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Analysis of agricultural financial provision and investment challenges at the modern stage

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Abstract

Sustainable development is an important component of the modern economy, which implies inclusive economic development. In itself, it is impossible to develop all sectors of the economy equally, since the production of goods and services may be limited by natural, climatic, and geographical conditions. Financing the production of agricultural products and increasing competitiveness remain significant challenges for the Georgian economy and population. In the modern world, any state is trying to create an independent, positive trade balance of agricultural products. After the collapse of the Soviet Union, the development of the potential of Georgian agro-industrialists was particularly hindered by the political and economic-social factors existing in the country, as well as the increase in urbanization flows from rural to urban areas. Therefore, over the past 15-20 years, the state has been constantly trying to develop various strategies or plans that would increase the production of agricultural products and partially satisfy the local market. The introduction and subsidization of modern technologies remains a significant challenge for the development of agriculture for the whole world. Unfortunately, due to the relief situation of Georgia, it is not possible to fully introduce innovative technologies, and subsidies are only provided to a few agricultural products that have export potential. An essential factor for the development of agriculture is the improvement of the economic and social situation of the rural population.

Keywords: Agro-food, export, import, financing, balance
Jel codes: Q11, Q14, Q17

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1. Introduction

Agriculture and its financing are an important component for the development and economic growth of the country, and one of the main elements of sustainable development at the modern stage is the formation of the bioeconomy. Georgia is a post-Soviet country, therefore, during the Soviet period, the development of agro-industry was under special attention, therefore, the countries of the Soviet Union used their agricultural potential to the maximum, and the resulting products, in the absence of competition, constantly experienced a demand deficit, because the 300 million market was satisfied with limited resources, and all this led to the maximum utilization of the agricultural potential of a specific country or administrative unit.

Georgia, with its natural and climatic conditions and geographical location, is one of the countries with significant potential in the production and sale of agricultural products. Despite the fact that Georgia is a relatively small country in terms of territory, the natural environment provides a comparative advantage in the production of certain types of goods, for example: citrus, nuts, walnuts, grapes, etc. Growing such products without appropriate natural and climatic conditions is practically impossible or is associated with high costs, which makes such goods uncompetitive. Although we may have a comparative advantage in relation to certain types of goods, this does not exclude the competitiveness of imported goods in relation to national production.

In the conditions of globalization, the movement of goods is easy and at lower costs. The development of agricultural technologies, their introduction into the agro-industry, as well as the reduction of taxes and quotas, make imported goods even more competitive in local markets. It should also be noted that the introduction of genetic engineering into the agro-industry has brought both positive and negative consequences. Initially, one of the goals of creating genetically modified goods was to overcome hunger and ensure food security, which was largely solved in Africa in the 1960s thanks to genetic engineering. However, it turned out that the impact of such products on human health is harmful. Therefore, in the modern era, efforts are being made to create agricultural products that will have a relatively lower impact on human health and increase the chances of producing and selling such products, both in local and international markets. (For example, on December 23, 2014, the Georgian government adopted the Law “On Labeling of Genetically Modified Organisms Intended for Food/Animal Feed and Genetically Modified Products Derived Therefrom”, which strictly defined the labeling requirements for imported goods. (Parliament, 2014).

2. Literature Review

Before proceeding directly to the study of the issue, it is important to present the research and development of the issue at the national scientific level. It should be noted that the government, especially in the last 5-7 years, has made a number of decisions related to the development and financing of agriculture and agriculture, but the full development of the mentioned field remains a challenge. Let us consider the opinions existing in scientific circles while examining in detail the agricultural development strategy, financing projects, volume, and effectiveness.nFor example, the authors (Abesadze & Abesadze, 2013) note: “The development of agriculture in Georgia is one of the priority directions of the Georgian government’s activities. It is not difficult to imagine what role agriculture should play in the country’s economy, in addition to the traditional content that usually serves to feed the population. Georgia has a rich potential for the development of agribusiness. The fact is that today, even a third of the country’s agricultural potential in Georgia has not been fully utilized; therefore, its share in the country’s economy today is insignificant.”

