbilisi makes Kvemo-Kartli more attractive for investment and also means that some farmers themselves can sell dairy products directly to consumers in the city. The result is that a greater number of farmers are afforded the choice of either producing cheese for sale or selling liquid milk, sometimes to a variety of customers. There are essentially four destinations for milk produced on small farms in Kvemo-Kartli:

- Home consumption and sale of surplus cheese, yoghurt, butter
- Sale of surplus liquid milk either to Milk Collection Centres
- Sale of liquid milk to small cheese factories,
- Sale in small amounts directly to consumers in Tbilisi⁴⁶

Systemic Constraints Dairy:

- Inefficient coordination between private MCCs and dairy factories means that milk may be collected and not sold, leaving farmers unpaid.
- Lack of investment capital (expensive or unavailable credit) means that MCCs & small cheese factories are unable to expand, upgrade to higher standards, or diversify or invest in equipment and staff capacity building e.g. invest in appropriate transport.
- MCCs and smaller factories are not linked to sources of information and advice on dairy hygiene, and there is a reluctance to pay for such services as they are relatively expensive and they have yet to be made aware of the significant changes in the law governing their practices. Hence farmers also lack awareness of good practice and are potentially vulnerable to changes in market conditions.

Market Drivers & Pro-Poor Opportunities:

- The newly enacted food-safety law gives provision for “traditional” cheese manufacture and also cheese sourced from remote areas, however neither of these are well defined. If a definition could be agreed upon, production and hygiene standards could be developed and disseminated to enable SSLPs to continue to produce and sell cheese.
- The medium-high end HoReCa market is becoming increasingly interested in niche cheese products which could be sourced from small “traditional” producers (see above) and branded with an origin branding. M-Group are leading this at present.
- Sante and Eko-Foods are developing cheese plants in Tbilisi which will come on line in 2012 and expand their demand by 80t/d. Whilst current MCC capacity could take this up, it does present opportunities for those who are within these catchment areas; for MCCs to expand their catchment areas and even for new MCCs to emerge.

Household Cheese & Milk Production & Sale

Small scale livestock producers generally own unimproved Caucasus Mountain cattle yielding around 1,300 litres of milk per lactation (taken from Alliances SJ analysis of 194 farmers in Samtskhe Javakheti). They make a range of dairy products for their own consumption, selling the surplus when they have the opportunity. A variety of cheese products are made: low and full fat Imeruli and Sulguni, Nadugi (cottage cheese), and a range of other cheeses that are unique to the region or even to certain villages. The most common dairy products sold are Imeruli cheese (74% of communities stating this is the most important), Sulguni (34%), butter (20%), yoghurt (16%) and Nadugi (11%)⁴⁷. Sheep cheese was ranked important by 17% of communities.

Households sell cheese either to intermediaries who come to the villages (17% of communities), or to intermediaries in Marneuli or Tbilisi, or directly to consumers in municipal or regional markets. Their choice of market will depend on their transaction size and proximity to the market: if a farmer has a large

⁴⁶ This takes place only from Tetritskaro which is close to Tbilisi with good road links. Focus Group Survey.

⁴⁷ Alliances-KK Focus Group Survey

volume or is close to urban centres such as Tbilisi or Marneuli (especially Tetrtskaro) they have the option to transport it and sell directly gaining a premium. ‘Sakdrioni’ factory in Tsalka which processes 2t of milk/day sourced from 150HH in remote villages, sells directly through their own wholesaler outlet in Tbilisi⁴⁸. Smaller farmers, and those in more remote areas will generally sell to intermediaries.

Households with access to MCCs have the added choice of being able to sell liquid milk. Access to MCCs varies, with 36% of women’s respondents saying their communities sell liquid milk in Tetrtskaro, 37% in Tsalka and 55% in Dmanisi.

Whey, the main by-product of cheese making, is a valuable feed for pigs (ranked important by 11-18% of communities). As such, farmers’ decision making as to whether to sell liquid milk to MCCs is partly governed by whether they will have access to whey, and small-medium cheese factories send whey back in plastic barrels to the MCCs so farmers can take it.

Milk Collection Centres (MCCs)

The focus-group survey and follow-up key informant interviews revealed that there are around 19 MCCs in the program area being supplied by over 4,100 farmers, with the majority of activity in Tsalka municipality. This is around 16% of households in the program area which is lower than the estimate of 26% accessing “milk wholesale markets” found in the Village Infrastructural Census⁴⁹. At present they collect about 140 tonnes of milk per day which is about 55% of their maximum capacity. Most are limited more by demand than supply. Table 9 below gives an overview of MCC’s in the project area, please also refer to Annex 4: Map of MCC’s in the Project Area.

Table 9: MCCs in Alliances-KK Program Area

	Dmanisi	Tetrtskaro	Tsalka	TOTAL
Number of MCCs	6	3	10	19
Max Capacity l/d	32,450	13,000	95,100	140,550
Current Utilization l/d	20,950	850	55,100	76,900
% utilization	65	7	58	55
Number of suppliers	580	8	3,604	4,192

Many MCCs, especially those in Tsalka, are vertically linked to one of three dairy lead firms: Sante, Eko-Foods and Wimm-Bill-Dann (WBD), but there are also a number of private MCCs which either sell to these firms, directly or via a transport intermediary, or to small-medium cheese processors in the region. Some MCCs are also processors; essentially processors who have spare capacity to sell liquid milk. Annex 4 portrays these affiliations in detail.

Private MCCs do not purchase then sell milk; rather they operate by collecting milk to order and charge a commission of around 0.05 GEL per litre. The MCC’s pay their farmers every 10-14 days when they are paid by their buyer. As such they are often vulnerable to communication and coordination problems; key informants had numerous examples of times when they had collected milk only to be told the buyer didn’t require it, leaving the MCC with a highly perishable commodity to find a market for (with no suitable transport) or a large cash short-fall.

Prices are highly seasonal,⁵⁰ from lows of 45/50tetri/l in the summer to up to 95tetri/litre in the winter, by the end of August prices have risen to 70t/l for farmers in the project area. Prices also vary according to the buyer. Presently (July 2011) ‘Sante’ presently pays MCC’s 65 tetri/l of which the farmer is paid 50t/l with the MCC making 4/5t/l once transport costs are taken into consideration. Ecomilk Ltd producers of ‘Shelguni’ cheese pays the MCC 75t/l of which 60t/l⁵¹ goes to the famer⁵². Prices affect the choice of

⁴⁸ KI2

⁴⁹ National Statistics Office of Georgia. 2011. Village Infrastructure Census.

⁵⁰ KI4

⁵¹ Interestingly this equates to 23p/l which is the lowest price for milk offered in the UK the highest price being 28.5p/l. www.fwi.co.uk Prices as of July 1st 2011.

⁵² KI3

smaller producers on whether to sell milk or produce cheese. When women consider prices offered by traders for liquid milk too low they will retain their milk and process cheese at home.⁵³

Small-Medium Cheese Factories

The community focus group survey and key informant interviews uncovered nine small-medium cheese processors (more than 1t/day) in the region a further six producing less than 1t/day and a further two factories that source milk directly from the area. They range from a small group of large farmers processing their own milk, to medium-size factories with several employees processing milk collected either directly from farmers or purchased from MCCs. Please refer to Annex 5 Cheese Producing Centres in the project area for locations, present production and capacity of cheese producers in the three municipalities⁵⁴.

The main products manufactured are Sulguni (of which some is smoked) and Imeruli cheeses. Sulguni commands a higher price as it has higher production costs (boiling of the milk).

Table 10: Cheese Prices from Producer or Market

	Bought Direct from Producer	Bought from Wholesaler in Local Market
Imeruli	3.5/4 GEL/kg	4.5/5 GEL/kg
Sulguni	5.5/6 GEL/kg	6.5/7.5GEL/kg

Cheese Intermediaries

Intermediaries buy surplus cheese from farmers in the villages. They often operate in a territory, meaning that they generally buy from the same farmers and there is little competition with other intermediaries.

In the FGS in comparison to Dmanisi and Tsalka who have a larger proportion of MCC's, the survey showed that most respondents in Tetritskaro said that the most important buyers of raw milk are independent traders. In addition in Dmanisi, Tsalka and Tetritskaro the majority (60%) of male and female focus groups agreed that traders come to the home and have a signal to tell people that they are in the village and a small number (10%) of female respondents in Tetritskaro and Tsalka also said that traders call ahead by mobile phone.

Large Dairy Processors

The three big dairy producers: Eko-Foods, Sante and Wimm-Bill-Dann make a range of branded fresh milk, yoghurt, sour cream and cottage cheese but not Imeruli or Sulguni at present (see below). Their products are made from either fresh liquid milk or imported powdered milk which is reconstituted. Their liquid milk products are either fresh pasteurized milk or Ultra Heat Treated (UHT). The last year has seen the emergence of the pasteurized variety onto the Georgian market, lead initially by WBD with the others quickly following. This has been driven by the emergence of new legislation that obliges manufacturers to disclose the ingredients of a food: powdered milk or natural milk. As consumers were made more aware of this they could choose, and many are now choosing to buy Georgian milk rather than imported believing it to be more 'natural'.

Both Eko-Foods and Sante are in the process of expanding into production of branded cheese products which will come on stream in 2012. These factories will require an additional 80t of milk per day⁵⁵; this additional milk could potentially be supplied by existing MCCs which currently only operate at 55% of capacity, but it also opens up possibilities for expansion into new villages.

⁵³ Although where women make Sulguni cheese they complain that the cost of firewood also renders this option less than ideal. Tsalka Focus Group May 2011

⁵⁴ Note; these maps only offer a snapshot of market information to date, in the case of the CPC map it only refers to cow's milk processing. Buffalo, sheep and goats cheese are made in the project area.

⁵⁵ KI7/8

Product Differentiation and Branding

The bulk of cheese is sold unbranded and unpackaged through markets and minimarkets. The vendor will generally know the origin of the product (such as “Akhalkalaki” or “Tsalka”) as most consumers will ask as they taste it. However supermarkets, such as Goodwill, sell unbranded Imeruli and Sulguni cheese which is vacuum packed either by them or by the factory or intermediary. This cheese is labelled only with the weight, price and use-by date, and is sold for around 8-10 GEL/kg.

There is also a range of branded cheese products such as ‘Shelguni’ (a smoked Sulguni cheese) and other gouda and French type cheeses on the market commanding high premiums (up to 30 GEL/kg retail). ‘Shelguni’ sells at 1 gel/40g, 2.5gel for 100g and 3.75gel/140g. As mentioned above, Eko-Foods and Sante are in the process of developing branded cheese products.

Quality, Hygiene & Safety of Dairy Production

The hygiene of milk is determined by the health of the cow (including their diet), milking practices, and handling and storage of the milk after milking and is largely the function of the degree to which it is contaminated by bacteria and other substances (e.g. adulteration with dirty water or urine). The presence of bacteria can be tested in a variety of ways: MCCs and small-medium factories in Georgia may test for specific gravity (density) which is a measure of whether water has been added, and Ph (acidity), although many now have Lactoscanners which will also test for fat content and conductivity (a measure of the presence of ions which can indicate mastitis). Larger factories may also conduct bacteriological tests.

Work conducted by GTZ in 2007 revealed high levels of microbes in cattle drinking water as well as poor hygiene practices at milking⁵⁶. These lead to microbial contamination of milk and cheese products with organisms including E.coli. Meat was also found to have microbial contamination although it had no evidence of parasites or cysts. Neither meat nor dairy products sampled contained TB or brucellosis. Following the implementation of some simple recommendations for improved milking and cattle handling, contamination was significantly reduced and milk quality improved. In addition, the authors recommended further improvements including rehabilitation of water sources, improved manure handling and milk handling equipment.

Companies purchasing milk complain of poor hygiene quality, but as yet few steps have been taken to pass on information and standards through the supply chain to farmers. Instead, milk found through testing to be of poor quality is either rejected or is bought for a lower price (premiums are paid for high fat and low contamination), and may ultimately no longer be bought from the source altogether. Alliances-SJ assisted GDCI in developing the first dairy hygiene manual in Georgia⁵⁷ and process aimed at supply from small farmers which potentially allows companies to embed advice and standards.

5. Beef Core Market

Summary

Kvemo-Kartli has the country’s third largest cattle population (and the third largest dairy population), is the second largest producer of meat at around 10,400 tonnes (dead weight) per year (down from 14,700 in 2006), and largest producer of beef at 6,300 tonnes (down from 7,400 in 2006).

Systemic Constraints Beef:

- There is an overall inefficiency in coordinating the supply of live cattle from more remote villages, arising from a lack of linkages between farmers and buyers, currently solved by the regional livestock market which leads to high transaction costs and poor welfare. In addition lack of appropriate transport, weighing and handling facilities means that livestock suffer poor welfare, decreasing their quality at slaughter and farmers have disadvantaged transactions due to lack of transparency and choice on pricing including the role of collusion and monopolies. All of this

⁵⁶ Gulnara, D & Paghava, I (2007). Hygiene situation in agricultural production in Georgia.

⁵⁷ Now available contact www.gdci.ge

means that the market is not able to meet current rising demand through the new formal channels which are emerging.

- Quality of the Caucasus Mountain Cattle for Beef; the breed does not lend itself to the demands of the growing and changing slaughterhouses and wholesale markets, as the margins are too small to cover the costs of more sophisticated operations which require economies of scale for profit.

Market Drivers & Pro-Poor Opportunities:

- With rising demand for higher quality animals there is potential for the poor to upgrade their production through cross breeding with beef breeds leading to higher growth rates and better finishing with better confirmation animals which are more valuable for the market.
- Whilst at present the poorer farmers lack housing for fattening animals this might provide the incentive to invest in this and better feeding.
- There is potential for expansion in small regional abattoirs for slaughter to order and reduced transport costs and cost slaughter/kg/live weight. Potentially giving the poor access to a higher quality market.

Beef Production

Production of beef cattle can be broadly divided into small-scale (from “family holdings”) and large-scale/commercial farms. Small-scale farm production of beef cattle accounts for around 99.5% of total production in Georgia (around 29,000 tonnes)⁵⁸.

Farmers in Kvemo-Kartli typically own from 1-11 breeding cows on average⁵⁹ calving in the spring (Feb-May). Beef is rarely consumed by the household as it is too valuable and too large to deal with i.e. consume fresh or preserve. Smaller farmers (<5 cows) tend to lack sufficient animal housing to allow fattening of calves up to maturity (12-18 months) so male calves are often sold at around 3 months through local markets such as Marneuli, with females kept as dairy replacements. There is no purpose beef breeding being conducted in the region (or in the country) at present, so farmers are using the general purpose Caucasus Mountain, or cross-bred dairy types (e.g. with Brown Swiss).

A few large companies such as M-Group, are developing their own beef farms in order to stabilize supply. However at present they are fattening Caucasus Mountain type cattle which do not have good conformation for high quality beef cuts. There are some companies considering the development of beef feed lots to supply the large abattoirs with higher quality animals from Georgia, or even imported from Belorussia, the Ukraine or even Australia⁶⁰.

Slaughter and Butchery

There are at present around 32 licensed abattoirs operational in Georgia⁶¹ but the last two years has seen the opening of two new large licensed abattoirs in Georgia, Natakhtari and Teleti (see Box 1 above), with several more in development (e.g. one in Samtskhe-Javakheti with a stated capacity of 200 cattle/day under construction). This development is being driven by regulation that will ensure that livestock will increasingly go through these channels which provides a relatively safe platform for the large investment required to open and operate these facilities.

Box 1: Summary of a Licensed Slaughterhouse: Teleti Slaughterhouse

The Teleti slaughterhouse is located in Gardabani municipality. The capacity of the slaughterhouse is 100 cows/day but currently only operates at half of this capacity. The slaughterhouse provides only a slaughtering service, and no wholesale service unlike Natakhtari slaughterhouse.

