

ACCELERATING DEVELOPMENT

Cooperative “Dovlati” and Cooperative “Traditsia”

Business Case

Content:

1. External Context
 - a. Macro-economic factors
 - b. Regulatory framework
 - c. Agriculture sector overview

2. Cooperative “Dovlati”
 - a. Greenhouse greens sub-sector overview
 - b. History and development
 - c. Structure and membership
 - d. Services
 - e. Performance dynamics
 - f. Future business strategy

3. Cooperative “Traditsia”
 - a. Tea sub-sector overview
 - b. History and development
 - c. Structure and membership
 - d. Services
 - e. Performance dynamics
 - f. Future business strategy

4. Conclusions

1. External Context

a. Macro-economic factors

For much of the 20th century, Georgia's economy was a part of the Soviet planned economy system. As like as other post-communist countries, after gaining independence in 1991 Georgia suffered from political unrest and economic turbulences. The civil war and military conflicts in the breakaway regions of Abkhazia and South Ossetia aggravated the crisis and the country faced a severe economic collapse for most of the 1990s.

The economic decline lasted until the "Rose Revolution" in late 2003, after which the new government introduced a number of basic political and economic initiatives. Following a series of liberal free market reforms and a reduction in corruption indicators, Georgia achieved significant economic growth and visible positive developments. In 2007 real GDP growth rate reached 12%, making the country one of the fastest growing economies in Eastern Europe. The World Bank dubbed Georgia "the number one economic reformer in the world".

After the military conflict with the Russian Federation in 2008, Georgia received strong multilateral donor support; the economy quickly exited recession and returned to positive growth. Diplomatic and economic ties with Russia remain strained, but political and economic support from the Western countries helps Georgia to reduce the negative impact of tense relations with its powerful northern neighbor.

Today, Georgia is well known for its pro-liberal reforms, relatively low level of corruption and light regulatory environment. In April 2014 Fitch upgraded Country's credit rating to "BB-" with a stable outlook. Georgia was placed 8th in the World Bank's "Ease of Doing Business" ranking for 2014, up from 137th as recently as 2005. The country has strong growth prospects and real GDP is set to grow by an average of 7-8% in the next 3 years.

However, official unemployment still remains high at a level of 16% (8% for rural and 27% for urban areas), which is higher than in pre-crisis periods. Furthermore, out of total people considered employed in rural areas, 80% are small-scale and often subsistence farmers with incomes not much higher than the poverty allowance paid by the government to those living below the poverty line. The percentage of the population falling below the National Poverty Line is 9.2% and the Relative Poverty rate is 22.4%. Georgia's GDP per capita also remains low (around USD 3,600), leaving much room for growth.

b. Agriculture sector overview

During the Soviet era, the agricultural sector was characterized by complete state ownership of all agricultural land and commercial processing. Primary agricultural production was concentrated on large-scale collective and soviet farms, which averaged 428 hectares in size.

After the breakup of Soviet Union, a considerable share of government-owned land was distributed to rural households as a part of country-wide privatization of state property. Prior to 1990, only 7% of agricultural land was in individual use. A decade later, in 2000, some 37% of agricultural land (or more than 70% of arable land) was owned by individual farmers. The universality of land distribution to rural families resulted in relatively small holdings - the average size of an individual farm in Georgia is 0.96 hectares and only 5% of farms are larger than 2 hectares. In addition, virtually all landholdings were fragmented in several pieces due to the government's policy to strive towards "equal value" of land handed over to each rural household.

The prevalence of small and fragmented landholdings is not the only major problem faced by Georgia's agricultural sector. Following independence and break-up of the planned economy in 1991, all agriculture support systems, such as input supply, farm mechanization, agricultural extension, etc., set up to provide services to the state-controlled farms, quickly ceased to exist as they failed to line up towards new economic realities. Georgia's market links with other former Soviet Union republics also declined sharply. This has left the country with an agricultural specialization

that was oriented on exports of tea, citruses, early fruits and vegetables, and unable to meet the country's demand for meat, dairy and grains – the commodities that were imported to Georgia in the Soviet times. The rapid and dramatic change in the market situation brought about a closure of hundreds of processing plants across Georgia and forced the rural population, both farmers and industry workers, to switch towards small-scale subsistence farming as virtually the only coping strategy in the context of vanished agriculture support services, small and decapitalized farms, and diminished processing sector.