Also, in one of the articles (Abesadze R. , 2013) it argues that "the necessity of rural assistance for post-Soviet countries with low levels of agricultural production and living standards is determined by:

1. For a long time, the state paid little attention to the development of agriculture (unlike industry and other sectors). Collectivization failed to create conditions for the development of the agricultural sector.

2. After the transition to a market economy, the single-handed destruction of collective farms and Soviet farms destroyed the potential that existed. Under the conditions of the transition to a market economy, their gradual transformation into farms was possible.

3. The privatization of land, along with its positive results, led to its fragmentation. On a small plot of land, even with the use of the latest technologies, it is impossible to produce commodity agricultural products, and the family income will not be equal to the income of a similar family in the city. Finally, today we have a semi-natural (90% of farms in Georgia are natural), low-mechanized (the main tools are still hoe, bar, sickle, and axe), and therefore a village with low fertility and underdeveloped infrastructure.

4. Cheap (often poor-quality) agricultural products are imported from abroad, which destroys local markets.

5. The agricultural sector, due to its strong dependence on environmental conditions (floods, hail, drought, etc.) in attracting capital, is risky. That is why banks mainly finance construction and trade. Also, due to the underdevelopment of the insurance system in rural areas, private businesses are less interested.

6. Additional costs are required to maintain the soil for agricultural use, which further complicates the situation of the farmer (peasant)...

Various authors focus on the government's subsidization of the sector. Author (Alfaidze, 2013) notes that "the main thing that the state should do at this stage and which private structures cannot replace is the establishment of specialized credit institutions for the agri-food sector..." Some authors consider urbanization as a factor influencing the demographic development of the rural population, and this is logical, for example, (Zubiashvili, 2013) he concludes that in the 70s and 80s of the 20th century, “an important way to solve migration policy was to improve the socio-economic conditions of life in rural areas and equalize them with the cities and economically advanced regions of the country; the continuous expansion and improvement of mechanization in rural areas; and the strengthening of the socio-economic activation of the rural population. However, the deep economic crisis that developed after the collapse of the USSR, which caused a significant collapse of the Georgian economy, disrupted the process of relatively regular distribution of the population from rural to urban areas.” Also, the authors (Abuselidze, Chkhaidze, & Makharadze, 2021) note that the deep and comprehensive agreement concluded with the European Union will have a positive impact on the integration processes of the world market, supply chains, and the inflow of foreign investments in this sector, but technological re-equipment and its use in the land cultivation process remain a challenge for Georgia's agro-industry. The authors also note that for the development of the agricultural sector, it is important to increase the area cultivated by household farms from 1.14 hectares to the EU average of 17.4 hectares. Some authors point to a direct connection between the use of innovations and sustainable development, and in this regard, the Transitions Performance Index (TPI) has been developed, which measures the achievement of sustainable development goals in relation to the development of farmers.

To investigate the issue, some authors focus on the export potential of agricultural products and market concentration. In particular, the authors (Beridze, Tsinaridze, Smutchak, & Turmanidze, 2023) have studied the concentration of Georgia's export market according to the HHI (Herfindahl-Hirschman Index), according to which the Georgian export market is low-concentrated, which may indicate high competitiveness (agricultural products are also considered to be such a type of product).

Accordingly, the majority of authors note that the countryside and agriculture need state support mechanisms that will have an impact on both the production and development of agricultural products, as well as significantly contribute to improving the demographic-social-economic situation of the rural population, which should be an important mechanism for equalizing urbanization.