Clients: The main clients of the slaughterhouse are farmers who live in Kvemo Kartli. The slaughterhouse does not carry out marketing activities. From 25-30 minutes are needed to slaughter one cow. The slaughterhouse has 5 vets to carry out inspections and certify meat (Form 2).

Service fees: The cost of the service is 1 GEL per kilogram of live weight, and the client must leave the hides to the slaughterhouse. They also have a refrigerated truck and can transport according to their clients requirements.

⁵⁸ National Statistics Office of Georgia, 2010. Agriculture of Georgia, 2009.

⁵⁹ Alliances KK Focus Group Survey

⁶⁰ KI-11

⁶¹ KI-24

The capacity of these new facilities ranges from 20 - 500 cattle. Only five of these are currently licensed to sell beef in Tbilisi see Table. These facilities, driven by regulation and the alleged involvement of powerful individuals close to the administration, are rapidly changing the governance of the value-chain for beef. Until recently the structure was dominated by a large number of small-medium traders buying through regional markets and selling to small-medium butchers. However this is rapidly becoming a large industry dominated by a few lead firms (with many of the same backers) who are vertically integrating sourcing through to butchery and processing, potentially crowding out many small traders.

This effect was keenly observed in Tbilisi: where prices rose from 10 GEL/kg to 15GEL/kg in June driving sales down by around 60%⁶². This price rise was driven by the necessity of purchasing from either Teleti or Natakhtari abattoirs who wholesale at an additional 100-250 GEL/cow (depending on the source of information). In addition these butchers complain about the quality of the meat; where before they selected cattle as they went to slaughter, they now have to purchase whatever is available.

Table 11: Abattoirs Licensed to sell to Tbilisi

Name	Location	Capacity(Head/day)	Current Throughput (H/day)
Teleti	Kvemo-Kartli	100	50
Natakhtari	Tbilisi (Shida-Kartli)	500	100
Meskheti Products	Samtskhe-Javakheti	20	10
Shula	Kvemo-Kartli	22	Opened 13/9/11
Karjala	Kakheti	20	Unknown

Municipal/Regional Sale

Livestock Marketing

Small, medium farmers often sell livestock through Marneuli Livestock Market (every Sunday) and through smaller village markets or to traders in the villages. Livestock are brought from Tsalka, Tetrtskaro, Gardabani and Samtskhe-Javakheti regions. Most of the traders are intermediaries buying to supply someone else or selling someone else's cattle. Cattle do not have any health documents. The main players at the market are Azeri traders⁶³. Currently the price of 1kg livestock is from 4 to 5 GEL at Marneuli livestock market.

Municipal/Regional Butchery

Slaughter outside of Tbilisi in municipal centres such as Marneuli has traditionally been conducted by small butchers. Until recently they slaughtered outside their shops as a mark of freshness, and some had reasonable waste management. However a recent crackdown by the local government means that they can no longer do this, but the absence of any operational abattoir in Marneuli means that they now slaughter in their back yards and transport the halves in a car or *marchutka*. Recently, however a new abattoir (*Shula*) is preparing to open near Marneuli with a daily capacity of 20 cows, possibly with a view to supplying the Marneuli butchers when the new rules take force.

There are approximately 30 beef butchers in Marneuli alone. Butchers tend to specialize in one type of animal; beef, sheep or, less frequently, pork although there are some butchers that combine beef and sheep. Meat cuts are not differentiated other than with or without bones with a 1GEL/kg price premium for de-boned beef. Most Marneuli beef butchers buy a batch of 5-6 cattle per week at the Livestock Market, keep them around their house and slaughter as required. Most butchers are of similar size, slaughtering and processing one animal per day of between 80 and 120kg live-weight (about 12-18 months old). These animals are preferred for the following reasons:

- The meat is more tender
- Fresh meat is preferred (slaughtered on the day of consumption)

⁶² KI-26. Beef now retails, three months later at 13GEL/kg a 3GEL/kg rise on the price pre-new regulations.

⁶³ This information on Marneuli market was obtained by IAAD. They stated that, 'Over 90% of the respondents of the Marneuli market did not say where they would take purchased livestock. They were very secretive. They all provided the same answer and said that they need it for their families. They did not want to admit they were buying them to sell on for a better price. They tried to avoid our questions and they did not wish us to have their names and telephone numbers. We only have some people's names, as they knew us well. To gain information better we tried to be in the role of buyer and seller.'

- The volume of demand from most shops of 45-50kg of meat means that one animal of this weight can be sold in one day virtually eliminating the need for cold-storage (though most have a refrigerator for leftovers)
- A daily turnover of one animal is good from a cash-flow perspective

In Marneuli alone therefore it can be estimated that there is a weekly demand for 150 – 180 cattle per week yielding 6700 – 9000 kg per week of saleable meat. Butchers work off a margin of around 1GEL per kilo over the liveweight cost per kilo. Skins are sold to dealers from Rustavi who come directly to the shop to buy. Little is known by the butchers as to what is done with them. Bones are mostly sold with the meat as most consumers buy cuts with bones in. Otherwise any waste bones are given away for herding dogs.

Tanning

There is a rumoured to be a government embargo on the export of wet, salted hides which are commonly exported to Turkey and Azerbaijan. Nevertheless government statistics recorded \$307,300 worth of raw sheep and goat hides exported in 2010, up from 2009 (\$270,600)⁶⁴ and \$58,500 are recorded for the first quarter of 2011.

Leather exports from Georgia were very low in 2009 and 2010, but rose suddenly in 2011 indicating that there is some development of the industry (See Figure 3). There is one main tannery in Georgia located in Rustavi; 'Philimasca'. Traders in Kvemo-Kartli buy raw skins from butchers, salt them and sell them to this tannery and are paid according to the grade.



Figure 20: Combined export of bovine & equine leather, sheep & lamb skin & leather from other animals

Import

Meat is the second largest food import into Georgia after wheat: Around 24% of beef consumed in Georgia is imported and this figure is rising steadily⁶⁵. Imported beef (actually predominantly buffalo⁶⁶⁷) mainly comes from India with about \$10 million worth being imported in 2009 which is frozen and destined mostly for the HoReCa market, prisons and military garrisons⁶⁸. Given Georgia's potential for producing low-grade beef it is perhaps surprising that so much is imported, however the price of imported beef makes it attractive: at the time of writing Indian buffalo meat is priced at around \$2.7 – 3.5 /kg = 4.6 – 6.0 GEL on the international market⁶⁹ and around 8-9 GEL/kg wholesale in Georgia which is a considerable margin compared to a national average for local beef of 9-10 GEL/kg with about a 1 GEL/kg

⁶⁴ Department of Statistics of Georgia. 2009. *Statistical Yearbook of Georgia: 2009*.

⁶⁵ Department of Statistics of Georgia. 2009. *Statistical Yearbook of Georgia: 2009*.

⁶⁶ Gerhard Hiese,, G & Tkeshelashvili, D. 2007. *Market Study Beef Market Georgia*. GTZ

⁶⁷ Embassy of India, Yerevan. 2005. *Market Survey for Frozen Buffalo Meat in Georgia*.

⁶⁸ KII Simon Appleby, 2011.

⁶⁹ Indiamart News. 9/3/2011. *Indian buffalo meat export may go up*.

margin; even more with the permanent increase in Tbilisi prices to 13GEL/kg due to the introduction of new controls in June 5th 2011 (see Cross-Cutting Rules)⁷⁰.

In 2005 there were 7 licensed importers of Indian frozen buffalo meat in Georgia buying from 4 main exporters from India⁷¹. At that time they were estimating that the market could absorb 6,000 tonnes of buffalo meat annually, but at the time of writing the volume is almost double, indicating that there is growth potential in this sector.

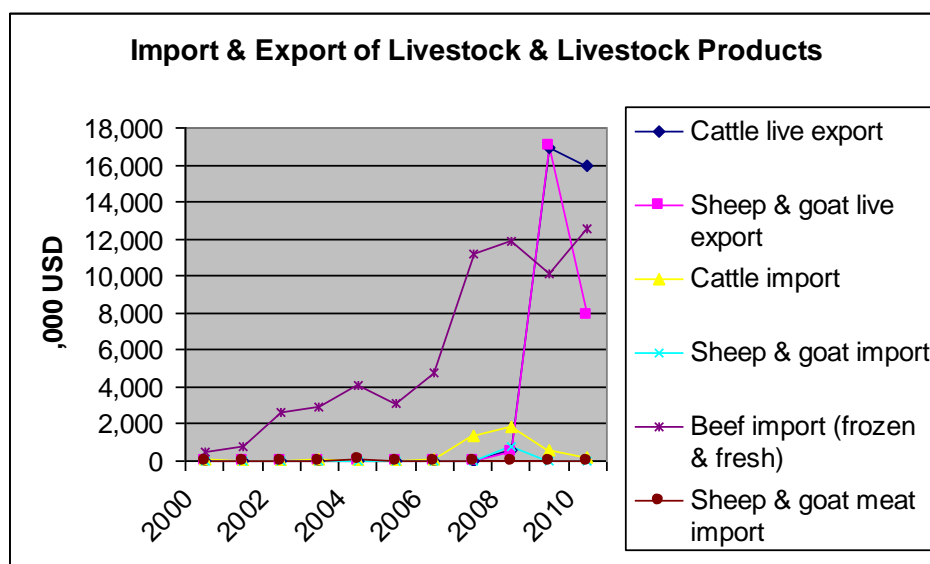


Figure 21: Georgia Import & Export of Livestock & Livestock Products⁷²

6. Sheep Core Market

Summary

The sheep market is a lot thinner than the beef and dairy markets and it is primarily focussed on emerging export opportunities to the Middle East. There is “negligible” domestic demand, being confined mostly to the Muslim ethnic Azeri community and around Easter for Georgian Orthodox sacrifices, although there are well known Georgian dishes of lamb. Hence there are not many players in the market and very little value addition at present.

Systemic Weaknesses Sheep:

- There is no licensed halal sheep abattoir in Georgia.
- The risk climate means that potential investors are very reluctant fearing powerful monopoly holders with close political links or a weak regulatory environment which may undermine their success⁷³.
- Breed quality for wool, uneven poor quality wool barring any export opportunities to Azerbaijan and Turkey and little processing beyond household level in country.

Market Drivers & Pro-Poor Opportunities:

- Export demand for sheep is high and Georgia is well placed to engage in this market. There is potential to diversify into exporting chilled halal cuts that would also support the burgeoning hide trade.
- Some interest in developing the wool trade in Georgia and low price gives value addition potential.

⁷⁰ DWVG Agro & Food News Georgia 14/06/2011

⁷¹ Embassy of India, Yerevan. 2005. Market Survey for Frozen Buffalo Meat in Georgia.

⁷² Department of Statistics of Georgia. 2009. Statistical Yearbook of Georgia: 2009

⁷³ A large Georgian sheep exporter lost \$50,000 recently due to a delayed flight (2 weeks overdue) following which the end of Ramadan had passed in Qatar, and they no longer wanted the consignment. Rustavi 2 TV channel.

Sheep Production

In 2010 government statistics estimated the total Georgian sheep and goat population at around 564,000. However industry leaders think this is a gross under estimate, putting the figure nearer 8-900,000, and also suggested the maximum carrying capacity to be around 1.1 million. Kvemo-Kartli has the second largest population of sheep in Georgia (21%) after Kakheti (44%) and the production systems of these two regions are intimately linked as large numbers of sheep migrate between the two regions to exploit summer and winter pastures (Kvemo-Kartli & Kakheti respectively).

The received wisdom is that sheep ownership is the entirely the preserve of the Azeri population. However analysis of government statistics on village sheep ownership, combined with estimates of ethnic composition from Alliances-KK focus groups suggests otherwise. Sheep numbers vary according to both the ethnic composition and the municipality. In communities where sheep are owned, Azeris own 2.7 sheep, Georgians 2.3, Greeks 1.4, Armenians 1.3 and Russians 0.4 per household. However overall, Azeris do own 61% of Kvemo-Kartli's sheep, with Armenians owning 28%. Individual flock sizes are difficult to ascertain. See Figure 22.

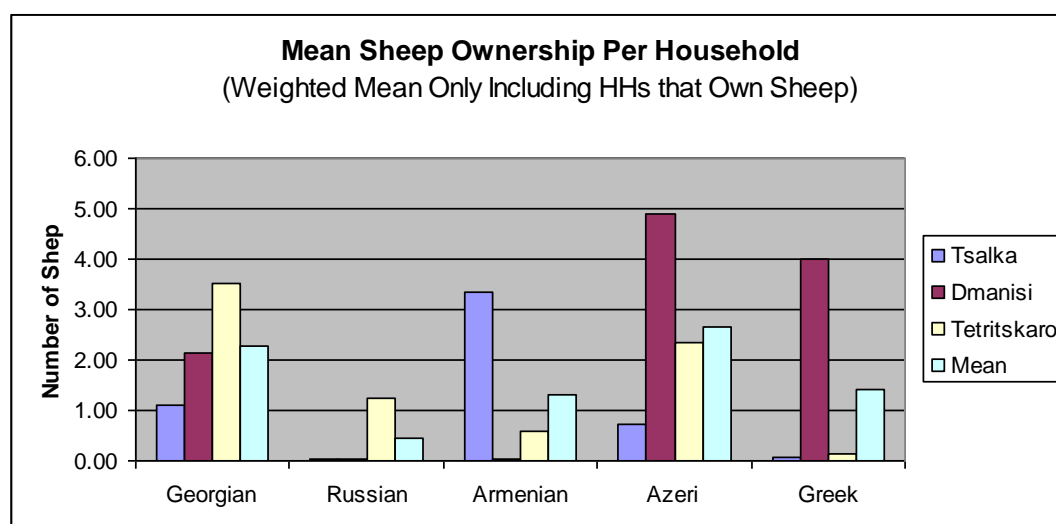


Figure 22 Mean sheep Ownership per HH according to Ethnicity

Table 12: Sheep Numbers by Ethnicity in the Project Area

	Georgian	Russian	Armenian	Azeri	Greek	Other
Tsalka	287,341	4,487	1,246,500	163,293	30,506	27
Dmanisi	3,517	10,380	11,300	2,543,103	127,564	2,865
Tetrtskaro	18,057	26,594	79,066	202,076	10,133	1,098
TOTAL	308,915	41,461	1,336,866	2,908,472	168,203	3,990
% of total	6.48	0.87	28.04	61.00	3.53	0.08

Transhumance & Migration

Large numbers of sheep and cattle are brought from Kakheti along traditional migration routes to summer pastures in Kvemo-Khartli every year from mid May to mid June. The routes are ancient with knowledge passed down from herder to herder about overnight stops, grazing and watering points. Governmental remit of the migration is under the National Food Agency who have plans to improve veterinary controls e.g. sheep dips and signage along the routes. Conflicts do exist along the routes between local residents and the herders and their flocks over attempts by locals to block access to certain pastures or even theft of herded animals en route⁷⁴. A particular flash point is the village of Tsinskaro in Tetrtskaro Municipality

⁷⁴ KI23

where the flocks pass through the village and residents complain bitterly of diseases being passed to their animals and the dirt and public nuisance caused. Sheep for export are sold from the high pastures where quarantines are held. Annex 6 shows the Map provided by the NFA showing the key migration routes and current vaccination concentration zones.

Local Market and Consumption

Key informants 18 and 20 provided information about the market for sheep in Georgia describing the market for sheep meat as compared to that of beef as ‘negligible’. They explained that the market for sheep meat within the Georgian population is based on seasonal and ritualistic use and sale, slaughter and consumption taking place within communities as demand dictates and as influenced by ethnicity and cultural preference. I.e. in Marneuli with a majority Azeri population sheep butchers are as numerous as beef butchers due to the regular consumption of mutton and lamb by the Azeri population. KI 13 and 14 a sheep butcher and shepherd respectively described the ad hoc selling and buying of single animals for the local market.