Some twenty years have passed since then and one can identify a number of limited improvements of agriculture support markets, particularly in financial and input supply services. Currently, there are several banks and larger-scale microfinance institutions (MFIs) active in every region of the country and offering farmers short- and long-term agricultural loans. However, the agricultural portfolios of the banks and MFIs are relatively small and underdeveloped due to the high interest rates for agricultural loans and the little interest of credit institutions to work with small-scale farmers who are considered high risk clients. Starting from spring 2013, the government pays subsidies to selected financial institutions to support a reduction of interest rates for loans associated with agriculture. Some progress can also be observed at input supply markets – to date the supply sector is driven by seven or eight large-scale Tbilisi-based importers providing a broad range of agricultural inputs, a dozen mid-size wholesalers based in Tbilisi, Kakheti, Kvemo Kartli and Samtskhe-Javakheti, Farmers Resource Centers in all regions and majority of municipalities and smaller-scale agricultural input outlets in virtually all municipal centers. In 2013, the government has established municipality-level agriculture extension services that are mandated to provide limited technical support to farming communities.

The positive changes described above are still insufficient for bringing about significant and irreversible progress in the country's agriculture. The sector remains generally inefficient and lacks physical, institutional and human resources. The landholdings are small and fragmented, farms are decapitalized and lack machinery/equipment, the rural infrastructure (irrigation and drainage systems, secondary roads, etc.) is often in a poor state of repair, processing facilities remain concentrated in and around large urban centers, agricultural extension and other support services are under-developed, and the agricultural education system lingers in disarray since the breakup of the Soviet Union.

All the above drawbacks are exacerbated by a “non-economic” mentality of subsistence farmers (a majority in the country's agricultural community) who have limited technical skills and little understanding of market systems, fear to test new approaches and make longer-term investments, do not trust other market players (such as input suppliers, service providers, traders, banks), and, ultimately, have little hope of the future.

Today, about 850,000 persons are directly employed in agriculture, accounting for 49% of the total national and 77% of the rural workforce. In the meantime, the sector contributes to only 8-9% of GDP and agro processing enterprises just 4% of the GDP. In 2013, labor productivity in agriculture totaled GEL 2,274 which is only 15% of the national average of GEL 15,178.

c. Regulatory framework for cooperatives

In July 2013, in order to support growth in the country's agricultural output and increase incomes of small farmers, the Parliament of Georgia adopted the Law on Agricultural Cooperatives; defining the legal status and basic principles and rules regarding formation, membership and management of agricultural cooperatives.

According to the new law, agricultural activity is defined as “all kind of farming activity on agricultural land or land-related property, and other related services that includes the production, processing, packing, packaging, storage, transportation and marketing of plant and animal products”. The farmer groups that receive the status of Agricultural Cooperative may be subjected to several privileges as prescribed by the law that include tax

concessions, preferential credits and grants, and participation in development projects and programs. Agricultural cooperative membership is voluntary and such an enterprise should comprise of 5 members at minimum (3 for mountainous regions).

The status of Agricultural Cooperatives can be obtained through application to the Agency for Development of Agricultural Cooperatives (ADAC), a governmental body under the Ministry of Agriculture that was established to grant status and monitor compliance of registered agricultural cooperatives with the new law.

2. Cooperative “Dovlati”

a. Greenhouse greens sub-sector overview

The Imereti region is well known across Georgia for its high quality vegetables and greens. The mild climate of the region’s lowlands allows successful production of off-season tomatoes, cucumbers, salads and greens in non-heated greenhouses. This climatic advantage has been well utilized by a number of farmers since the Soviet times. The farmers erect simple low-cost greenhouses that generate relatively stable income during the period from November to May. The greens and vegetables are sold both at local markets and Georgia’s regions adjacent to Imereti. A considerable share of greens is exported to Ukraine, Belarus, and Azerbaijan (for re-export to Russia). The exports are generally controlled by several larger farmers and product consolidators who buy greens from smaller farmers and take care of all operations on the way to export markets. Although small farmers make relatively good profit from selling their produce to the exporters, the latter claim for the lion’s share of profits in the market chain. The major competitor for the Imeretian parsley, coriander and dill at export markets is cheaper and lower quality greens from Uzbekistan. According to the official statistics, in 2012, the value of greens exported to the neighboring countries was USD 4.1 Million.

b. History and development

Cooperative “Dovlati” was founded in September 2010 in a village Maglaki of Tskaltubo municipality with a purpose to provide production, storage and marketing support services to its members. The “Dovlati” founders and members are small farmers who cultivate “regular” fruits and vegetables during the warmer seasons of the year and grow off-season greens in their small greenhouses during the colder seasons. Some farmers also grow limited amounts of off-season vegetables for consumption in their households and sale. Each farmer runs from one to three 500 m² greenhouses that are made of wood frames and polyethylene sheets as a cover. The greenhouses are equipped with simple handmade irrigation systems. Most of the facilities do not use any heating equipment.