3. Discussion and Results

It should be noted from the outset that in 2019, the Ministry of Environmental Protection and Agriculture of Georgia adopted the Strategy for Agriculture and Rural Development of Georgia 2021-2027, which defines the main achievable goals and results. Based on this document, action plans are developed for three years, and a monitoring report is prepared. The monitoring report on the implementation of the 2021-2023 Action Plan for 2022 is already available. It is interesting to get acquainted with and highlight the important components of the strategy. As stated in the document, all state agencies were involved in developing the strategy, with active cooperation and support from the Food and Agriculture Organization of the United Nations (FAO) and the United Nations Development Program (UNDP). The process of developing the document also ensured the involvement of all interested parties, including representatives from each region of Georgia, municipalities, the business sector, non-governmental organizations, and civil society. The strategy was also prepared with the assistance of the European Neighborhood Programme for Agriculture and Rural Development (ENPARD). It is logical that during the development of the strategy, best international practices and adequate ways to achieve the goals to be achieved were used, but global and local events often adjust the goals to be achieved or the methods to achieve the goals to be achieved.

It should be noted that, "According to Chapter 10 of the Association Agreement between Georgia and the European Union signed on 27 June 2014 - "Agriculture and Rural Development", Georgia shall ensure the development of agriculture and rural development in accordance with EU policies and best practices and approximate Georgian legislation to European standards, as well as contribute to strengthening the capacities of both central and local authorities so that policy planning and evaluation are in line with European standards. "The Parties shall cooperate to promote the development of agriculture and rural development, in particular through the gradual approximation of policies and legislation".[1]

The total area of the country is 69,700 km2; the share of agricultural land in the total area is 43.4% (30.3 thousand km2) (2004). The area under annual crops is 207.1 thousand hectares (2018), and the area under perennial crops is 109.6 thousand hectares (Agricultural Census of Georgia 2014). In addition, 44.8% of the country's territory is covered by forest (2017). If Georgia were a member of the European Union today, it would rank 17th in terms of area and account for 1.6% of the total area of the European Union (EU28). According to the National Statistics Service of Georgia, the population of Georgia is 3,729.6 thousand people, and 41.7% of the total population (1,554.8 people) live in rural areas (as of January 1, 2018). According to the UN's World Urbanization Prospects forecast, the share of the rural population in Georgia will decrease to 27% by 2050. (GEORGIA M. O., 2024). As general statistical and forecast indicators tell us, we do not have a favorable situation; therefore, the state has developed a number of measures to balance urbanization and develop the agro-industry. High-mountainous regions and their development also remain an important challenge for Georgia; therefore, on July 16, 2015, the state adopted the Law "On the Development of High-Mountainous Regions", which established certain benefits for individuals and enterprises living in high-mountainous regions (communal, social and tax benefits).

The Ministry of Agriculture also implements various projects to promote agriculture:

1. Pilot program for women;
2. Organic production promotion program;

[1] Note: Association Agreement between the European Community and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part, Article 333

3. Pasture leasing through auction;
4. State program for co-financing agricultural mechanization;
5. Technical assistance;
6. State program for modernization of the dairy sector and market access;
7. Farm/farmer registration project;
8. Tea plantation rehabilitation program;
9. Implement the future;
10. Agricultural insurance;
11. Co-financing project for processing and storage enterprises;
12. Preferential agricultural credit. (Agriculture T. M., 2024)

It should be noted that the list of such projects is not exhaustive and is constantly being updated. The budgets of such programs typically range from 5,000 GEL to 300,000 GEL and have a considerable number of beneficiaries.

In addition, the 2022 Performance Monitoring Report states: "Significant positive results were recorded in 2022 in the direction of the development of the agri-food sector. According to preliminary data for 2022, the output of agricultural, forestry, and fishery products (primary agricultural output) amounted to 7.1 billion GEL, which is 45.4% higher than the 2018 figure and 12.2% higher than the 2021 figure. According to preliminary data for 2022, the output of agricultural products processed amounted to 8.5 billion GEL, which is 61.1% higher than the 2018 figure and 16.1% higher than the 2021 figure. According to preliminary data for 2022, the value added indicator amounted to 4.4 billion GEL, which is 44.8% higher than the 2018 indicator and 12.6% higher than the 2021 indicator. In 2022, the value of agri-food exports amounted to 1,262 million USD, which is 296 million USD (30.6%) higher than the 2018 indicator and 10.5% higher than the 2021 indicator.'' (Protection, 2022)
Table 1 presents comparative statistical data based on data from the National Statistics Service of Georgia, which concerns the share of agriculture and the dynamics of the rural population.