Sheep Export

All the above key informants described the large scale export of sheep to countries including Azerbaijan, Armenia, Dubai, Egypt, Israel, Iran, Lebanon, Syria and Qatar by road and airfreight. Although Georgian sheep are more expensive than Australian or New Zealand sheep, apparently the ‘natural’ taste is preferred by exporters as is the smaller size of Georgian male sheep which provides a cheaper option for consumers in the exporting countries than larger local breeds when slaughtering for sacrifice. In 2010 50,000 sheep were exported from Tsalka municipality into Armenia.⁷⁵ Sheep are collected in large flocks in areas described by the Deputy Head of the NFA, and a sheep exporter (KI23) as ‘quarantine points’ located on the high pastures with the minimal requirements that these points are situated away from villages, roads and infrastructure. They are checked by vets and tested whilst kept in quarantine tagged and then taken by road or to the airport for airfreight (to the Middle East), to the ports of Poti or Batumi (for export to Lebanon) or by road to the Azeri border where they are herded across. Animals for air freight are ear tagged at a onetime vet inspection. Precise information as to the exact nature of these transactions is difficult to ascertain.

The NFA stated its intent to transform the market from live transport to the export of chilled meats to support processing industries in Georgia and export a higher value product. This was also echoed by a major sheep exporter who expressed interest in developing a small Halal abattoir but was hesitant to invest in an uncertain climate where monopoly positions are perceived to be given to powerful oligarchs. Halal abattoirs must conform to internationally recognized standards which can be administered from Turkey.

7. Cross-Sectoral Market Drivers

Growth in HoReCa Sector

The restaurant sector (restaurants & cafeterias) has enjoyed steady growth over the past 5-6 years universally across the sector, whilst bars have remained almost static⁷⁶. The turnover of the sector as a whole has grown from 35.8 million GEL in 2004 to 175.2 million GEL in 2009 (almost 490%). Tbilisi has the largest restaurant sector totalling 205 million GEL in 2009, and is about 74% of the market with over 560 registered restaurants, followed by Adjara (Batumi & Kobuleti summer resorts)⁷⁷ with over 150; Tbilisi has 0.5 restaurants per 1,000 inhabitants.

The emergence and dominance of a few large HoReCa groups, typified by M-Group is changing the sector. M-Group (and their subsidiary Mega Foods) cater for everything from prisons and military garrisons (feeding 15,000 troops and 18,000 prisoners per day) to high-end restaurants (they own or manage 16

⁷⁵ KI20

⁷⁶ Chancellor, R. 2010. No Vegetarian’s Land: Georgian Restaurant Snapshot.

⁷⁷ Chancellor, R. 2010. No Vegetarian’s Land: Georgian Restaurant Snapshot.

restaurants serving 2,100 customers per day⁷⁸) and also have interests in various other food-chain actors such as Vake Meat Products. They have their own centralized warehousing and chilling plant enabling them to achieve high economies of scale. Most of their low-end beef is imported (Indian buffalo), whilst the high-end is served by locally sourced beef with some of it coming from their own farm. High-end hotels such as the Sheraton have their own international standards and source through suppliers who in turn have to adhere to them. M-Group are also developing a line of products that are reviving regional Georgia dishes and products. Their *Puri Sachli* (bread house) restaurant offers regional dishes chosen from 5,000 dishes collected by their head chef from around Georgia. They are also developing a cheese menu of revived regional cheeses and are interested in niche/artisanal production.

Commodity Prices & Export Demand

Price of Fuel

- World food prices are on the rise as is fuel limiting inputs to more intensive farming production and services for SSLP's e.g. restriction of access to the large slaughter houses as transport costs are too high. A heavy reliance on grass-fed livestock production will continue.

Price of Powdered Milk

- The advent of the food labelling law has meant that consumers are now aware when companies are using cheap imported powdered milk. This has opened up the liquid milk market but the price of powdered milk will inevitably drive prices of liquid milk in Georgia to some degree as manufacturers can always substitute liquid for powder.

Price of Domestic & Imported Beef & Buffalo Meat

- With the change in the governance structure of the beef value chain elevating prices, at least in the short-medium term, it is likely that imports of low cost beef, especially Indian buffalo, into the lower end of the HoReCa market and for caning and processing continue and grow. This is unlikely to replace fresh meat however.

Export Demand for Sheep

- The export market to Armenia and Azerbaijan and the near and Middle East is the major price driver for sheep in Georgia.

Food-Safety Legislation & Enforcement

Increased regulation, inspections and requirements for food producers is developing a more formalized value chain favouring larger lead farms who have the capital to upgrade giving them a market advantage. Depending on the speed of the regulation and severity of penalties imposed by those not meeting requirements there is a significant possibility of many smaller food producers going out of business. Included in this is a drive towards traceability in the livestock value chain with plans for stricter whole scale tagging and registration in the pipeline for roll out over the next few years which may restrict access to markets for smaller producers.

Food safety legislation has had a long and chequered history in Georgia with a lot at stake. Its eventual enforcement is probably the main driver of the market which could have positive or negative consequences for small livestock farmers depending on the nature of that enforcement. In the midst of the discussion and confusion regarding the development of an appropriate strategy for Food Safety in Georgia a 2009 Transparency International report entitled 'Food Safety in Georgia' stated the need for 'achievable medium term goals and standards for the protection of public health while not creating barriers for the Georgian producers in the Georgian market' was called for. Donors responded and the International Finance Corporation (IFC) project a member of the WB group in partnership with BP and the Austrian Ministry of Finance; launched in 2010 the IFC Georgia Food Safety Improvement Project which has 3 main components:

⁷⁸ http://www.mgroup.ge/?action=page&p_id=36&lang=eng

- Providing advice to companies in upgrading their food systems
- Improving public and private awareness on food safety issues and solutions (involving GDCI)
- Harmonising Georgian food safety regulations with best practices⁷⁹.

The enactment and roll out of the Georgia Food Safety Strategy (see Annex 7 for an Overview of the Strategy and Implementing Organizations) and the development and definition of the role of the National Food Agency see Box 2 below mark a phase in the implementation of Food Safety and Hygiene in Georgia. On 6th July the NFA released a notice of the enforcement regime for the registration of food businesses: unregistered food producing businesses can be fined 300 GEL, those violating veterinary laws in slaughterhouses can be fined 1,500 GEL. Critical and non-critical offences, and repeat offences have fines of varying severity and the agency has the power to close businesses until their practices have been rectified⁸⁰.

Box 2: The National Food Agency(NFA)

The NFA will be a key actor with whom Alliances KK will engage on issues pertaining to Food Safety and Hygiene. The National Food Agency (NFA) was created on January 14, 2011 and has replaced the National Service for Food Safety, Veterinary and Plant Protection. NFA is represented in every region of Georgia and has the following structural departments with their specific responsibilities:

- Food department, Veterinary department, Phyto-sanitary department, Administrative department, International relations department, Food and fodder department, Mobile response group

The NFA has primary responsibility on the implementation of food safety and hygiene policy, legislation and regulations implementation in Georgia as well as organizing public and controlling of private veterinary activities. The main functions are:

- Food safety and quality protection
- Control of hygiene, veterinary epidemiology and phyto-sanitary requirements and rules
- Risk assessment and management in food safety
- Control on the conditions of food
- Registration and control of pesticides, agrochemicals, veterinary medicines (drugs) and mineral water
- Categorize the water as commodity
- Prophylactic treatment and eradication measures implementation against most dangerous animal diseases
- Quarantine and protection of the plants against most dangerous pests
- Coordination and supervision of private veterinary activities
- Issuing permissions and certificates concerning food safety and other related matters
- Providing the public with timely, impartial and objective information on potential risks and threats
- Response on administrative violations regarding the food safety
- Cooperate with relevant international organizations
- Create crisis management plans

Livestock Movement:

The NFA also establishes the routes for moving livestock and sheep. These are traditional routes used by the farmers over centuries. The NFA supervises and maps the routes including vaccination for Foot and Mouth in areas of high concentration/high priority. See Map in Annex 6:

⁷⁹ Alliances KK will coordinate and liaise with this project regarding any large companies come across during project outside of our scope, in line with their co-funding policy we will leverage co-investment of 50% on any Food Safety consulting so as not to undermine the market. GDCI a service provider working with Alliances SJ is working with IFC Project doing consulting and awareness raising workshops for SME's. Alliances KK would support them to market their services to SME's through awareness raising workshops and the extension of 2 products the GMP assessment and a "GMP Lite" a remote assessment with some support. Part of the implementation of the GMP would be use of a comprehensive Food Safety and Hygiene manual developed under Alliances SJ.

⁸⁰ Weekly Georgian Journal. 14th-20th July, 2011. *Local Food Market is Discriminated*.

Upcoming Projects

The NFA is planning to roll out an AI project for improved beef breeds in near future and is currently looking at Angus, Herefords and Charolais as potential breeds for cross breeding with local cattle planning to sell the semen at cost price to farmers. They also plan a livestock identification system for the tagging, identification and traceability of livestock in Georgia with farmers paying for the cost of the tags.

A key area for facilitation is anticipated to be the legislation related to relaxed regulatory environments for small enterprises where interventions focusing on product differentiation and the protection of small producers will be targeted.

The three categories defined under the legislation are;

- 1. Traditional national food production, processing and distribution.*
- 2. Food business operators with special geographic constraints placing them in unequal conditions (transportation, production conditions, etc).*
- 3. The direct supply, by the producer, of small quantities to the final consumer or to local retail establishments directly supplying the final consumer.*

See Appendix 8 for full details of the relaxed regulatory environments for small scale enterprises.

Formalization of Meat Sector, the Growth of Abattoirs and Shifting Governance

With these recent rule changes stemming from the enactment of the 2005 law on food safety in January 2011, the meat sector is becoming more formalized with livestock (especially cattle) being processed through larger abattoirs and wholesaled to independent butchers and retailed through integrated branded butchers. When a similar law was enacted in Poland early in the last decade, the meat industry was hit hard with the number of meat companies and slaughterhouses more than halving over a 6 year period⁸¹. The potential impact on small producers of this is hard to gauge at present, but it may be anticipated that they will face more regulation. The National Food Agency has plans to implement compulsory registration of cattle⁸².

The Changing governance of the meat supply-chain through the opening of slaughterhouses

- The last two years has seen the opening of 2 new large slaughterhouses in Georgia; who combined have the capacity to slaughter half of Georgia's domestic requirement of beef and several more are in development. This in turn is being driven by regulation that will ensure that livestock will increasingly go through these channels, and provides a relatively safe platform for the large investment required to open and operate these facilities.
- At present all meat entering Tbilisi must go through one of 5 licensed abattoirs. The capacity of these new facilities ranges from 20 - 500 cattle per day. (See Table 11).
- With this change in governance will come a shift in demand towards heavier beef animals with better conformation i.e. more muscling on the rump and shoulder so that waste is reduced and increased efficiency through the slaughter of fewer cattle for the same quantity of beef. This is forcing lead market players to consider the import of better quality animals e.g. from Belorussia and even Australia. In addition the importation supply chain would become more organised involving fewer transactions for larger sizes than the local supply.

Improving Roads and Infrastructure

In the Village Infrastructural Census conducted in 2009, by far the biggest limiting factor to communities' access to agricultural inputs and services was remoteness (located too far from the village). Improvements to roads are an important driver. The new main road linking the main road from Tbilisi to Tsalka,

⁸¹ Transparency International Georgia. 2009. *Food Safety in Georgia*.

⁸² KI-24

Ninotsminda, Akhalkalaki and Akhaltsikhe has slashed journey times and opened access to Tbilisi and larger regional markets for people in very remote locations.

8. Cross-Sectoral Supporting Functions

Summary

Constraints and lack of efficiency in the provision of supporting functions at the service level further constrain growth in agribusinesses and in turn on the small scale livestock producers who rely upon them for markets, inputs and services.

Systemic Weaknesses:

- **Low outreach & quality of financial services** constrains growth and efficient functioning of SMEs serving farmers and buying their products. Farmers currently spend a lot of time and money simply paying utility bills and collecting payments; buyers of milk face difficulties in servicing payments in cash.
- An overall **lack of awareness of incoming food-safety laws and their implications** of dairy and beef value-chain actors stems from restricted outreach of the NFA, and partly of private sector consulting firms.
- **Poor village road connections** to some areas leave farmers cut off from some agricultural services and inputs (vets, seeds, machinery etc).
- **Inadequate and expensive livestock transport** gives rise to relatively high transaction costs for farmers and traders. High cost is partly related to poor infrastructure (long journey times; wear and tear). Inadequate quality of transport (trucks are not converted for livestock and do not have loading, or divisions to prevent injury).
- **Weak vet services** arise from an overall lack of demand for anything but drugs for farmers to administer themselves. Licensing of vets is still in a state of confusion.
- **Inadequate availability of machinery services** for hay making arising from high replacement and investment costs in new machinery for new entrants.
- **Weak media & information services** mean that farmers have little or no formal access to information to aid decision making such as market prices, vendors of services and inputs, buyers and sellers of products and on new production techniques etc.
- **Pasture access** is restricted to a degree by uncertainty over tenure due to some sales by the government and a weakness in the mechanisms that would make information on ownership and sales available. **Mediation services** also have poor outreach.
- **Quality of pasture** may be poor in some places due to heavy stocking and poor grazing practices, although more investigations need to be conducted to verify this.
- **Weak trade associations**

Market Drivers & Pro-Poor Opportunities:

- The main roads are improving with the Tsalka – Tbilisi road newly refurbished with more improvements potentially planned to others.
- Open Revolution launched their MobiPay service in Tbilisi in 2011 and now have over 100,000 users and, with assistance from the international community, are expanding into rural areas. This offers potential to expand into Kvemo-Kartli and save farmers and SMEs time and money through mobile payment technology.
- Development of media and information services for agriculture; a number of small publications operate but have no agricultural content. Alliances-SJ has worked with a newspaper who has a good product that could be included in these and help to expand their readership.
- Local government and civil society actors have a willingness to engage in dialogue to resolve confusion over land ownership, and make information more readily available.

Service Level Supporting Functions

Food Safety Consulting Services

There are three main food-safety consulting firms based in Tbilisi: GDCI (the market leaders), PMCG and Management Systems, and another three emerging ones⁸³. IFC has a three year program (begun in 2010) to develop this small but burgeoning service sector aimed at assisting service providers in delivering high quality services to the dairy industry to attract investment and increase sales (domestic and export). In addition they assist companies in obtaining consulting services by discounting the cost: firms wishing to, or compelled to, move towards HACCP compliance in order to remain competitive may expect to pay €1-2,000 per month for around a year⁸⁴, which to many is prohibitive. Their focus is initially on high risk sectors such as dairy although meat is not currently included.

Financial Services (Agribusinesses)

Capital for small-medium agribusinesses is a severe limitation. Accessing formal capital for expansion such as bank loans is difficult as banks still generally perceive agribusiness to be risky and government subsidised loans, when available, may be difficult to access.

Bank of Georgia recently released an SME loan package from 1,000-500,000 USD with a 3 month interest holiday and an overdraft facility which, if open to agricultural SMEs could be attractive⁸⁵. In addition a new entrant into the micro-finance sector, Agro Credit, is offering a range of products specifically for the sector including an SME Agro Loan with up to a 9 month grace period and a duration from 6-60 months⁸⁶. A summary of credit institutions in Georgia is provided in Table 13 below.

Table 13: Georgian Credit Institutions, Products and Rates of Interest

Credit Institute	Type	Agricultural Products	Loan Term (Year)	Annual Interest Rate (%)
Credo	MFI	Agricultural & Business loans	1-3	18-44
Pro-Credit Bank	Bank	Agricultural & Business loans	1-3	22-36
Bank of Georgia	Bank	Agricultural & Business loans	1-4	22-36
Finca	MFI	Agricultural Loans	1-3	24-38
Alliance Holding	MFI	Agricultural & Business Loans	1-3	30-40

Supply-chains are largely financed through cash as farmers rarely have bank accounts (see below), necessitating the need for traders and MCCs to handle large amounts of cash which is time consuming, inconvenient and potentially risky.