Before the establishment of “Dovlati”, each greenhouse was generating some 350-450 GEL net profit per season. The 700-900 GEL returns made from two greenhouses are usually sufficient for meeting the most basic seasonal needs of an average rural household, however there is no money left for investment in any tangible scale up and intensification of farming processes.

The reasons for such limited income generation were numerous. They include: a) shortage of on-site storage-cooling facilities that makes consolidation of greater quantities of greens for larger buyers (such as hypermarkets and exporters) impossible as well as long-term storage of the commodity to mitigate unfavorable price fluctuations at markets; b) little economies of scale of operations at small individual farms that prevent more cost-efficient purchase of inputs and services; c) lack of knowledge of technologies and inputs that could increase farm productivity; and d) little interest towards small-scale individual farmers from banks and MFIs – this limits the farmers’ capacity to invest in new technologies and expansion of operations; The Maglaki farmers realized that the improved economies of scale might be a good solution to at least the problem of low cost-efficiency of farming,

however, they did not know how to establish and govern a cooperative, as well as how to manage investments and share returns in a fair way.

In summer 2010, in an attempt to address some of their problems, several herb growers from Maglaki approached People in Need's agriculture development project that was funded by the Czech Development Agency (CZDA). With support from the project team, the farmers developed a plan for establishment of a cooperative that would basically focus on strengthening their production capacities and improving the produce storage and marketing.

The farmers agreed upon the cooperative management structure and registered their cooperative in the Public Register of Georgia. The farmers also prepared a business plan in which they outlined the entity needs, development opportunities and progress milestones. The initial outcomes of cooperation were quite promising. The farmers saved some money by buying inputs at wholesale price and later reinvested the savings into more effective and cost-efficient inputs – the only improvement that was affordable given the amount of savings. However, when the cooperative applied for loan to several finance institutions, it found that all available loan products were too expensive for farmers willing to make longer-term investments in farm upgrade and expansion.

The solution came from PIN that was running a competitive agricultural grant program at that time. After reviewing "Dovlati's" business plan PIN decided to provide the cooperative with a 53,105 GEL grant to cover 70% of the cost of a second-hand mini-truck for local transportation of greens and a 150 m² storage facility with product cooling equipment.

Three years later, in autumn 2013, PIN's follow-on agriculture support program provided "Dovlati" with a 20,000 GEL grant to procure two second-hand mini-tractors and two cultivators. The value of co-funding from "Dovlati" was 5,055 GEL. Additionally, in the period between 2010 and 2013, PIN trained members of "Dovlati" in business management and development as well as key technical aspects of both production and marketing. Since autumn 2013, the cooperative members have taken part in a series of PIN-organized trainings on agricultural cooperative management and development as part of a follow up Czech Development Agency-funded project to further support existing cooperatives.

c. Structure and Membership

The supreme governing body of the cooperative "Dovlati" is a General Assembly of members, held once a year. The Assembly is entitled to appoint the cooperative board and revision committee, approve the cooperative charter and annual plan, and make decisions on key investments and memberships.

The daily management of the cooperative is assumed by the Director, appointed by the Board. The Director is in charge of coordination and supervision of day-to-day activities and attainment of targets set in the annual plans. The cooperative has an accountant responsible for bookkeeping and tax relations. All other labor needs are covered through hiring various part-time workers: technical specialist, mechanic, warehouse workers, etc.

A minimal cooperative member share is 50 GEL. Currently "Dovlati" unites 6 founders and 22 member-contributors. Total sum of statutory capital amounts to 14,420 GEL. The number of cooperative members since foundation has grown from 13 to 28 small farmers (115% growth).

d. Services

Currently, "Dovlati" offers various types of services to its members and non-member customers. Members have an opportunity to benefit from special preferential terms: purchase of farm inputs that cost 5-10% less than at local retail markets, storage of greens and vegetables in the cooperative's refrigerated warehouse for which the members should cover only costs of utilities; use of tractors at 60-70% of the market price for the service, and quite often, 5-

10% higher price for greens sold to larger traders. The cooperative members also benefit from sharing of “know-how” and market information among each other.