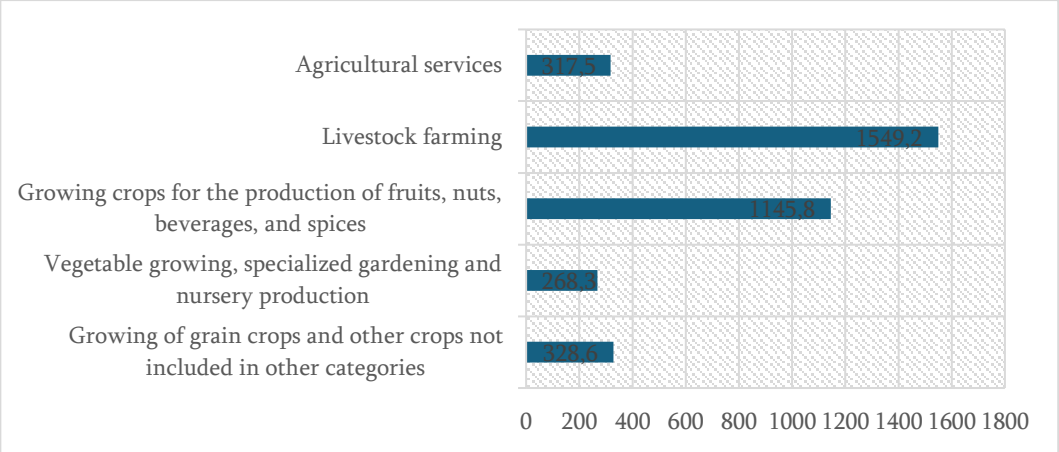
Table 1: Selective statistical data on the agricultural industry and demographic distribution of the population

	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Village population, thousand	1 577.1	1 564.5	1,554.8	1,539.1	1,522.4	1 512.	1 487.5	1,480.6
Rural population as a percentage of the total population	42.3	42.0	**41.7**	41.3	41.0	40.6	40.3	39.6
Share of agriculture, forestry and fisheries in gross domestic product, %	8.3	7.2	7.8	7.4	8.3	7.4	7.0	6.2
Budgetary funding of the Ministry of Environmental Protection and Agriculture of Georgia (million GEL)	311	322	262	340	476	628	743	698
Total volume of foreign direct investment	1,654	1,990	1,350	1,367	583	1,245	2,253	1,902
FDI in agriculture, fishing (million USD)	9,6	13,8	- 1,8	7,1	-1,5	4,3	9,5	1,5

Source: (Georgia N. S., Agriculture's share, 2024)**;** (Georgia M. o., 2024)