Roads & Infrastructure

In the Village Infrastructural Census conducted in 2009, by far the biggest limiting factor to communities' access to agricultural inputs and services was remoteness (located too far from the village) or poor quality of the roads. The three municipal centres (Dmanisi, Tsalka and Tetrtskaro) are well served by surfaced roads. The upgrading of the road from Tbilisi to Akhalkalaki, through Tsalka means that journey times from Tsalka to the capital have been reduced considerably, opening up dairy supply from the area even more than before. Average journey times to Tbilisi are:

- Tetrtskaro - 60 minutes (65 km)
- Tsalka - 110 minutes (95 km)

⁸³ KI 23/24

⁸⁴ Transparency International Georgia. 2009. *Food Safety in Georgia*.

⁸⁵ Financial. 20-6-2011. Bank of Georgia – New Loan Offer for SMEs.

⁸⁶ Agro Credit Website. Accessed 22/6/2011. http://agrocredit.ge/index.php?do=static&page=eng_3

- Dmanisi - 90 minutes (85 km)
- Marneuli - 40 minutes (42 km)

Livestock & Dairy Transport

There is very little dedicated livestock transport available in Georgia and numerous key informants mentioned this as a limitation to the growth in the industry (KI11, KI23). Some operators have converted Kamaz trucks to have two tiers for sheep (big 6-wheel trucks capable of accessing steep mountain areas), and there are some who have made modifications to other trucks for cattle. Otherwise the majority of livestock transport is in generic unmodified trucks which have little provision for loading and unloading, and no divisions to prevent crushing and injury. When cattle reach the slaughterhouse they are often bruised, stressed or even injured which adversely affects meat quality.

Transport is expensive, partly because of poor roads (long journey times and increased wear and tear). A trip from the summer pasture areas to Tbilisi for a load of sheep (150-170) for example costs 5-6 GEL per head (750 – 1000 GEL), and up to 10 GEL per head to Poti (1,500 GEL). Some MCCs have a refrigerated bulk tank to facilitate transport of milk from farmers to the centre, but many use their own car, or hired vans for the purpose. Larger dairy companies purchasing from MCCs either have their own refrigerated bulk tanks or use a transport intermediary who uses one. Smaller dairy companies may have appropriate transport, but some resort to hired transport, generic trucks or even cars using plastic containers.

Trade Associations

National Milk Producers Association (NMPA)

The National Milk Producers Association (NMPA) is an association which was established by GRM. It incorporates 20 milk producers' associations throughout Georgia. 8 of these associations are located in Kvemo Kartli. The goal of NPMA is lobbying for its members, helping them in implementation of new technologies and introducing legislative amendments. The membership fee for the associations is 20 GEL per month.

NMPA carries out commercial activities too:

1. Repair and installation of necessary equipment for milk collecting and processing.
2. Sale of Veterinary drugs
3. Feed mill for producing of combined food and mineral blocks 'Loki Bloki'
4. Equipment rental (chopper and tractor)

Dairy Georgia

The association of producers of Milk and Dairy Products was created in 2006 with an assistance of OPTO International for supporting Milk and Dairy Sector development in Georgia, the founders of the association are the popular and leading dairy companies such as: Sante; Amaltea (Didube Milk); Eco-Food; Georgian Products

1. The association collects and analyses the data in regard with dairy products and expands dairy market through their promotion activities
2. With an aim to improve quality and increase safety of dairy products the association creates working groups, conducts trainings and implements activities promoting nutritional value of quality dairy products
3. The association supports cooperation among the dairies
4. The association cooperates and participates in elaboration of regulations and laws concerning milk and dairy sector

Farm Level Supporting Functions

Veterinary Services

The Village Infrastructural Census⁸⁷, revealed that 66.3% of residents of Kvemo-Kartli use veterinary services, with 24% saying that they cannot access them and 9.7% saying that they either do not need them or have not heard of them. The main reasons for not accessing them were mainly because it was too far from the village, poor quality roads (77%), or the service being too expensive (15%). The FGS gave

⁸⁷ National Statistics Office of Georgia. 2011. Village Infrastructure Census.

figures of 5-8% of communities accessing vet drugs in their community and between 8-14% can access a vet in their community. Interestingly 20% (versus men 12%) of women reported using traditional remedies for healing livestock⁸⁸.

The main veterinary service points are listed below. There are probably several village-based and less formal providers of veterinary services and drugs in the program area which would explain the high access reported by both surveys.

Tsalka: Two vet pharmacy shops: Individual entrepreneurs Roin Abuladze and Tsalka agriculture service centre Ltd, which cannot meet full demand.

Dmanisi: Only one veterinary pharmacy operates in the municipality. Approximately from 15 to 20 farmers /day use the pharmacy. The pharmacy belongs to Dmanisi Agricultural Service Centre.

Tetritskaro: There is a vet chemist shop in the rayon which is not functioning. Inhabitants are forced to purchase vet drugs out of the municipality, usually Tbilisi,.

The National Food Agency has municipal representatives in all three municipalities. In general their outreach is low and limited to conducting a limited number of vaccinations. Vaccinations for foot and mouth disease in 2010/11 numbered 2,400 (Dmanisi), 3,150 (Tsalka). The NFA is under resourced to deliver more vaccinations. Disease control is confounded by the presence of transit routes for tens of thousands of sheep and cattle coming through to summer pasture from Kakheti, with an estimated 500,000 head of sheep and cattle passing through the region on their way to summer pasture each year.

Machinery Services

The VIC revealed that 39% of residents of Kvemo-Kartli use machinery services (compared to 51% national average), 26% cannot use and 35% do not need them or have not heard of them. Echanove⁸⁹ (2011) in his analysis of national level results attributed the lack of need of these services to either small plot size or machinery ownership⁹⁰. However the Alliances-KK focus group survey revealed a third alternative: draught animal use. 27% communities said that horses and donkeys were important for cultivation, 37% said that they were important for herding and 37% that they were important for transport. In the FGS Tsalka has the lowest access to hay making machinery at 8% followed by Dmanisi at 14% and Tetritskaro 32%. Communities prioritized machinery and agricultural equipment as the main means of improving their situation.

Machinery is available to buy from a firm in Bolnisi who import from Eastern Europe. They have a variety of machinery available and mowers (available in 3 sizes) are one of their best sellers. Machinery services are also available from numerous operators ranging from small individual operators having a tractor and a few implements, to large INGO-supported agricultural service centres. The former of these offer varied services, limited by the age of their machinery and its state of repair. The high capital replacement costs and limited or expensive credit mean that accessing replacements is difficult.

Nutritional Inputs

Most farmers in the program area practice vertical transhumance, moving their livestock to high pasture from April –October ascending as the snow melts. Over-wintering is in purpose-built cowsheds

Box 3: Ruminant Feed Sources Defined

Hay land: land reserved for the production of hay by common agreement among villagers. Accessible to machinery.

Pasture land: Less accessible to machinery, generally higher altitude than hay land. Hay may also be produced on summer pasture.

Cultivated hay & pasture: Some farmers cultivate grass and legumes for animal grazing or conservation (hay).

Aftermath: Following harvest grazing is conducted on arable land. This mostly serves as a winter feed resource.

Fodder crops: Crops such as beet grown specifically to feed to animals.

By-products and crop residues: from processing crops, such as wheat bran, and straw and stover from cereals as well as waste vegetables.

⁸⁸ (Tsalka 11%, Tetritskaro 23%, Dmanisi 18%).

⁸⁹ Circular communiqué sent in June 2011

⁹⁰ Echanove, J. 2011. *Access to agricultural infrastructures and services in Georgia: Analysis of GEOSTAT Village Infrastructure Census*

with some grazing in nearby fields and common land.

Winter feed is mostly comprised of hay which is either cut on summer pastures or on reserved hay-land. In general hay produced on summer pasture is superior in quality to that produced on hay land. According to the Soviet system of feed comparison⁹¹ hay from mountain pasture has a feed value of 0.50-0.55 feed units and that from hay land 0.3-0.35 feed units. The 0.20 feed unit loss in quality may be attributed mostly to late cutting of the hay in the year (August) when the grass has set seed and become fibrous. This in turn may be attributed to tradition, lack of awareness or the prioritization of bulk over quality (concentration of nutrients and digestibility) and lack of availability of machinery.

Farmers commonly give salt to livestock as a mineral supplement. All other trace elements come from their feed and forage. It is not known whether trace-element deficiencies are common in the area. Inorganic and organic fertilizers are not commonly used on hay or pasture land which may be partly due to a lack of awareness of economic benefits, the perception that the returns are not worth the investment or due to accessibility. Irrigated hay or pasture land is a rarity and farmers prioritize arable production on scarce irrigated land.

Concentrates

Concentrate feeds such as cereals and oilseed cake are occasionally fed on-farm in winter time, mostly to pregnant cows, and mostly by larger farmers. These are mostly home-grown, although feed input shops are located in Marneuli selling wheat, barley & oats, and there is mixed concentrate feed available locally although a Georgian company, Dogani, located in Marneuli. With lower performing Caucasus Mountain breeds it is unlikely that feeding blended concentrates would lead to higher milk yields that would cover their additional cost. However with a significant market pull and availability of improved breeds, farmers may upgrade and find returns worth the investment in feeding concentrates. Salt blocks are available in local feed stores but vendors said that they sell few of them.

Breeding

Farmers in Kvemo-Kartli mostly own Caucasus Mountain cattle which is a fairly amorphous breed and may incorporate other regional breeds such as Khevsuruli, Osuri and Svanuri. These are general purpose breeds and bred for survival, hardiness, and ability to walk long distances in search of forage. It is estimated that 10-15% are Caucasus Brown (Caucasus Mountain X Brown Swiss) and around 1% are black and white Holstein-Friesian crosses. The majority of sheep are the Tushuri breed from Tusheti in North-Eastern Georgia which is a fat-rump variety producing lambing at around 100% (1 lamb annually). Some of the smaller Imeruli breed may also be present which are much more prolific, lambing 2-3 times annually with twins or triplets. However the Imeruli breed is not favourable in the harsher mountain environment as lamb survival is poor, hence the Tushuri is favoured.

The vast majority of farmers use natural service, running their cattle with bulls owned by their neighbours or occasionally taking them to other villages if there is a particularly good bull. Artificial insemination is rare: only 5 communities in the Alliances-KK focus group survey said they had access to AI services and all of these were in Tsalka. Ewes run with rams in the flock and at present there is no sheep AI in Georgia, although there is an Australian entrepreneur who is qualified and considering improving the Tushuri breed with Merino for better wool quality and carcass composition.

Communications

Most people have access to mobile phones (70% of villages reported that 75% or more had access in the VIC)⁹², but over 95% said that use of a landline phone was impossible. In the same study, 22.6% had access to the internet (probably mostly the urban population), 31% said they couldn't use it and 46% said they either didn't need it or hadn't heard of it.

Access to Agricultural Information & Media

Media is present but weak with patchy coverage and the agricultural community is poorly served in terms of dedicated agricultural topics and information. There are no newspapers or local TV channels with regional coverage, but a number of them cover smaller areas. Tsalka is the only municipality which has a bi-lingual newspaper. In the Village Infrastructural Census, over 80% of villages in Kvemo-Kartli

⁹¹ The Soviet system of feed comparison uses the nutritive value of 1Kg of oats as a standard for comparison.

⁹² National Statistics Office of Georgia. 2011. *Village Infrastructure Census*.

claimed that over 70% of the population had access to national TV. There are local TV stations in Bolnisi and Marneuli, but they broadcast only in a few villages of Tetrtskaro and Dmanisi municipalities. Bolnisi TV covers more villages than Marneuli TV. Table 13 below summarizes the media sources in the project area.

Table 14 Summary of Media and Information Sources in the Project Area

	Language/s	Villages Covered	Readership/Users	Source of Revenue	Agricultural Content
<i>"Tsalkis Utskebani" Newspaper</i> (6 pages; 0.60 GEL)	Georgian & Armenian	45 in Tsalka	600 per month	Sales & funding from Open Society Georgia Foundation	No
<i>"Vrastan" Newspaper</i> (Established in 19208 page4s; 0.25 GEL)	Armenian	All Armenian villages	4000 per week	Sales & Government funding	No
<i>"Gurjistan" Newspaper</i> (4 pages; 0.25 GEL)	Azeri	Azeri Villages in Dmanisi	150 per week	Sales & Government Subsidies	No
<i>Online News Agency</i>	Georgian & Russian	All with internet access	Unknown	Donors	Yes
www.dmanisi.com.ge	Georgian and Azeri	All with internet access	Unkown	Local Government website	No

Financial Services (Farms)

In the FGS access to credit emerged as one of the most important priorities for the development of rural communities. Rural Georgians remain largely disengaged from banks for credit for a variety of reasons but chief among them is the high risk perception of the banking sector towards agriculture (only 1.5% of loans to the sector; 30% of rural residents have credit experience⁹³ although the VIC reported 50% in Kvemo-Kartli as having access to an MFI⁹⁴), high collateral requirements and low collateral ownership among farmers and high individual transaction costs make the cost of borrowing unattractive for farmers. In addition banks themselves are unattractive with long queues for simple transactions, and a perceived lack of trustworthiness. The Village Infrastructural Census however reported that 91% of Kvemo-Kartli residents use a bank. Although no further explanation was given, this is likely to be for paying utility bills. In addition when coupled with the 50% reportedly accessing MFIs, these unexpectedly high figures may be explained by distortion arising from the inclusion of the urban centres of Marneuli and Bolnisi in the dataset.

The vast majority of farming households conduct their financial transactions in cash and in-kind, and therefore companies interacting with them, either purchasing their products or selling them goods and services, have to transact in cash. These cash transactions are expensive and time-consuming, especially for rural households who have to travel by public transport to municipal or regional centres to pay utility bills. For dairy intermediaries who buy milk from farmers it means receiving a payment into their bank account every two weeks, making a large cash withdrawal and making over 100 individual cash payments to their suppliers; again this is expensive and time consuming. According to research conducted in conjunction with Open Revolution⁹⁵, farmers spend 5 hours and \$9 per month servicing these payments; other livestock sector actors spend 3-5 hours of time and \$5-9 on average in servicing their cash transactions with small farmers.

As well as cash transactions with value-chain actors such as MCCs and traders, rural residents make frequent cash transactions to pay for utilities and other expenses. Research conducted in conjunction with Open Revolution (2011)⁹⁶ revealed that farmers spend on average 5 hours and 15.5 GEL per month on transport servicing these payments. Open Revolution recently launched a mobile phone based banking

⁹³ Glenk. K, Pavliashvili. J, & Profeta. A. 2008. Preferences for rural credit systems and their impact on the implementation of credit unions in Georgia. <http://www.seminar2008.icare.am/download/pavliashvili.pdf>

⁹⁴ National Statistics Office of Georgia. 2011. *Village Infrastructure Census*.

⁹⁵ MobiPay. 2011. MobiPay and Alliances Program: Rural Extension Assessment.

⁹⁶ MobiPay. 2011. MobiPay and Alliances Program: Rural Extension Assessment.

service in Tbilisi called MobiPay where by users can receive payments and convert them into cash (and vice versa), pay utility bills, buy things from vendors and transfer money to each other. At present their expansion plans are focused on urban centres but they recently expanded into Kakheti, Guria and Samegrelo with the assistance of \$400,000 from IFC in the form of a performance-based grant⁹⁷. There are clear advantages for rural users in saving time and money on paying bills, and the potential to create efficiencies in dairy and meat value chains.