If in the beginning the only advantages of cooperation were the purchase of inputs at wholesale prices and sharing of technical and market information, the real improvements in the members’ profits became possible after “Dovlati” received grants for constructing storage facility with cooling system and purchasing mini-truck and tractors with cultivators. The cooling of greens allowed keeping the excessive produce fresh and with minimal losses until the moment when the cooperative is offered a better price. As a result, the larger traders started dealing with “Dovlati” more often since the cooperative had sufficient quantities of greens in stock to fill the traders’ orders.



The discount on tractor services significantly reduces production costs

The mini-truck has significantly reduced the costs and increased the speed of transportation of greens from farms to the warehouse and from the warehouse to the local markets. The low-cost tractor services have significantly reduced the spending on ploughing and other crop cultivation operations in the greenhouses. This particular service has also reduced the need for manual work in the greenhouses that was often a traditional duty of women. The reduction of hours spent in the greenhouses allowed women to dedicate more time to their personal development and children.

The cooperative also receives some considerable additional income from providing storage/cooling and marketing services to local farmers that are not cooperative members. Although the service rates are quite low, some 35-38% of the cooperative’s profit comes from storing and marketing greens produced by non-members. Starting from spring 2014, non-member farmers from nearby villages are given an opportunity to benefit from the relatively inexpensive rates for tractor services provided by the cooperative.

e. Performance Dynamics

The cooperative records indicate that in the first year after foundation “Dovlati” marketed 72 tons of production (mostly greens). From this, 12 tons were harvested from greenhouses of cooperative members. Two years later, in 2013, the amount of marketed produce made up 97 tons, of which 35 tons belonged to cooperative members. As noted above, the number of “Dovlati” members grew from 13 to 28 in three years of cooperative existence. The dynamics of change in cooperative output and membership is presented in the chart below:



Nearly the triple increase in sales of the members' produce can be attributed to a number of factors including: a) growth in cooperative membership and corresponding expansion of production area; b) improved marketing opportunities and reduction of losses after set up of the refrigerated storage facility; c) investment in higher quality inputs; and d) cross-learning of new technologies. The last two factors brought about a tangible reduction of production costs and nearly 30% increase in crop productivity per unit of land.

The additional incomes generated through increase in cooperative output / sales and reduction of production costs were invested in construction of new greenhouses (some 7,000-8,000 per greenhouse) and, in a number of instances, replacement of wooden frame greenhouses with all-metal framework constructions. Some 45% of the greenhouses are now using modern water-efficient irrigation systems.

In 2010, an average member was selling approximately 920 kg per year. By 2013, this number grew to 1,250 kg. The net profits have also grown – from 510 GEL/year/member in 2010 to approximately 710 GEL. The preliminary data for the end of 2013-14 winter season indicates that the profits continue to grow – up to an average of 740 GEL per member. It is expected that the progress will continue in the coming years as a result of the application of new technologies and inputs as well as the use of tractors for cultivation in the greenhouses.

"I have no problems with selling greens from my farm anymore. Thanks to the refrigerators, whatever is not sold immediately can be kept in the warehouse for weeks until the moment when the market demand and prices for greens go up."

Nargiza Gogisvanidze, member of cooperative "Dovlati"

f. Future business strategy

The initial business strategy of Dovlati was simple and straightforward. Given the limitations in human resources, production capacity and access to finance, the cooperative development was focused on attainment of two interrelated objectives:

- a) Make the cooperative output more attractive for larger customers and thus increase the income;
- b) Attract more farmers to join the cooperative and thus increase the cooperative's overall output as well as improve the economies of scale.

The first objective was achieved through the construction of a storage facility with cooling equipment and purchase of the mini-truck for swift transportation of greens. The acquisition of the above assets has also reduced the losses of cooperative output as the greens could be stored for longer periods and transported to/from the storage facility with no delays. The attainment of second objective was made possible once the incomes of cooperative members started to grow and the cooperative was in a position to offer its members additional support services, such as procurement of inputs at a discount and inexpensive tractor services. The growth in membership can be also attributed to the member-friendly setup of the cooperative.

Recently, "Dovlati" drafted its new strategic plan that covers the period from 2014 to 2018. The plan outlines five key correlated objectives and associated activities that should bring about further growth in members' incomes and enhance the business viability. These objectives for the next five years are:

- a) Improved cooperative output - production efficiency, product quantity and quality;
- b) Improved access to investment resources;
- c) Further institutional development and growth in membership;
- d) Product development;
- e) Market development.