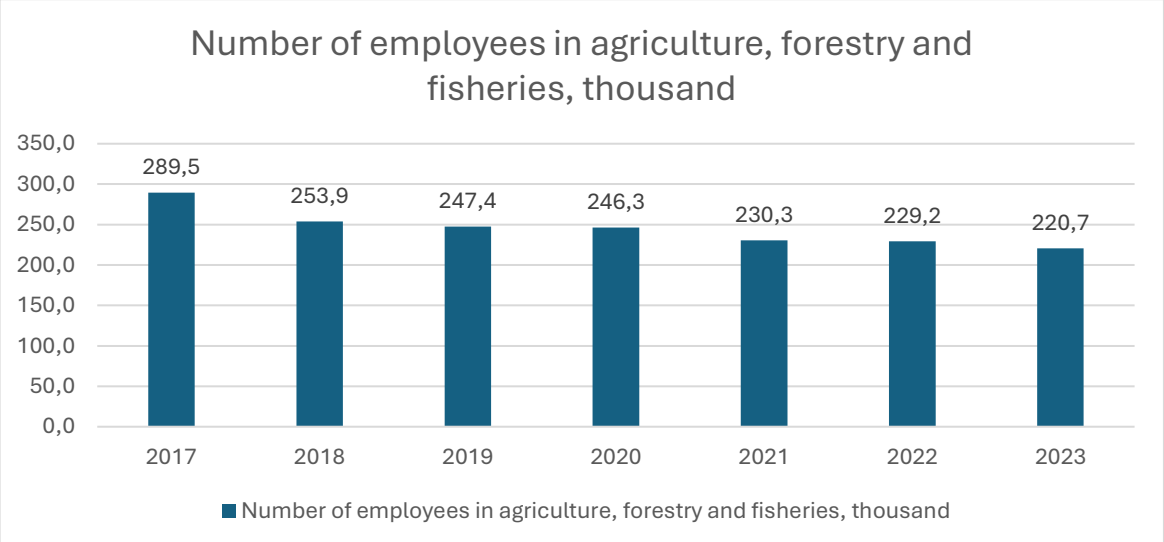
It should also be noted that in 2016-2024, the state budget increased from 16 billion to 26 billion, while the gross domestic product (GDP) in current prices increased from 36 billion to 72 billion, which allows

us to draw the following conclusion, The state budget grew along with the growth of GDP, but the funding of the Ministry of Environment and Agriculture did not increase with the same trend and proportion. Unfortunately, the volume of foreign investments in the agricultural sector during the same period is within 1% (even though the Ministry of Environment and Agriculture has developed an investment guide since 2013, which offers investment opportunities for various agricultural products based on an analysis of the relevant market). As for the change in agricultural output, we can be guided by the report "Agriculture in Numbers" published by the Ministry of Environment and Agriculture, according to which, in 2012-2022:



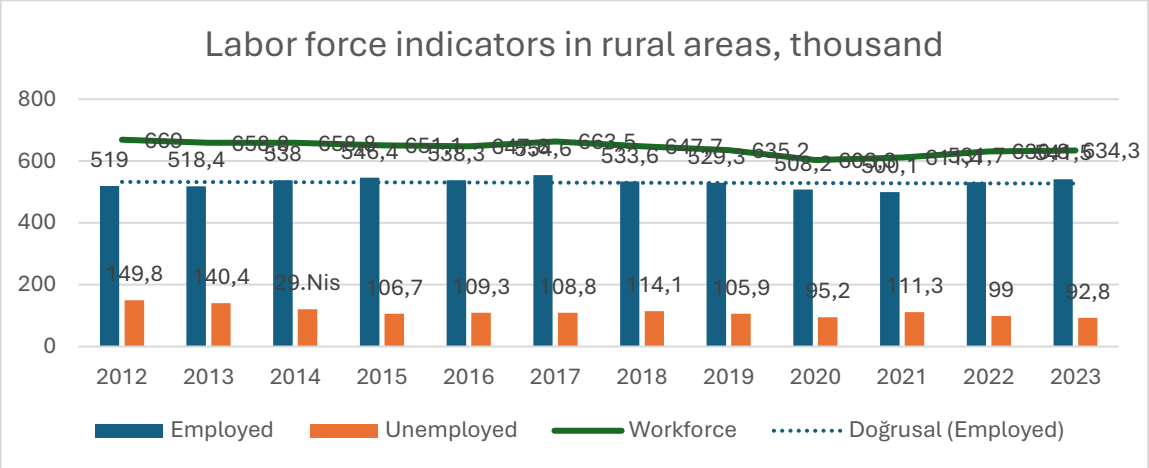
Graph 1. Change in output rate, 2022 compared to 2012 (million GEL)
(Agriculture M. o., Agriculture in numbers, 2022)