Imedi International has a variety of agro-insurance products. Their crop insurance against hail, fire, floods etc costs 5-8% of the value of the expected harvest in a premium for a payout of the value of the harvest in the previous year. Their cattle stock [sic] insurance is offered against natural disasters (storms, landslides etc), accident (poisoning, drowning, road accidents) and death by disease and forced slaughter (by veterinary experts), though the premium and payout is not disclosed in their literature. Imedi has a branch in Rustavi, but not in the program area.

9. Cross-Sectoral Rules

Summary

The main rule impacting all three sectors stems from the enactment of the 2005 food-safety law and its gradual enforcement. This has the potential to dramatically alter the governance and functioning of all three sectors, especially dairy and beef, and is already doing so in the beef sector. These changes potentially allow for monopolies to be formed and for rent seeking to occur and there is anecdotal evidence that this is already happening.

Systemic Weaknesses:

- **A lack of transparency and outreach by the NFA on changes** in the law and its impact on the dairy and meat sectors is potentially damaging to the industry. SMEs who need to be made aware and plan and implement changes to their businesses currently only have rumours and sporadic media reports to go on and are not preparing adequately.
- **There is currently no livestock registration system** which places limitations on the traceability of meat products. In addition the NFA has little capacity to conduct veterinary inspections of cattle prior to sale (although this is in place for sheep export).
- **There is uncertainty about pasture land tenure and access** among rural residents and SSLPs which is not helped by a lack of outreach of relevant government bodies that are responsible. NGOs involved in land rights have limited outreach beyond regional centres and Tbilisi.
- **Monopolies, oligopolies and rent-seeking** is a feature of the livestock and dairy sectors, but has recently emerged more strongly with developments in the rules around slaughter.

Market Drivers & Pro-Poor Opportunities:

- The NFA are planning to develop and roll out a national cattle register, with them leading the development of the system, and the private sector (farmers) paying for cattle passports and tags.
- The forthcoming enforcement of the food-safety law may potentially exclude the poor if household cheese is excluded from sale for being non compliant. However there is provision for “traditional” cheese and that from remote areas under the rules concerning Relaxed Regulatory Environments. There is potential to work with the NFA and other stakeholders to define these in law, and develop relevant guidelines and assist farmers in complying.
- There is potential to strengthen the outreach of National Agency of Public Registry and their regional counterparts to make information more readily available on land sales etc. The Association for the Protection of Landowners Rights could also be assisted in improving outreach of their mediation services from their regional office in Marneuli.

⁹⁷ Georgia Today. July 15th-21st, 2011. *IFC Grant Allows MobiPay to Expand Operation to Rural Georgia.*

Food Safety and Hygiene Inspection & Testing

The enforcement of food safety regulations is the domain of the National Food Agency which was founded in January 2011 (previously the National Service for Food Safety, Veterinary and Plant Protection). They aim to inspect 200 food companies in 2011, beginning at the processor and retail end. Meat and dairy products going through formal channels such as markets and shops should, in theory, undergo some inspection by the local department of the National Food Agency (NFA, founded January 2011). In Marneuli for example, all meat is inspected daily and stamped but none of the cheese in the market is inspected. With the enforcement of the Law on Food Safety it may be anticipated that inspection and testing become more heavily enforced although it appears that this may be undertaken from the central level rather than at the regional or municipal level as would be required for widespread coverage. This is evinced by the reduced levels of staffing in the regional departments, and the recent rule changes impacting Tbilisi meat vendors.

Livestock Registration

According to the NFA farm holding registration is mandatory, but animal registration is only obligatory for cattle intending to be slaughtered, which have to be accompanied by Form 1⁹⁹. However, recognising that these rules only exist on paper at present, the NFA intends to implement a cattle registration project in advance of enforcing these rules more strictly alongside the rules governing slaughter through licensed abattoirs. Further, they intend to establish the central database and process within the NFA, but are looking to the private sector to pay for cattle passports and tagging to feed into this. There are currently no rules governing sheep registration other than for export. Sheep destined for export must be quarantined, inspected then tagged.

Disease Notification and Controls

There is a department of the NFA in each municipality with the remit for vaccination according to the state programme for the control of FMD and other diseases (See NFA Map Annex 6). In reality the departments are under resourced and underfunded with limited vaccinations for FMD and rabies. In the FGS communities reported that only between 5-9% of communities had accessed vaccinations. Disease notification procedure is absent in practice with farmers subject to an absence of information and services and fear of the material consequences should they do so. The outcome is that much disease goes unreported at farmer and municipal levels.

Disease Outbreaks

Information from the VIC (2009/10) showed that 45% of villages reported an animal pandemic in 2009/10 and 39% in 2008/9. An anthrax outbreak occurred in the project area during the editing of this document. See Annex 9 for details. Animal disease was rated as the number 1 disaster affecting SSLP's in the DRR FG survey of municipality representatives and general municipal populations in selected villages.¹⁰⁰

Access to Land & Land Mediation Services

Land privatization in Georgia resulted in farmers receiving on average 1.25ha of agricultural land spread over 3-4 parcels¹⁰¹ which, though egalitarian, in terms of income for poor households, the ability to consolidate land-holdings through sale or exchange would have a positive effect on farm incomes¹⁰². A mechanism for selling land has only recently been established. Despite the privatization of "intensive agricultural land", much of it remains in government hands. In a recent paper, CARE (2010)¹⁰³, the authors estimate that approximately 2 million hectares of agricultural land is still in government hands (around 2/3)

⁹⁸ See the drivers section for the role of the NFA.

⁹⁹ National Food Agency. 2011. Animal Identification/Registration System in Georgia: Draft Project. PowerPoint Presentation.

¹⁰⁰ Disaster Identification and DRR in the Kvemo Kartli Region of Georgia. Alliances KK 2011.

¹⁰¹ CARE. 2010. Reducing Poverty and Social Injustice in Georgia's Rural Communities.

¹⁰² Kimhi, A. 2009. *Land Reform and Farm Household Income Inequality: The Case for Georgia*. The Department of Agricultural Economics of The Hebrew University of Jerusalem. Discussion Paper No. 10.09

¹⁰³ CARE. 2010. Reducing Poverty and Social Injustice in Georgia's Rural Communities.

and most of this is likely to be communal grazing land. Their conclusion was that this land is unlikely to be privatized.

The status of pasture land ownership has undergone much change over the past decade or so and the establishment of user rights is still in some disarray. According to the Association for the Protection of Landowners Rights, from 2006-2010 it was possible for municipalities, villages or communities to purchase pasture land and in the run up to the cessation of this right municipalities were eligible to register their land with the Public Registry, which only a few did. Up until 1st May 2011 it was possible for Georgian citizens to purchase pasture land that they were accessing before 2005, and around 30-40,000ha was purchased in this way and much of this was in Kvemo-Kartli and Samtskhe-Javakheti. Thus there is very little truly private pasture land and the vast majority now comes under the control of the Ministry of Economy and Development who has the power to lease, but not sell it.

At present there is no such designation of “communal pasture”; the nearest to it is some parcels of land owned by CBOs in Tsalka who were granted it in a settlement with BP, but this is owned and managed by the CBO for the community. Information on land for sale is publically available through the Ministry of Economy and Sustainable Development of Georgia’s website¹⁰⁴ and through the National Agency of Public Registry¹⁰⁵ in Georgian, English and Russian for those with access to the internet which most rural residents do not. Hence one of the most commonly cited problems in the Alliances-KK focus-group survey was reduced access to pasture through the privatization of this land. Communities are discovering that land they thought they had free access to has been sold to a private owner who has begun to charge them for access (around 15 GEL/cow/year) and there is naturally a reluctance to pay for it.

Access to legal and mediation services for rural residents is presumably very weak, the FSG showed scarce availability of very basic services and access to information, land mediation services would be considered highly inaccessible both in terms of their presence, knowledge of them and accessibility to them. However the Association for the Protection for Land Owners Rights does have offices in Marneuli and Akhaltsikhe.

Lack of Trust & Cohesion of Farmers for Marketing Produce

Farmers, especially small-medium farmers, readily cooperate in agricultural production. In livestock production it is common for family and neighbours to work together during hay making and in addition the reciprocal sharing of milk to achieve economy of scale for cheese making is widespread (45-74% of communities reported this as being practiced, especially between women). However when it comes to selling produce farmers prefer to do so individually for a variety of reasons but foremost among them are a lack of trust between non-family members over financial matters and a lack of market incentives to motivate them to find ways of overcoming this lack of trust. At present, sellers of cheese and livestock receive little or no premium for increasing transaction sizes even though they are reducing search costs and transport costs in doing so.

There is a litany of failed farmers associations in Georgia that exist on paper but are no longer functioning. In a recent assessment of social capital in Georgia, CRRC (2011)¹⁰⁶ identified three main constraints to the formation of functioning associations:

- **Institutional Constraints:** An unfavourable tax regime would mean that farmers selling produce through a cooperative would be taxed twice, first the cooperative would be taxed, then the farmer’s dividend would be taxed as income (if it exceeds the annual threshold).
- **The Soviet Mentality Legacy:** In what has been termed the “kolkhoz hangover”, structural issues prevent effective cooperation such as the inefficient privatization of land that lead to farmers being given numerous small, non-adjacent land parcels. In addition farmers may think of an association as a state organization.

¹⁰⁴ Ministry of Economy and Sustainable Development of Georgia. Website accessed 16/6/2011. <http://privatization.ge/spp/eng/index.php>

¹⁰⁵ National Agency of Public Registry website accessed 16/6/2011. <http://www.napr.gov.ge/index.php?m=222>

¹⁰⁶ CRRC. 2011. *Farming Associations in Georgia: Difficulties and Potentials*. Extracts from the Assessment of Social Capital in Georgia (2011).

- **Donor-driven disincentives to genuine collaboration:** short program cycles meant that trust between members is not sufficiently built. Many members see joining an association as a means of accessing resources: indeed, this is often the main reason they are formed as it makes standard, direct delivery, programs more efficient in reaching large numbers of farmers rather than addressing any underlying problems.

Whilst the markets for dairy and meat products (beef in particular) are driving towards greater efficiency, players tend to overcome small transaction sizes of farmers through intermediaries who bulk and transport products (MCCs, cheese traders who have storage, livestock traders who have a fattening farm etc). Farmers who seek to gain these efficiencies generally enter the market in the same way, buying from other farmers around them rather than collaborating. However with greater pressure to comply with food-safety regulations may come a greater cost burden on small farmers and a sufficient incentive to collaborate to spread the cost. However one industry source is quoted as saying that “the association principal doesn’t work in this country”¹⁰⁷. In a meeting on June 13th at the Georgian Parliament however Juan Echanove the EU Attache for Agriculture and Rural Development stated that the way to improved productivity and efficiency in farming in Georgia could be defined as a policy of developing farmers cooperatives on the European model and larger farm size. Problems faced by investors in purchasing large amounts of land from the myriad small farmers who own it and the tendency of investors to invest in the food industry rather than primary food production lead to a focus on farmers groups as an option for development. Emphasis was laid on the fact that the EU model of cooperative are formed to access/increase efficiency in or improve on a service or access to a market. The difference between the EU and Georgia is however that in the EU these markets and services for the most part already exist.

Monopolies, Oligarchies & Cartels

Small-scale producers often complain that they are disadvantaged price-takers when it comes to selling their produce and that buyers collude to fix prices. Cheese buyers often have territories, thereby creating an anti-competitive environment. However many communities also have the option of selling raw milk to MCCs and small cheese factories that enables them to hedge on prices. In the meat sector, recent developments that force the sale of cattle through a few large abattoir/wholesalers have been described as monopolistic and oligopolistic¹⁰⁸.

Government of Georgia Agricultural Policies

Policy Developments in the Agricultural Sector

Involvement at this stage is crucial as the Ministry of Agriculture is currently working on the development of strategy of the agricultural sector in Georgia. During the last few years an agricultural strategy, which could have served as a framework for governmental and non-governmental organizations has been absent and this in certain cases has created mismatch between the Government and implementing agencies. However in 2011 agriculture has been openly declared to be one of the main priorities of the government and the development of the respective strategy is very important part of this process.

The draft agricultural strategy has been developed by the MoA and has been sent to the government for a comprehensive review. It is expected, that the draft strategy will be accepted by the government in first months of autumn 2011 and then sent to the donors, international and local NGOs and other stakeholders for their comments. Final approval of the strategy is expected at the end of autumn 2011 and after this the MoA will prepare the Agricultural Strategy Action Plan, a more detailed document which should include indicators, concrete activities and budget.

Responding to Dynamic Legislative Change

The comprehensive food safety strategy was adopted in January 2011. Changes have been made and are envisaged in the veterinary law. All these changes have been significantly affecting agriculture as part of the Georgian economy and particularly the livestock sector. In the current circumstances of dynamic changes in legislation and government policies, related with agriculture, it is crucial that donor agencies and international organizations, involved in this sector have regular discussions to formulate the joint and

¹⁰⁷ Transparency International Georgia. 2009. *Food Safety in Georgia*.

¹⁰⁸ KI 23, KI 27/28 &

coherent position, which then will be conveyed with the government. Therefore several special platforms have been created with participation of key stakeholders in the agricultural sector and Mercy Corps is active participant in these meetings. See Annex 10 Policy Dialogue in the Agriculture Sector.

10. Conclusions & Recommendations

The three subsectors, Dairy, Beef and Sheep, are all relevant to the poor in Kvemo-Kartli, but sheep is more relevant to the Azeri community. The dairy and beef sub-sectors have high pro-poor potential and a high degree of intervention potential owing to the large number of players involved at different levels (broad and deep markets) and powerful drivers and scope for developing traction. The sheep market is much thinner, with few players and largely export-focussed outlook which may be vulnerable to external market forces and internal oligarchies.

The findings of the Market Analysis have been used to formulate the Strategic Framework for Alliances Kvemo Kartli. Key outputs in terms of a *Summary Market Analysis*, *Pro Poor Drivers and Opportunities Table*, *Systematic Constraints Supporting Functions and Rules Table* and the *Sustainability Matrix* are presented in the summary at the beginning of this document. Please refer to the *Mercy Corps Alliances Kvemo Kartli Final Strategy 2011* document for the full exposition of the project strategy as well as the survey documents noted in the methodology section; the Alliances *Focus Group*, *DRR*, *Gender and Livestock Surveys*.