The steps to be undertaken to fulfill the objectives are as follows:

- Provision of mechanical tillage services to the cooperative members and non-members;
- Bulk purchase and distribution of high quality seeds, fertilizers, pesticides among cooperative members;
- Technical capacity building of members to ensure compliance with international quality / pesticide residue standards for greens;
- Installation of new modern greenhouses for cooperative members – using credit in some instances to accelerate the production base expansion;
- Maintenance of Business Development Fund and its use for buying new / better assets and consumables;
- Registration in ADAC as agricultural cooperative in order to be exempt from Profit Tax and be eligible to participate in government- sponsored training, capitalization and other development support programs;
- Selection and admittance of farmers that meet cooperative requirements for membership;
- Change in the management structure to ensure increased participation of members in decision making;
- Networking and participation in regional and sector-level farmer associations and advocacy efforts;
- Diversification of product assortment through introduction / increased production of new crops;
- Expansion / diversification of client base through better communication with key stakeholders, particularly with exporters and traders operating in Tbilisi, Georgia’s largest market.

Members of “Dovlati” anticipate that the implementation of above strategies will bring about the following improvements in the cooperative performance:

	2014	2015	2016	2017	2018
# of cooperative members	28	40	40	45	50
Annual production of greens by an average member (kg)	1,080	1,123	1,168	2,215	1,263
Annual production of greens by all members (kg)	30,240	44,928	46,725	54,668	63,172
Total sales of cooperative per year (GEL)	120,960	188,698	206,058	253,142	307,146
Anticipated net profit of cooperative per year (GEL)	21,305	44,897	50,662	64,245	80,387

3. Cooperative “Traditsia”

a. Tea sub-sector overview

The history of tea growing in Georgia dates back to 1830’s when the first tea plantations were established in Guria, a province in West Georgia. A few decades later, the crop spread over the neighboring provinces of Ajara, Samegrelo and Imereti. Starting from the 1920s, Georgia’s tea sector enjoyed significant investments in production and processing infrastructure as the leadership of Soviet Union decided to make the communist empire fully self-sufficient in food production and banned virtually all food imports. Within a short period of time, Georgia became a primary tea supplier for the entire Soviet Union however the sector growth was accompanied by gradual deterioration of quality of tea due to the government’s focus on quantity rather than quality. Until 1990, Georgia was exporting to other Soviet republics approximately 95% of its processed tea.

The breakup of the Soviet Union and disintegration of the planned economy brought about opening of the former Soviet Union markets to all imports. As a result, Georgian tea quickly lost its market position as the product could not compete with relatively cheap and often higher quality tea from India, Sri Lanka and China. By the mid-1990s, the majority of the state-owned tea plantations had been abandoned or cut down whilst tea processing factories had been deserted and dismantled. Eventually, Georgian tea vanished from the markets of neighboring countries. However, on the Georgian market, the local tea escaped full “extinction” in as lower-end consumers could not afford

to buy imported brands and continued buying the cheaper Georgian product. The collapse of the tea sector affected many thousand households in West Georgia who were engaged in the tea growing and processing industry and found no alternative sources of income after the collapse of Georgian economy in the 1990s.

In recent years, the Georgian government has allocated some resources for rehabilitation of a part of the remaining tea plantations. In several locations tea plantations and processing facilities were rehabilitated by private sector companies, both Georgian and international. These efforts resulted in partial revitalization of tea industry however it is still a long way from the output and income indicators the tea growers and processors used to achieve during the sector's heyday. According to the Georgian Association of Tea Growers, the domestic product has now recaptured 20% of the local tea market and the market share may grow further provided that investments in the sector continue and the focus is made on quality assurance and market appearance of the product.

The current tea market in Georgia is dominated by two companies: Unilever Group with its Lipton brand and Geoplant Ltd with two umbrella brands: Gurieli and Rcheuli. The Lipton brand was one of the first international brands to penetrate Georgia's tea market and it continuously stays on top (23% share of the market) due to strong brand awareness and reputation. The second-ranked company, Geoplant, is a Georgian manufacturer that has managed to expand its share steadily over the last 3-4 years and partially replace some of the imported brands. The company's success can be attributed to the competitive price of Geoplant's products and the fact that the company processes local tea which is increasingly considered by Georgian customers as more "organic" than imported tea. In the recent years the lower-price segment of the industry was also penetrated by several small- and micro-scale tea processors whose current share is estimated to be 4- 5% of the country's market.