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Annex 1: Key Informant Interviews Table

Table 15: Main Key Informants Outside of Focus Groups for Alliances KK Sector Survey

	Key Informant	Date	Organization/Specialization	Location and link to Project
Dairy: Core Market and Supporting Functions				
KI 1	Tamaz Tsintskaladze	30/5/11	Taski Cheese Factory making smoked Sulguni	Tsalka Municipality: Making vac packed smoked cheese from own farm and local milk
KI 2	Cezari	30/5/11	Sakdrioni Cheese Processors	Tsalka Municipality: Sourcing milk from 150HH in remote villages of project area.
KI 3	Dato Slavinski Director	31/5/11	Shelguni Cheese Factory making a patented smoked Sulguni	Rustavi: High value product selling in Goodwill and Populi, now sourcing milk from project area.
KI 4	Mikho Avkofashvili Director	31/5/11	Bolnisi Cheese Factory making Sulguni	Bolnisi: sourcing milk from project area
KI 5	Multiple Informants	June	Contact persons for MCC's and largest cheese producers in the the three municipalities	Development of Milk Collection Centre and Cheeses Production Centre maps
KI 6			Wim-bill-dan	Head Offices Tbilisi: MCC's in project area
KI 7	George Dekanosidze (Head of milk purchasing Department)	29/06/11	Sante	Head Offices Tbilisi: 5 MCC's in project area (Tsalka, Dmanisi) Collecting 28 tonnes of milk currently. Suppliers are mostly SSLP's. They plan to produce cheese form the next year and they will need additional 20 tonnes of milk..
KI 8	Irakli Koniadze (head of milk purchasing)	29/06/11	Eco-Food/Agro-Food	Head Offices Tbilisi. 4 MCC's in project area. Collecting 10 tonnes of milk currently. Eco-Food plans to produce cheese form the next year and they will need additional 60 tonnes of milk..
KI 9	Pavle Datoshvili	31/5/11	Agri Market Managing Director	Aim to close and move local (i.e. Tbilisi, Marneuli) wholesaler markets to the Agri Market Site
KI 10	Unkown	7/6/11	Cheese Wholesaler Marneuli Market	Buys cheese from villagers from project area
Beef and Sheep: Core Market and Supporting Functions				
KI 11	Simon Appleby	13/5/11	Director of YFN Georgia http://www.yufengnong.com.hk/georgia.php	Agricultural sector company including feed and AI; interested in developing feed lots and is a sheep AI practitioner and sees potential for merino breed improvement for the development of the wool sector.
KI 12	Samir Zeinalov Mob:599 565 366	7/6/11	Azeri Beef Butcher	Marneuli: Minimum up to 100 kg per day. Butcher buy 7 cows reserve for a one week on every Sunday in marneuli7 livestock market and then slaughter them daily.
KI 13	Asif Garaev	7/6/11	Azeri Sheep and Beef Butcher	Marneuli: 2 Meat shops, Capacity 50 kg beef per shop daily and 2 sheep daily per shop. They are buying caws and sheep in the villages, from small and medium farmers in marneuli municipality.
KI 14	Unkown	7/6/11	Shepherds: Cattle and Sheep	Movement of livestock from village south of Marneuli to project area (Dmanisi)
KI 15	Unkown	7/6/11	Feed wholesaler	Marneuli: selling to people from project area
KI 16	Unkown	7/6/11	'Agri Market' Managing Director	Teleti 'Agri Market' affiliated slaughter house only one of few slaughterhouses able to issues Form 2 without which meat cannot be sold in Tbilisi.
KI	Rod McKenzie	15/6/11	Mac Consulting	Tbilisi: Consultant to HoReCa in Tbilisi.

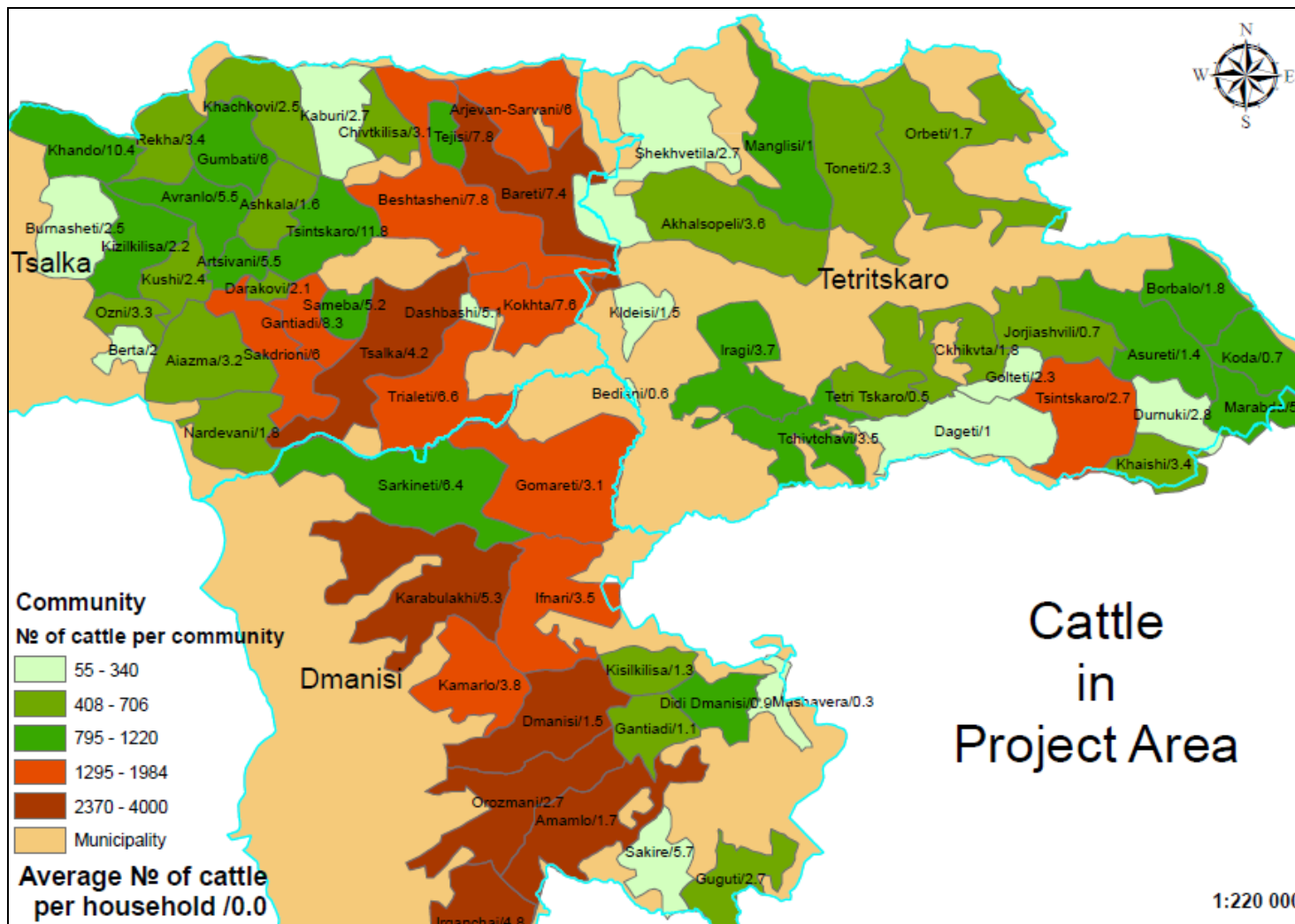
17				Description of the meat supply chain in Tbilisi.
KI 18	David Barabadze	15/6/11	CEO Iber Meat Natakhtari Slaughter House	Mtskheta: 100cattle /day currently with 500 cattle/ day processing capacity. Supply an issue. One of the two main slaughterhouses licensed to serve Tbilisi. 10chain meat outlet shops Iberula. They charge 1gel/kg deadweight.
KI 19	Kakhaber Siradze	16/6/11	Food and Beverages Coordinator M Group	Tbilisi: Sourcing Georgian meat and reviving the production of twelve traditional regional cheeses including ‘Tsalka Yellow Rind’. Interested improved beef breeds.
KI 20	Zurab Bejanishvili	16/6/11	Deputy Head of National Food Agency	Ministry of Agriculture: National Policies concerning FS and Hygiene, livestock movement, identification, disease control and future AI breeding projects selling semen at cost price for multi purpose, milk and beef breeds.
KI 21	Tamazi	16/6/11	Head of Supply Department. Vake Meat Company	Sales 50/50 pork and beef. 15% of their product is local Georgia beef selling approximately 2t/wk now reduced due to slaughterhouse legislation.
KI 22	Zaza Choxonelidze	20/6/11	L.T.D “Shula” Slaughter House	Shulaveri: Slaughterhouse is newly renovated but it is not operating yet. Capacity to process up to 22 animals/day. They have got a small cattle and sheep shed. The slaughterhouse has received a license from the Food Safety Department and they are waiting for enactment to start the business. They plan to charge from 60-80 tetri/kg live/weight and could provide a viable alternative to local farmers with additional savings on transports and enabling slaughter to order.
KI 23	Beqa Gonashvili	24/06/11	Georgian Livestock Export LLC	The LTD exports sheep to Lebanon, Iran, Qatar and other Arabic countries. 226 000 sheep in 2009 and 176 000 sheep in 2010 were exported from Georgia and it is expected that 150 000 sheep will be exported this year. The LTD exports its own sheep and also ones which they purchase from farmers. They export to Lebanon by ship and by plane to all other countries. Before export sheep are moved to a quarantine zone in the mountains, and after vet inspection and testing are transported to the borders, airport or port.
KI 24	Temuri Director	27/06/11	Teleti Slaughterhouse	The capacity of the slaughterhouse is 100 head of cattle/day but is currently slaughtering only 50 head/day. The slaughterhouse provides only a slaughtering service and does not act as a wholesaler unlike Natakhtari slaughterhouse. The cost of the service is 1 GEL/kg liveweight.
Rules				
KI 25 KI 26	Eka Kimeridze Tamar Labartkava	8/6/11	GDCl: Growth Development and Continuous Improvement of Your Business.	Working with IFC Project (see below) doing consulting and awareness raising workshops for SME’s. Alliances KK would support them to market their services to SME’s through awareness raising workshops and the extension of 2 products the GMP assessment and a “GMP Lite” a remote assessment with some support. Part of the implementation of the GMP would be use of the manual developed under Alliances SJ.

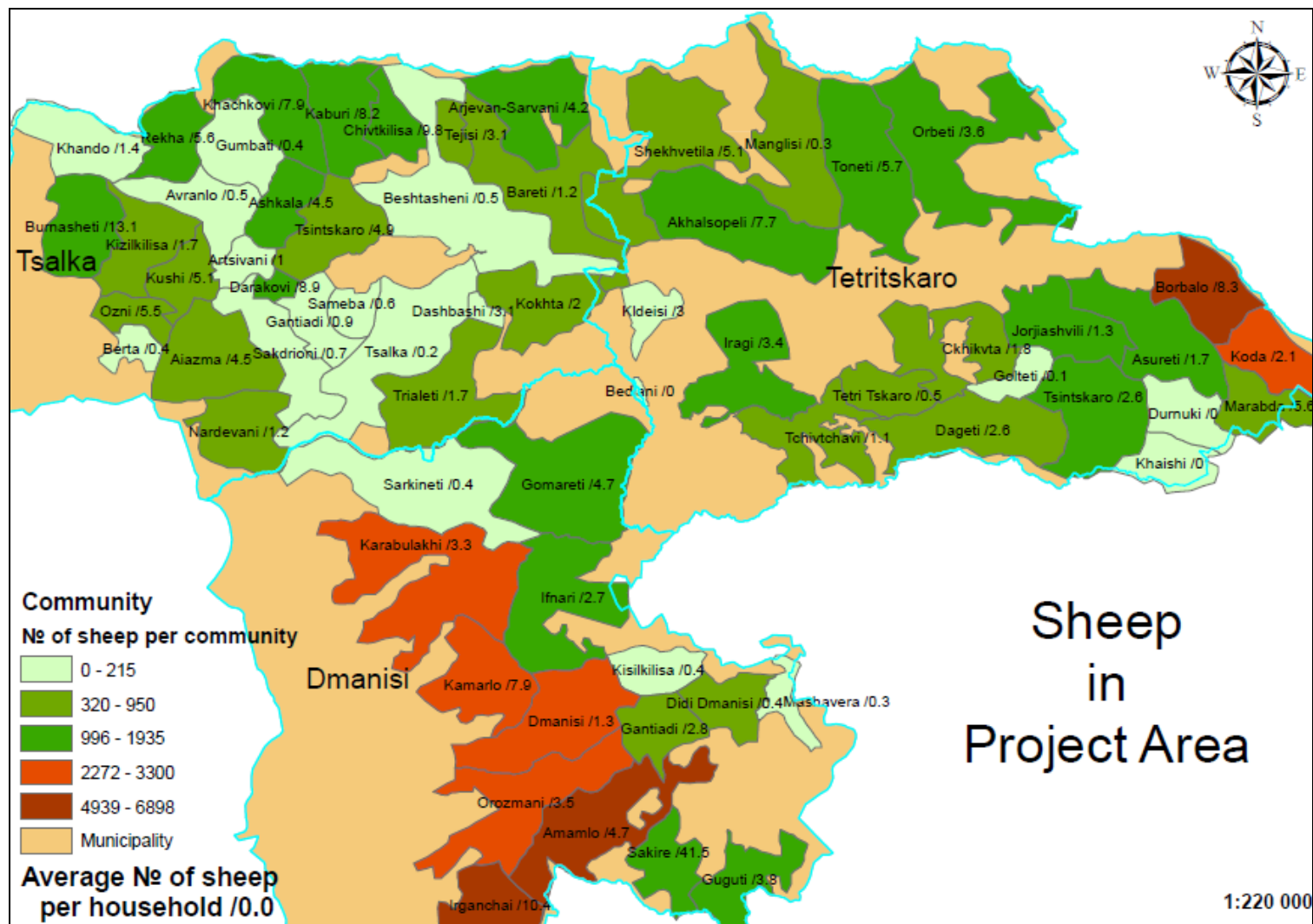
KI 27 KI 28	Maia Tevzadze Natia Mgeladze	10/6/11	IFC. Project Manager Georgia Food Safety Improvement Project Food Safety Specialist	<p>Launched in 2010 IFC a member of the WB group in partnership with BP and the Austrian Ministry of Finance; the IFC Georgia Food Safety Improvement Project has 3 main components:</p> <ol style="list-style-type: none"> 1. Providing advice to companies in upgrading their food systems 2. Improving public and private awareness on food safety issues and solutions (involving GDCI) 3. Harmonising Georgian food safety regulations with best practices. <p>Alliances AA will coordinate and liaise regarding any large companies come across during project outside of our scope, in line with their co-funding policy we will get co-investment of 50% on any Food Safety consulting.</p>
KI 29	Zurab Bejanishvili	16/6/11	Deputy Head: National Food Agency Ministry of Agriculture Georgia	<p>Explained the upcoming policies of the NFA . Projects for roll out for next year including animal identification which would see the government providing tagging service but the farmer paying for the tags an AI project for the improvement of Beef breeds with famers paying for cost price semen and control points including corals, disinfection points and signage on animal transit routes. He provided an excellent map of animal transit routes and vaccination areas . Many areas of synergy with Alliances KK definite coordination and possible collaboration within project strategy.</p>
KI 30	Alexander Gvaramia	17/6/11	Head of Legal and Policy Department: Association for Protection of Landowners Rights	<p>Tbilisi: Branches in Marneuli and Akhaltsikhe. Explained land law, policy and ownership relating to pasture in project area. Interested in facilitating transparency of and access to information at municipal level to facilitate access to pasture.</p>
KI 31	Butchers in Tbilisi Central Market	21/6/11	‘Desertirebi’ Market	<p>Business down 60% since introduction of new rules & prices up (50%) & quality control is lower as they can no longer select which animals they slaughter.</p>
KI 32	Thomas Sommer	21/6/11	Executive chef, Sheraton Metekhi	<p>Tbilisi: Confirmation that Sheraton operates to internal standards of Food Safety and Hygiene exerting a high degree of control over their supply using local beef from a supplier sourcing for him.</p>
KI 33	Connan	May/June	Head of Open Revolutions ‘Mobi Pay’	<p>Series of meetings based on field based research in Alliances SJ of benefits to farmers in the project areas of acces to financial services through ‘mibi pay’ integration of the service into core value chain transactions such as MCC payments and slaughterhouse transactions and cheese selling and an analysis of time/transport cost benefits.</p>