Some positive developments can be also observed in exports of Georgian tea. Some 15 years ago the tea processors that survived the crisis of the 1990s were struggling to sell few dozen tons of low quality tea to Mongolia and a couple of countries of Central Asia. Once the quality of Georgian tea started improving in the last decade, the export markets expanded to Ukraine, Belarus, the Baltic countries and even Western Europe and North America. According to statistics, income from tea export in 2012 was USD 2.5 million.

b. History and Development

Cooperative "Traditsia" was founded in late summer 2013 in Tkibuli municipality (Imereti region of West Georgia) with support from CZDA-funded agriculture development project of People In Need. In the Soviet period Tkibuli, a well-known coal mining region, was also famous for its good quality black tea. In the early 1990s the tea industry in Tkibuli, like in other tea-growing regions of Georgia, collapsed due to the loss of markets and consequent degradation of tea plantations and processing facilities. Several small tea enterprises have however survived by supplying inexpensive lower quality tea to local markets.

The business profile of "Traditsia" is producing, rolling, packing and selling local tea in the form of tea bags. The cooperative was established on the basis of a small company "Gela Akhvlediani" led by two experienced tea processors who have been working in the industry since Soviet times. The company was processing crude tea being supplied by farmers from nearby villages. The problems faced by the company from the first day of its establishment were the following:

- a) Erratic supply of the raw material from tea-growing farmers that was affecting consistency in quantity of the company output.
- b) Low quality of semi-processed tea as the farmers used makeshift and non-reliable equipment for primary processing – this was often affecting the quality of finished product.

- c) Given the inconsistencies in quantity and quality available for sale, the enterprise could not establish a “brand” and develop any reliable and lucrative marketing channel. In fact, the tea was sold only at local markets, unpacked, sporadically and with little profits.

After several years of struggling with product quality and running barely profitable operations, the company owners came to a conclusion that the only feasible way to solve the above drawbacks would be transforming their enterprise into a cooperative with a broader human, machinery and financial resource base. The transformation was promising to:

- improve the quality of tea as a result of “centralization” of processing operations and use of proper equipment;
- make farmers more interested, as cooperative members, to supply tea to the processing facility on a regular basis
- and, as a result, secure higher profits by penetrating a higher segment of the market.

An additional advantage of cooperation was seen in the better opportunities to access credit to buy equipment necessary for packing tea into tea bags and thus add value to the product.

As a first step in cooperative establishment, the tea growers and processors asked PIN to assist with setting up the management structure, distributing responsibilities, and reaching an agreement on member contributions and profits. Once the assistance was provided and the new entity registered as a cooperative, the members mobilized their available financial resources for rehabilitation of several small-size tea plantations. This made possible some increase and stabilization of supply of tea to the processing facility. As a next step, “Traditsia” sought low-cost loan from credit institutions, however it quickly became clear that no loan with reasonable interest can be secured given little mortgage capacity of the cooperative. In such a context, in order to accelerate growth of the cooperative, PIN decided to support “Traditsia” with a 21,500 GEL grant that was sufficient for buying the most critical pieces of equipment – tea bag packing machine and tea roller. The cooperatives’ co-funding to the grant was used for buying a plastic wrapping machine (2,100 GEL) and renovating the building (3,916 GEL) to accommodate the new processing equipment.

After the new equipment was assembled and started to function, the cooperative made its first deliveries of tea to small shops and supermarkets of the regional capital Kutaisi. This resulted in an immediate increase in “Traditsia’s” sales by 32%. The profits have also grown, by some 45%, as premium was paid for quality and tea in bags was sold at a significantly higher price than tea packed loosely in containers.

“The equipment that we have thanks to PIN allows quick and significant increases in number of cooperative members, amount of final product and profits. We are now really optimistic about “Traditsia’s” chances to become a more competitive, wealthier enterprise, capable to withstand market crises.”

Gela Akhvediani, Director of cooperative “Traditsia”

c. Structure and Membership

Like other similar cooperatives, “Traditsia” is governed by a general meeting of members that is held once a year. The rights and responsibilities of the general meeting are: appointing a supervisory board of the cooperative, deciding on key activity areas, approving charter, annual plans, capital investments, new memberships, etc. The Supervisory Board is comprised of 3 persons.

The daily activities of the cooperative are supervised and coordinated by two directors. They are also in charge of making operational decisions and responsible for achievement of set targets. One of the directors is in charge of marketing whilst another, as a technologist, is responsible for inspecting quality of supplied raw material and ensuring application of proper processing methods. When necessary, the cooperative employs various types of

labor. Currently, the cooperative unites seven members - they all are directly engaged in tea farming and/or processing.

d. Services

“Traditsia” is aimed at offering support to its members, as well as other local farmers, in all key post-harvest operations: drying, rolling, sorting, packing and marketing of black tea. Before the cooperative was established, farmers were processing crude tea on their own and selling the processed but unpacked product at Tkibuli market. At times, a proportion of semi-processed tea was sold to “Gela Akhvlediani”. These days, farmers supply crude tea to the cooperative’s processing facility where the fresh tea leaves are carefully inspected by the technologist to verify sort and quality. This is an important step to ensure product quality that was impossible when farmers were bringing already half-processed leaves to the facility. Once inspected, the leaves are dried and rolled with use of proper equipment at the facility. The next procedure is packing of the tea into porous paper bags. The final element of processing is placing tea bags into cardboard boxes (25 bags per box) and wrapping the box in special plastic. As previously noted, the cooperative also ensures marketing of the produce and does this quite successfully - to date there has been no a single case of overstocking at the cooperatives’ tea storage facility. The other important service available for the cooperative members is the provision of technical recommendations on rehabilitation and maintenance of tea plantations as well as advice on tea cultivation operations.

The cooperative is young so the list of its activities and services is not yet extensive. However, the cooperative has already started experimenting with processing green tea and intends to launch sales of the new product in summer 2014. The plans for the near future include drying cranberry, blackberry, rosehip, mint, etc. to make various berry and herbal teas. The planned innovations will not only diversify the cooperative’s output but also provide additional income generation opportunities to local farmers, particularly those who don’t have access to tea plantations but collect non-timber products in the nearby forests.

e. Performance Dynamics

According to the information provided by cooperative members, “Traditsia” sold 303 kg of tea bags in the first 6 months after foundation. This is some 24% more than the quantity of unpacked or loosely packed tea sold by all seven members of the cooperative in the same period of previous year before the cooperative was formed. The increase in output is an important, although not the only reason for growth in profits of cooperative members. The other considerable contributor to the increased incomes is the shift from unpacked / loosely packed product to tea bags that have market value 40-50% higher than this of loosely packed tea. In total, the cooperative members’ net incomes from tea farming increased by some 31% on average as compared to the second half of 2012, from 232 to 304 GEL.



Members of “Traditsia” harvest young tea leaves from the plantation rehabilitated in 2013

f. Future Business strategy

In early spring 2014, “Traditsia” renewed its strategic plan in order to better position the cooperative to grasp the new opportunities coming from the government-sponsored agriculture development programs as well as the

growing interest of Georgian consumers towards local tea brands. “Traditsia’s” revised strategic objectives and associated actions for the next five years are:

- a) Further institutional development through changes in the legal status and better management capacity:
 - Registration as an Agricultural Cooperative to be exempt from profit tax and participate in government-supported cooperative development programs;
 - Improvement of cooperative management systems to promote participatory decision making and increase responsiveness to changes in the operational environment;
 - Increase in cooperative membership to increase crude tea supply and better access to resources;
- b) Improve quality of and enhance access to crude tea through better “know-how” at tea grower’s level and expansion of their production area:
 - Development of effective “know-how” knowledge among cooperative members to increase productivity of plantations and improve quality of crude tea;
 - Rehabilitation of less productive and abandoned plantations to increase production of crude tea;
- c) Increase financial sustainability through diversification of products and markets:
 - Launching production of herbal and berry teas to diversify cooperative output and thus reduce vulnerability to price fluctuations of the tea market;
 - Intensive networking and active participation in local tea promotion events to penetrate new in-country markets and expand/diversify customer base;

There is one important element of the strategy that needs to be mentioned in this study – virtually all profits that the cooperative plans to generate in 2014 will be set aside and reinvested in further development of the business, particularly the rehabilitation of less productive and abandoned tea plantations. This is a good indicator of the “Traditsia” members’ commitment to make the cooperative a robust enterprise that is less susceptible to any foreseeable market shocks.