Information				
KI 34	Nazi Mishveliani	16/6/11	Editor of newspaper "Tsalkis Utskebani"	„Tsalkis Utskebani” is the only independent be-lingual newspaper operated in Georgian and Armenian languages. It is covering 45 villages in Tsalka municipality; revenues are generated through selling newspaper (subscription to the newspaper) and grants (Donor “Open Society-Georgian Foundation” –OSGF). Newspaper’s subscribers in most of the cases are public officials. Periodicity: monthly, circulation: 600/month, permanent headlines: news, economics, society, education, there are no topics about agriculture. Price: 0,60GEL, launched date 2001.
KI 35	Van Baiburti	14/6/11	Editor of newspaper “Vrastan”	The media organization covers all the Armenian villages in Tsalka and Tetrtskaro (Dageti, Samshilde). It is a weekly newspaper which in Armenian. It covers politics, economics and society. Revenues are generated by selling of the newspaper and sometimes by subsidies from the governmental departments. Periodicity: weekly, circulation: 4 000/week, national distribution to all Armenian villages of Georgia, price: 0, 25GEL, launched date 1920.
KI 36	Suleiman Suleimanovi	15/6/11	Editor of newspaper “Gurjistan”	“Gurjistan” is the only newspaper In Dmanisi, it is a weekly newspaper in Azeri. Revenues are generated by selling the newspaper, (150 subscribers in Dmanisi Azeri villages) and sometimes by subsidies from the governmental departments. The newspaper has a long history. It covers only Azeri villages in Georgia. There are no topics about agriculture. Cost: 0,25 GEL
KI 37	Oleg Ugrehelidze	15/6/11	Manager of Bolnisi TV station „Bolneli”	Bolnisi TV station “Bolneli” broadcasts in a few villages of Dmanisi and Tetrtskaro municipalities. Launched date 1997. It does not have any programs about agriculture.
KI 38	Marika Tsiqoridze	16/6/11	Head of news agency “kvemokartli.ge”	The Online News Agency of Kvemo Kartli is in Rustavi. There are various headlines including agriculture and it covers all the project area. The organization updates news and articles in Georgian and Russian languages every day, revenues are generated only by Donors. About two years ago the organization was publishing regional level newspaper „Timer” in Armenian, Azeri and Georgian languages during three years which was distributed all over Kvemo Kartli. they have stopped publishing due to distribution problems and established news online agency. They have a good practice of operating in Kvemo Kartli and qualified journalists.
Governance				
KI 39	Bakur Mgeladze Tengiz Mirotadze	19/4/11	Head of Dmanisi council and Dmanisi Governor	Project in accordance with municipality’s agricultural development objectives; very happy to lend wholehearted support.
KI 40	Giorgi Mestvirishvili	19/4/11	Head of Tetrtskaro municipality council and Tetrtskaro governor	As above

	Giorgi Daushvili.			
KI 41	Revaz Shavlokhashvili Davit Machitadze	26/4/11	Head of Tsalka council and Tsalka governor	As above
KI 42	David Kirkitadze	23/5/11	Governor of Kvemo Kartli	The Governor expressed his wholehearted support for the project both in agricultural market development and DRR and emphasized the diverse ethnicity of the region and articulated his vision for the development of the region in general and in regard to agricultural development. To representatives from SDC and Alliances KK.

Annex 2: Map 1 & 2 Cattle and Sheep Ownership in the Project Areas

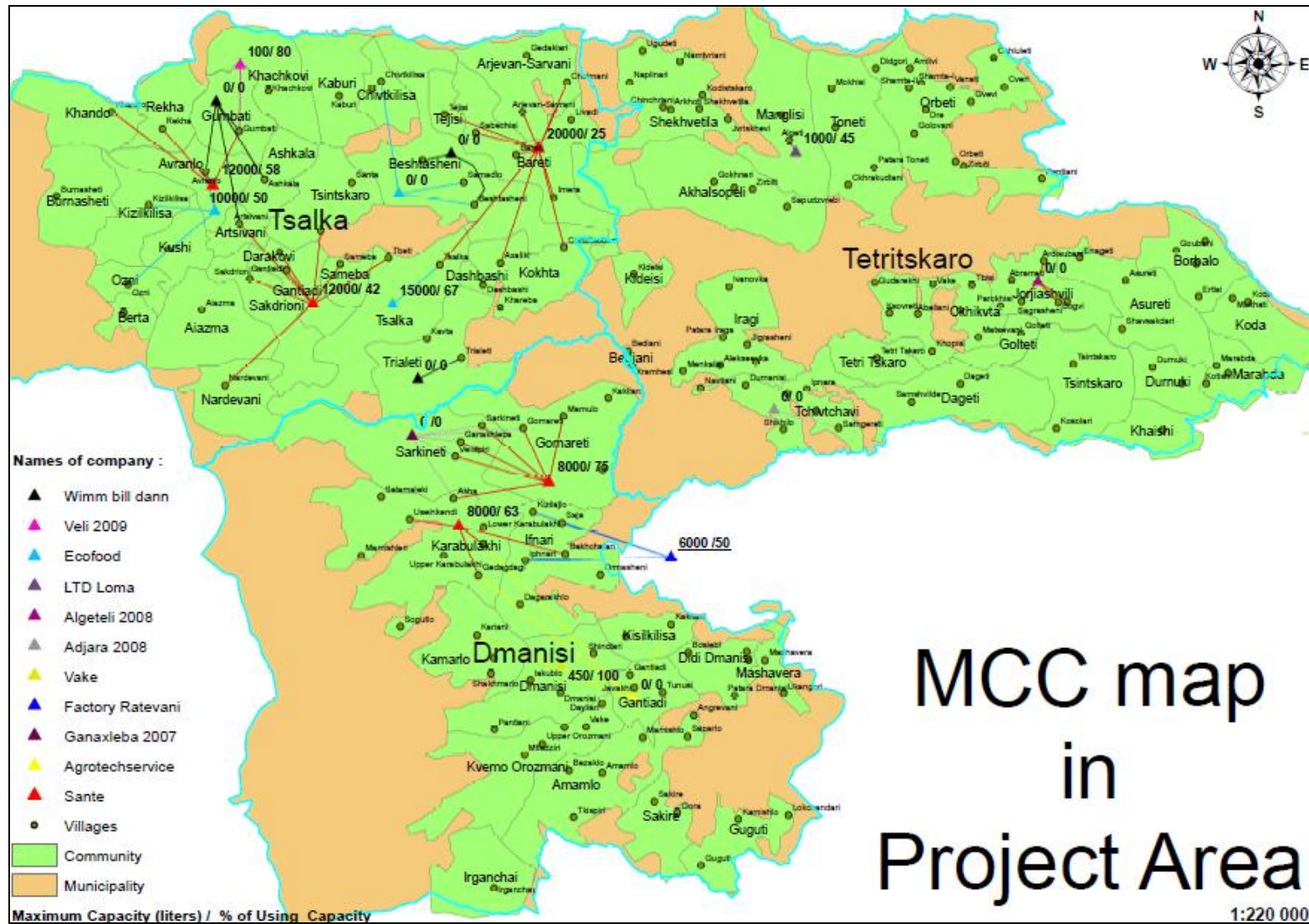




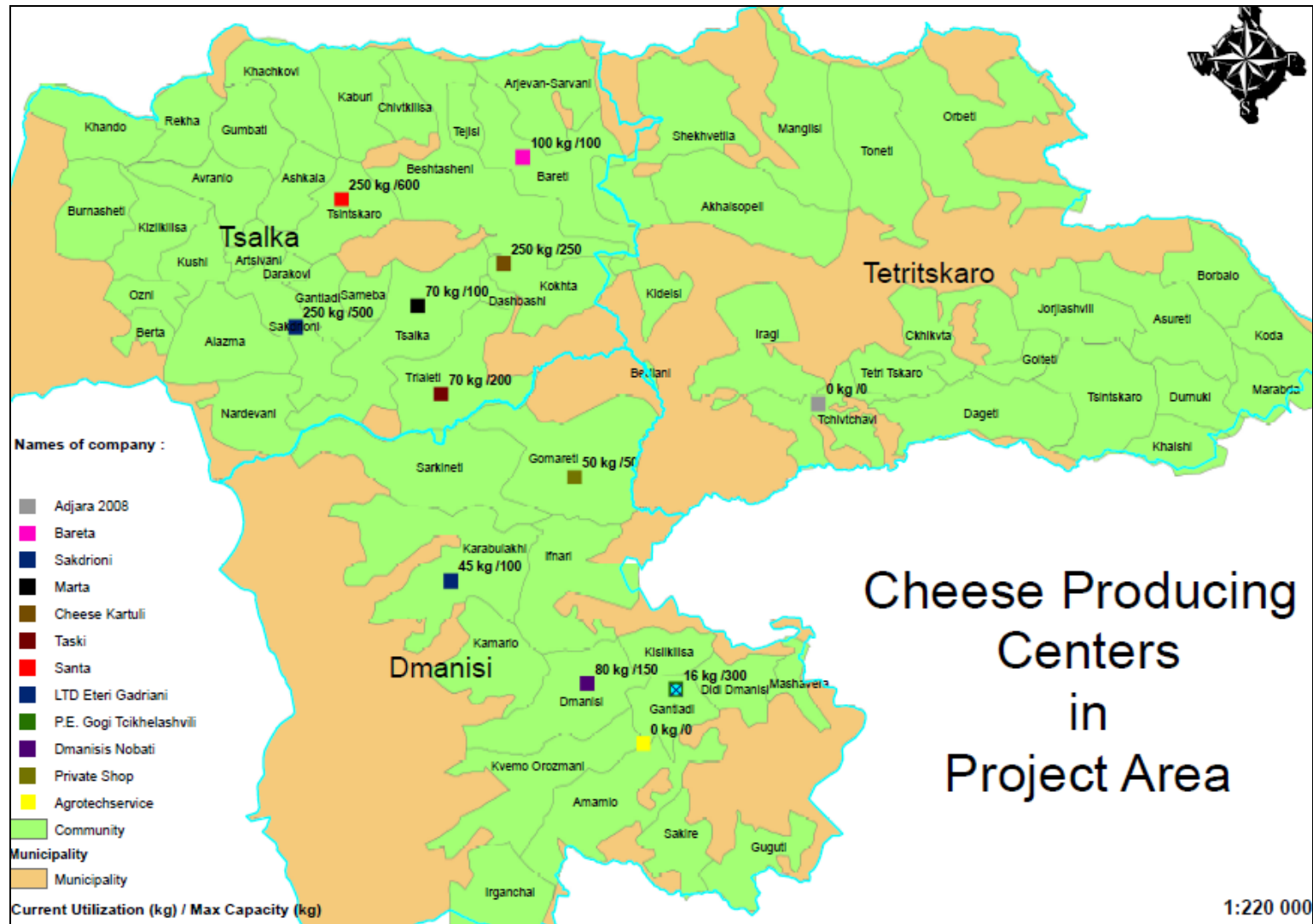
Annex 3: Media Hits on Food Safety and Hygiene May to July 2011

1. 24 brands of butter were announced as microbiologically polluted
31.05.2011“Rustavi Namdvili”, “GlekhuriKaraqi” and “Rustavi” were announced as microbiologically polluted by the “Federation of Consumers” and the Association “Georgian Milk” . Among doubtful companies are “Karaqi +”, which processes “Geobutters” and “Kavkasioni”, as well as Ukrainian, German and Zealand butters.
2. Meat traders organized protests at the so-called market “Dezertirebi”
06.06.2011For about a week, butchers and wholesalers have been unable to buy meat from regions, because of the law established by the Ministry of Agriculture, which means that the the sale of meat is restricted, unless bought at Mukhrani and Teleti slaughterhouses, where the price for the meat is higher, with a knock on effect on consumers.
3. New sanctions are processing for food producers and distributors
13.06.2011These initiatives will be discussed at the parliamentary bureau and will be bring in Administrative Code. It should be noted that from the 1th of July the National Agency of Food safety of the Ministry of Agriculture will inspect food or animal nutrition production enterprises and distributors and in case of any violation, it will give them recommendations.The author of the above mentioned bill is the group of Prime-Minister Advisors.
4. New mechanism of Food Companies control entered into force.
08.07.2011. Stricter rules for current Food Business Companies have come into force. According to the new rules the NFA is allowed to carry out unscheduled inspection at enterprises without any advanced notification in cases of reasonable suspicion. Previously court orders were needed to carry out an unscheduled inspection at enterprises, however this obligation was abolished according to the new resolution. New penalties for food and livestock nutrition producers and distributors will also enter into force. 300GEL penalty is considered for unregistered activity, 400GEL for those who do not take into account the agency recommendation. 1000GEL or closing of the enterprise is considered for critical inconsistency. <http://commersant.ge/index.php?id=2739>
5. Unscheduled inspection at food enterprises has simplified
08.07.2011. An amendment of Georgian government about “the general rule of Food/livestock nutrition production enterprise/distributor hygiene and supervision, monitoring and state control of food safety, and veterinary and plant protection spheres” has already entered into force. Until now unscheduled inspection at enterprises required a court order. Now unscheduled inspections will be conducted in case of reasonable suspicion. Samples from food enterprises may now be also be taken without a court order.

Annex 4: Map of MCC's in the Project Area



Annex 5: Cheese Producing Centres in the Project Area



Annex 6: NFA Map of Livestock Movements and Vaccination Zones



Annex 7: The Georgian National Food Safety Strategy and Implementing Organisations

The Georgian National Food Safety Strategy was expounded in the *Comprehensive Strategy and Legislative Approximation Programme in Food Safety* of December 28, 2010

The Government of Georgia has openly declared that one of its one strategic objectives is to join the European Union. Harmonization of Georgian laws with EU legislation is an important aspect of this objective. Food safety is one of the areas in Georgian legislation, which will be adapted to EU requirements and during the last year the government has focused significant attention on it.

The Georgian government approved the *Comprehensive Strategy and Legislative Approximation Programme in Food Safety* on December 28th, 2010. The strategy states, that the aim of the Government is to further develop legal and institutional frameworks in the food safety and to establish a solid food safety system in Georgia in line with EU and international standards. Gradual approximation¹⁰⁹ (i.e. phased introduction) of main horizontal legislation will be accomplished by 2014. In parallel, vertical food safety legislation will be approximated with relevant vertical EU aquis¹¹⁰ and implemented.

The strategy addresses the following issues:

- A Description of Georgia's Agricultural Sector
- An Introduction of a Solid Food Safety System in Georgia
- The Establishment of Official Food Safety Controls
- An Analysis of Legislative and Institutional Shortcomings and an Identification of Future Needs
- Timelines for Legislative Approximation in Georgia with EU Legislation and Implementation
- Enhancement of Capacity Building

The main legislative document regarding food safety is the Law on Food Safety and Quality, adapted by the parliament in 2005. Implementation of certain parts of this law were delayed several times mainly because that implementation of the law may have hindered the production of homemade dairy products, which are a significant part of the income of small scale livestock producers. These farmers would have problems complying with the food safety regulations, in their production of imeruli and other types of traditional varieties of home-produced Georgian cheese. The government finally made the decision to fully enact the law from January 2011 and to introduce a "soft" strategy¹¹¹ of implementation to lessen the impact and avoid problems with a large segment of the rural constituency. The full implementation of food safety regulations will be accomplished by 2014¹¹².

From February to December 2010, the registration of food business¹¹³ companies was undertaken and a comprehensive company data basis created. In July 2010 implementation of food safety legislation related to inspections of food business operators and traceability control commenced¹¹⁴. During the first stage, July-December 2010, inspections targeted food business operators oriented towards export to the European Union. In the second stage, starting from 2011, inspections and traceability control are covering all other food business operators, including high risk¹¹⁵, feed and other companies. Georgian legislation envisages two types of inspection: planned inspections carried out regularly based on the priorities established under the risk assessment and laid down in annual inspection plans, and ad hoc inspections, carried out without

¹⁰⁹ Gradual introduction of a 'soft' strategy are very important to prevent serious impacts on rural livelihoods. In 2009 an International Finance Corporation survey revealed that there was a considerable information gap of awareness regarding Food Safety legislation among the business entities and farmers. In 2009 only 2.6% of the surveyed business operators knew the law in detail and 27% - partially¹⁰⁹. One of the recommendations of IFC was to conduct an active information campaign regarding food safety legislation. Despite some fragmented and uncoordinated efforts, undertaken by the government and donor agencies, the situation did not change significantly. Among small scale livestock producers (SSLP's) the level of awareness was still very low. IFC Survey of Food Processing Enterprises, 2009

¹¹⁰ Definition: *the accumulated legislation, legal acts, court decisions which constitute the body of European Union law.* Wikipedia 2011

¹¹¹ This also includes a relaxed regulatory environment for certain producer categories including 'traditional operators and those operating under special geographic constraints see Box 2.