According to the cooperative’s strategic plan, the following performance indicators are expected to be achieved in the period from 2014 to 2018:

	2014	2015	2016	2017	2018
# of cooperative members	7	10	10	12	15
Average weight of dried tea leaves sold through cooperative per annum / by member, KG (5% annual weight increase)	115	121	127	133	140
Total weight of dried tea leaves sold through cooperative per annum, KG	805	1,208	1,618	2,298	3,147
Anticipated average price (4% price increase per annum), GEL/KG	13.50	14.04	14.60	15.19	15.79
Anticipated annual turnover of the cooperative, GEL	10,868	16,953	23,624	34,889	49,697
Anticipated annual profit of the cooperative, GEL	5,216	8,138	11,339	16,747	23,855
Anticipated average annual net income per member, after allocation to Mandatory Reserve and Business Development funds, GEL	559	610	850	1,047	1,193

4. Conclusions

Despite some evident improvements in the agricultural inputs and support services markets over the last decade, the outcome of Georgian agriculture remains stably low and rural areas continue to be plagued by high rates of poverty. The main reasons for this are low productivity of the majority of farms in Georgia caused by small size and fragmentation of agricultural landholdings, decapitalization of farms, poor status of physical infrastructure in rural areas, and still a limited capacity of agriculture support services, both state-managed and private. The negative effects of these factors are aggravated by the subsistence mentality of small farmers that makes them fear any risks associated with moving from labor-intensive to capital-intensive farming practices.

Recognizing that cooperation may help in solving a number of their problems, several greenhouse growers farmers from village Maglaki in Tskhaltubo municipality decided to unite into a small cooperative that would, in short-term, allow better economies of scale in purchasing inputs/services and thus generate savings that could be invested in business development. In a longer-term perspective, the farmers' expected other, more substantial advantages of cooperation, such as accessing finance for upgrading farming and storage capacities, testing new technologies and improving marketing.

In 2010, with technical assistance from PIN, the farmers established "Dovlati" cooperative that is based on democratic governance principles and is driven by a clear vision of growth and development. The positive results of unification became evident quite quickly as farmers made tangible savings while purchasing inputs. However this improvement in income was still insufficient for upgrading the cooperative's asset base and warranting a real breakthrough in terms of production, storage and marketing. Credit from a financial institution was unaffordable because at that time interest rates for agricultural loans were extremely high.

The cooperative would have moved towards its performance targets very slowly if PIN had not provided "Dovlati" with two grants that helped the cooperative to acquire a mini-truck, a storage facility with cooling system, two mini-tractors and two cultivators – all these desperately needed for more cost-effective farming and storage operations. In addition to this PIN trained the cooperative members in a number of key aspects of business and cooperative management. The new production assets together with the new skills of cooperative members, allowed "Dovlati" to stabilize and increase its income and double the number of cooperative members thus moving to the higher level of development.

The story of development of Tkibuli-based cooperative "Traditsia" is quite similar. The cooperative was founded by a group of tea processors and growers who did not have the capacity to ensure consistent quality and quantity of their grown and processed tea as well as proper packing of the final product. Such a tea could be sold only through the local farmer market and at the lowest price possible. The establishment of the cooperative in 2013 made the supply of tea to processing facility more stable and helped to mobilize some financial resources from members for the rehabilitation of several small-size tea plantations. This step was sufficient for some growth in the quantity of harvested crude tea, however, the next important action, the purchase of equipment for proper processing and packing of tea, was postponed indefinitely as the none of approached finance institutions was ready to give "Traditsia" low cost credit under a reasonable guarantee.

Again, it was PIN that helped the new cooperative members to get out of the standstill and procure the equipment that was necessary for further development of the cooperative, In October 2013, PIN provided "Traditsia" a grant for purchasing a tea bag packing machine and tea roller.

Like in "Dovlati's" case, PIN's grant to "Traditsia" made possible a quick start in the cooperative development – the critical pieces of equipment were acquired, the properly processed and packed tea was supplied to a higher market

niche, and the cooperative members enjoyed a 45% increase in income within a few months after “Traditsia’s” establishment.

In both cases, it is clear that the first and basic steps in cooperative development, such as the agreement on rights and responsibilities among members and unification of available resources, may be insufficient for substantial improvement in the cooperative’s performance. Following the initial set up of the cooperatives, particularly these comprised of resource-poor small farmers, investment is needed to upgrade the production assets thus accelerating the development process and continuing the momentum. When credit is not accessible, technical grants can and should be used to quickly pass through the initial stage of development when the growth in incomes is slow and the risks of farmers losing motivation is high. Once the cooperative gets “off the ground” it can be expected to move independently to the next level of development.