¹¹² *Comprehensive Strategy and Legislative Approximation Programme in Food Safety, 2010* Government of Georgia

¹¹³ The 2009 IFC Food safety survey, found that there were more positive, than negative expectations among businesspeople with regard to the impact of the new legislation, with the main concern being the expected increase of production costs and need of additional investment. IFC Survey of Food Processing Enterprises, 2009

¹¹⁴ *Comprehensive Strategy and Legislative Approximation Programme in Food Safety, 2010*

¹¹⁵ E.g. dairy industry, meat industry.

prior warning, where there is sufficient doubt that food/feed is not in conformity with the safety norms. In case of non-compliance with relevant food safety regulations, inspectors have several options to act. The types of measures depend on the scale of the violation of food safety requirements and can include the following actions:

1. Provision of recommendations and a reasonable time frame to food business operator to eradicate sources of non-compliance.
2. Suspension of the placement of the food and feed on the market.
3. Temporary suspension of the operations of food business operator
4. Withdrawal/removal of the products from the market.
5. Introduction of fines for food business operators.

Division of Responsibility for Food Safety in Georgia

In Georgia the responsibility for food safety and hygiene issues are divided between the following governmental bodies:

- *Ministry of Agriculture* - policy making authority in food safety and hygiene
- *Ministry of Labour, Health and Social Protection* - responsible for participation in setting food safety parameters and norms and contribution to crisis management;
- A legal entity of Public Law the *National Food Agency* (see Box 3)– is supervised by the Ministry of Agriculture and is responsible for all issues related to food safety and hygiene of products, produced in Georgia;
- *The Revenue Service of the Ministry of Finance* – which implements official Sanitary and phyto-sanitary (SPS) and veterinary border-quarantine control based on the rules defined by the Ministry of Agriculture. Issues related to phyto-sanitary and veterinary border control, cooperation mechanisms and division competences between the National Service and Revenue Service are regulated by the Joint Order N987-N2-184 of the Minister of Agriculture and Minister of Finance approved on the 31st December 2008 (hereafter Joint Order). The sphere of competence of the Revenue Service is defined as the operational/implementing authority, and that of the Ministry of Agriculture as the policy making authority regulation in this sphere through the special decrees issued by the ministry. It is responsible for the issues relating to food safety and hygiene of products, imported to Georgia. A special division for veterinary, sanitary and phyto-sanitary control is in charge of SPS control at the border and has authority to control and supervise the daily work of phyto-sanitary and veterinary specialists of territorial units of the Revenue service.

Annex 8: Relaxed Regulatory Environments for Small Scale Enterprises

The food safety legislation of the European Union and in particular the EC Regulations No 852/2004 and No 853/2004 provide for the creation of special, more relaxed regulatory environments for small enterprises producing, processing or distributing food. Guided by relevant EU legislation and best EU practice the Government of Georgia will introduce a special regulatory environment for certain types of small food business operators. Before applying special relaxed regulatory schemes to certain categories of food business operators, a risk analysis will be conducted. Based on the risk analysis small food business operators will be identified for whom relaxed food safety requirements will be applied. The main rationale behind the need for the relaxed regulation schemes is to ensure the viability and competitiveness of small food business operators in Georgia and avoid undue burden on them, as well as to preserve traditional methods of production closely intertwined with country's history and culture.

This exemption mostly covers small scale livestock producers and small and medium enterprises from rural areas and it seems, the main reason for this decision was the impossibility of these SSLP's and SME's of complying with more stringent food safety regulations for more sophisticated operations. The precise share of food business operators qualifying in the categories mentioned above had to be determined by the end of 2010 once the registration of food business operators was finalized, but this list still is still not available. A special secondary legislation in form of Government Resolution was adopted in the 3rd quarter of 2010 to regulate requirements applied to the above-mentioned categories of food business operators.

The relaxed regulatory schemes will apply to small food business operators of the following categories:

1. Traditional national food production, processing and distribution.

As Georgia's cultural and historic heritage is one of the main tourist attractions of the country, preserving traditional methods of food production, processing and distribution is an important priority for the Government of Georgia. For this reason, the Government will identify a list of the food/product groups characterized as 'traditional national production', which will fall under the relaxed food safety regulatory scheme. The list of traditional national products should have been set up by the end of 2010, but has still not been published.

2. Food business operators with special geographic constraints placing them in unequal conditions (transportation, production conditions, etc). Georgian legislation has introduced special approaches towards mountainous regions in various fields. The main legislative framework is legislation from 1999 "A Law on Social-Economic and Cultural Development of the High-Mountainous Regions". The law defines the height level of the regions (generally 1500 meters above the sea level) and contains specific list of regions specified high-mountainous regions. The Government of Georgia considers this legal basis as a baseline for the definition of the geographic locations to which the food safety relaxed regulatory regime will apply.

3. The direct supply, by the producer, of small quantities to the final consumer or to local retail establishments directly supplying the final consumer.

The precise share of food business operators qualifying in the categories mentioned above will be determined by the end of 2010 once the registration of food business operators is finalized. A special secondary legislation in the form of a Government Resolution was adopted in the 3rd quarter of 2010 to regulate requirements applied to the above-mentioned categories of food business operators.

Annex 9: A Summary of the Outbreak of Anthrax in Dmanisi, Tetrtskaro and Tsalka Municipalities.

Twenty six cattle died due to contracting Anthrax in Tsalka and Tetrtskaro municipalities in July and August 2011. Tbilisi Veterinary Laboratory have subsequently confirmed that the animals deaths were caused by Anthrax. Twenty four carcasses have been burned and buried however two carcasses were slaughtered and their meat sold into the food chain. Ten days of quarantine were imposed in Khaishi and Tsintsikaro villages on 20th of July 2011 during which time access into these villages were controlled by the police. 10, 750 heads of livestock have been vaccinated in Tsalka and Tetrtskaro Municipalities since the outbreaks began. Two local residents of Tsalka, a father and son, became infected by Anthrax after slaughtering an infected animal and the processing of its meat. Eight people have become infected in Tetrtskaro municipality villages: six cases in Khaishi, where one of the infected men has died due to medical treatment being administered too late, and two cases in Tsintsikaro; one of whom became infected at the time of the slaughtering of an infected sheep and the processing of its meat, another one became infected whilst vaccinating cattle. Tsalka, Dmanisi and Tetrtskaro municipalities and one employee of the Food National Agency per municipality are coordinating measures to contain and control the disease.

*** *Reference: Case Study of Anthrax Disease. IAAD*

News concerning anthrax in the project area (From the local media and internet sources)

20. 07. 2011 / Anthrax case in Tetrtskaro

Social Healthcare / Tetrtskaro

The National Disease Control Center is asking the population to be careful when eating meat because anthrax cases have been increasing this month. A 65 years old man from Tetrtskaro died last night.

21. 07. 2011 / Another case of anthrax in Tetrtskaro

Social Healthcare / Tetrtskaro

Cases of anthrax are increasing. Currently a 24 year old man from Tetrtskaro is being treated at the Tbilisi Infectious Disease Hospital. The young man became infected 6 days ago. The infected man is undergoing medical treatment. Doctors stated that condition of the patient is stable.

21. 07. 2011 / Increase vaccinations took place in Tetrtskaro villages

Social Healthcare / Tetrtskaro

Increased Vaccinations are being carried out in Tetrtskaro villages. Cattle are being vaccinated against anthrax by the Tetrtskaro Municipality Office of the National Agency for Food Safety. The reason for increased vaccination was death of local resident Revaz Chkadua who died from anthrax. The man supposedly became infected at the time of slaughtering of a bull.

28. 07. 2011 / Anthrax case in Bolnisi

Social Healthcare / Bolnisi

A 46 year old man from Bolnisi was transferred to the Tbilisi Infectious Disease Center with the skin form of anthrax. He purchased infected meat from Marneuli market.

28. 07. 2011 / Condition of an anthrax infected patient is stable

Social Healthcare / Dmanisi

Two infected patients are being treated at the Tbilisi Infectious Disease Hospital. One of the infected men is from Dmanisi.

08.08. 2011 / Condition of an anthrax infected man in Tsalka is stable

Social Healthcare / Tsalka

A middle aged man from Tsalka has become infected after slaughtering his own cow. The disease has spread to the neck and face of the man. The patient contacted a medical facility quite late and it has complicated his condition. After appropriate medical treatment doctors consider the patient's condition to be stable.

10. 08. 2011 / Four people have become infected by anthrax in Marneuli

Social Healthcare / Marneuli

The head of the Marneuli Social Healthcare Center is looking for ways to prevent the spread of anthrax.

“Four cases of anthrax in humans have been observed in Marneuli. I would like to mention that none of our Meat Selling Points have accepted infected meat brought from Dmanisi. The only way to become infected by Anthrax is contact with an infected animal or its meat. We ask the population not to slaughter an infected animal in order to avoid the infection and to please contact the Veterinary Service because this is a very dangerous disease” – The Head of the Social Healthcare Center of the Marneuli Municipality, Eter Laferadze said.

Annex 10: Mercy Corps Agricultural Policy Dialogue: Overview and Structure

A ongoing principle of Mercy Corps policy is the active participation in coordination groups and platforms, created to discuss and formulate policy relevant to program interest. In the case of the Alliances Programs this relates to for a dedicated to the development of a vision regarding the agricultural policy in Georgia.

Policy Developments in the Agricultural Sector

Involvement at this stage is crucial as the Ministry of Agriculture is currently working on the development of strategy of the agricultural sector in Georgia. During the last few years an agricultural strategy, which could have served as a framework for governmental and non-governmental organizations has been absent and this in certain cases has created mismatch between the Government and implementing agencies. However in 2011 agriculture has been openly declared to be one of the main priorities of the government and the development of the respective strategy is very important part of this process.

The draft agricultural strategy has been developed by the MoA and has been sent to the government for a comprehensive review. It is expected, that the draft strategy will be accepted by the government in first months of autumn 2011 and then sent to the donors, international and local NGOs and other stakeholders for their comments. Final approval of the strategy is expected at the end of autumn 2011 and after this the MoA will prepare the Agricultural Strategy Action Plan, a more detailed document which should include indicators, concrete activities and budget.

Responding to Dynamic Legislative Change

In January 2011 adopted the comprehensive food safety strategy. Changes have been made and are envisaged in the veterinary law. All these changes have been significantly affecting agriculture as part of the Georgian economy and particularly the livestock sector. In the current circumstances of dynamic changes in legislation and government policies, related with agriculture, it is crucial that donor agencies and international organizations, involved in this sector have regular discussions to formulate the joint and coherent position, which then will be conveyed with the government. Therefore several special platforms have been created with participation of key stakeholders in the agricultural sector and Mercy Corps is active participant in these meetings.

Mercy Corps Involvement in Policy Dialogue

Coordination Meetings

The most important forum for the policy dialogue is the regular coordination meetings on agriculture, initiated by EU delegation and French embassy. It takes place bi-monthly at the EU delegation and all key donors including USAID, EC, SDC, SIDA, KfW and the Czech embassy as well as international and local organizations Mercy Corps, CARE, GRM, ACF and Oxfam amongst others who fund and implement agricultural programs are part of these platform. Key representatives of Ministry of Agriculture also regularly participate in these meetings.

Mercy Corps is actively involved in the process of information sharing regarding the experience of different agricultural programs and various approaches promoted by the different implementing agencies as well as in discussions about agricultural policy, taxation issues, legislation and regulations, and the sustainable development of agricultural sector. MoA representatives provide their vision of the current and future situation of agriculture development in Georgia and ready for open discussions. In general, these platforms are very important opportunity for effective policy dialogue with the government and their upcoming decisions are influenced by the practical experience, which Mercy Corps and other agencies and donor organizations have. On the basis of these meetings five sub-sector working groups were set-up according to the five declared objectives of upcoming National Agricultural Strategy. These groups and their respective, strategy objectives are:

1. Improved competition through private sector development
2. Improved capacity of institutions and stakeholders involved in agriculture
3. Development of food production chains
4. Development of rural infrastructure
5. Food security

- Strengthening the coordination of all existing projects in the agricultural sector as to foster cooperation amongst stakeholders, avoid overlapping of funding and projects and better identify existing needs;
- Discussing and defining common policy-positions and concrete recommendations based on the members' expertise and on the projects' and programs' implementation and results, to be shared with the government;
- Sharing knowledge and information on specific issues of concern to all stakeholders, among others through dissemination of one's major findings and technical discussions;
- Supporting the Ministry of Agriculture in its coordination efforts.

Mercy Corps regularly participates in the groups 1, 3 and 5 monthly meetings and is actively involved in process of information sharing, development of common understanding and approaches among the donors and international organizations, discussions with the MoA representatives.

Legislative Platform on Agriculture and Food Safety Issues

Another very important venue for the policy dialogue, where Mercy Corps is an active participant is Legislative Platform on Agriculture and Food Safety Issues. This platform is organized and chaired by NGO Business and Economic Centre and takes place quarterly. The goal of this platform is to strengthen the legislative dialogue concerning agriculture and food safety issues to support Georgia in meeting its EU commitments.

The objectives of this platform are:

- To facilitate a participatory policy dialogue in the frames of the Legislative Platform of Agriculture and Food Safety to support the elaboration of policy recommendations and adequate legislation, which would reconcile the interests of the stakeholders involved;
- To strengthen the information and research base as well as the monitoring capacity of the Parliament to fulfil an effective oversight of the reform.

This platform provides an excellent opportunity to discuss different aspects of agricultural policy and existing legislation as well as to propose certain changes in the legislation and government strategy of agriculture. The Business and Economic Centre has its office in the building of Parliament of Georgia, has good working relationships with the different governmental bodies on the central level and ensures wide participation of Members of Parliament, committees' staff, Prime Minister's office representatives, international organizations and experts in the meetings. Mercy Corps, again, is one of the active members of the policy dialogue framework of this platform and articulates opinion regarding different important aspects of agriculture and food safety issues, discusses them with the parliamentarians and government representatives, together with other stakeholders who can initiate certain necessary changes in the legislation.

Participation in these two very important platforms of policy dialogue in agriculture gives Mercy Corps opportunity to share information regarding its experience with other stakeholders, to formulate the joint approaches together with other international and local non-governmental agencies how to address the essential agricultural (particularly, livestock breeding) issues in Georgia, effectively communicate this with the government and parliament representatives and through this affect the policy making process in the agriculture sector of Georgian economy.

Policy Dialogue: Ongoing Status and Participation

Mercy Corps will continue its active participation in the existing forums of Policy dialogue in agriculture mentioned above: i.e. the EU coordination meetings and Legislative Platform on Agriculture and Food Safety Issues, providing input and recommendations, which the main donors and INGOs, active in agriculture can input into the Agricultural sector strategy, being developed by the Ministry of Agriculture. It is in the final stage of review in the government and in September-October will be shared with wider Donor and NGO community for comments and suggestions. In this process it is important that Donor and NGO community speaks with one voice and advocates for the changes/amendments considered vital for development in the strategy document. Here role of three key donors: USAID, EC and SDC and their coordinated action is crucial. The maintenance of regular dialogue and discussions with the government (especially, Prime Minister's office and Ministry of Agriculture) according to the donor agenda and objectives will be very important in ensuring the development of efficient and feasible action plan in agriculture sector.

Donor Coordination

The MoA is in the near future establishing a special department, responsible for coordination with donor agencies. It will be based on the former World Bank Project Implementation Unit and replaces the International Relations Department in the being responsible for interaction and coordination of Donors and NGOs activities. It is important, that Mercy Corps and SDC establish fruitful relationships, fostering productive policy dialogue with this new department.