As can be seen from the diagram, there is an increase in output indicators, especially noticeable in livestock production, as well as a significant increase in the production of fruits, nuts, beverages, and spices. It should be noted that in 2023, the number of people employed in agriculture, forestry and fisheries amounted to 220.7 thousand people, which is 16.5% of the total number of people employed in the country (the total number of people employed in 2023 is 1,334 thousand). From 2017 to 2023, the number of people employed in agriculture, forestry and fisheries decreased by 69 thousand people, and their share in the total number of people employed in the country decreased by 7.5 percentage points**.** (Georgia N. S., 2024)



Graph 2. Number of employees in agriculture, foresty and fisheries, thousand

In 2022, the number of employed people in rural areas amounted to 531.7 thousand people, which is 31.6 thousand people (6.3%) higher than the same period of the previous year, and 12.5 thousand people (2.4%) higher than the 2012 figure. The unemployment rate in rural areas is at its lowest level in the last decade in 2022 and is 15.7%, which is 2.5 percentage points lower than the same period of the previous year and 6.7 percentage points lower than the 2012 figure. (Georgia N. S., Labor force indicators by city and village, 2024)

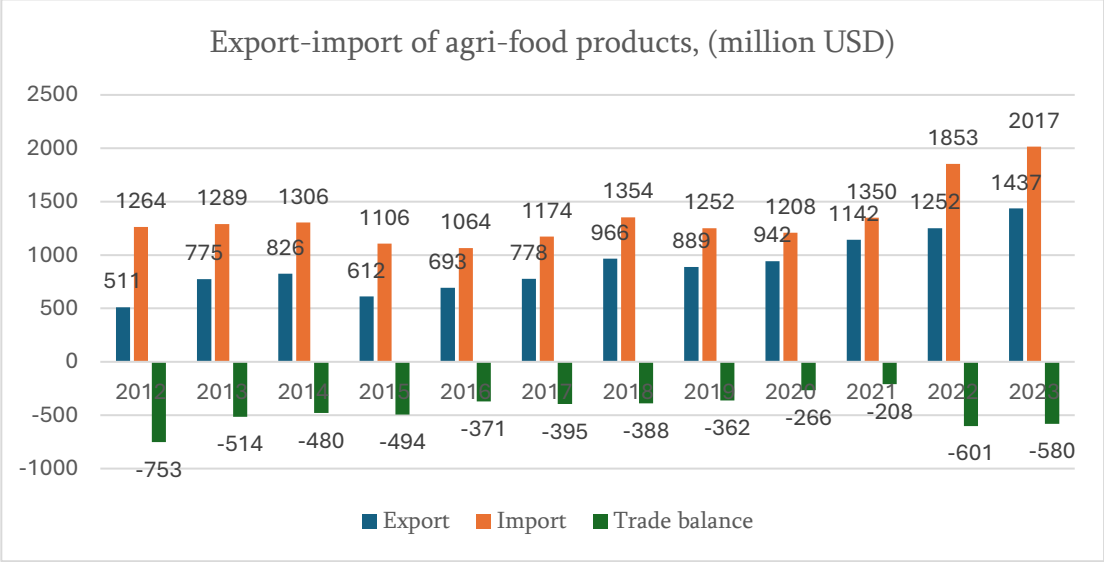


Graph 3. Labor force indicators in rural areas, thousand

According to 2022 data, Georgia exported agri-food products worth 1,252.1 million USD, which is 9.7% higher than in 2021 and 145.0% higher than in 2012. In 2022, the share of agri-food products in the country's total exports was 22.4%. Mainly exported are: wine (20%), alcoholic beverages (11%), mineral and fresh waters (9%), nuts (mainly hazelnuts) (8%), non-alcoholic carbonated drinks (7%), cigarettes (5%), live cattle (5%), stone fruits (apricots, cherries and sweet cherries, peaches (including nectarines), plums and sloes, fresh) (3%) and others.

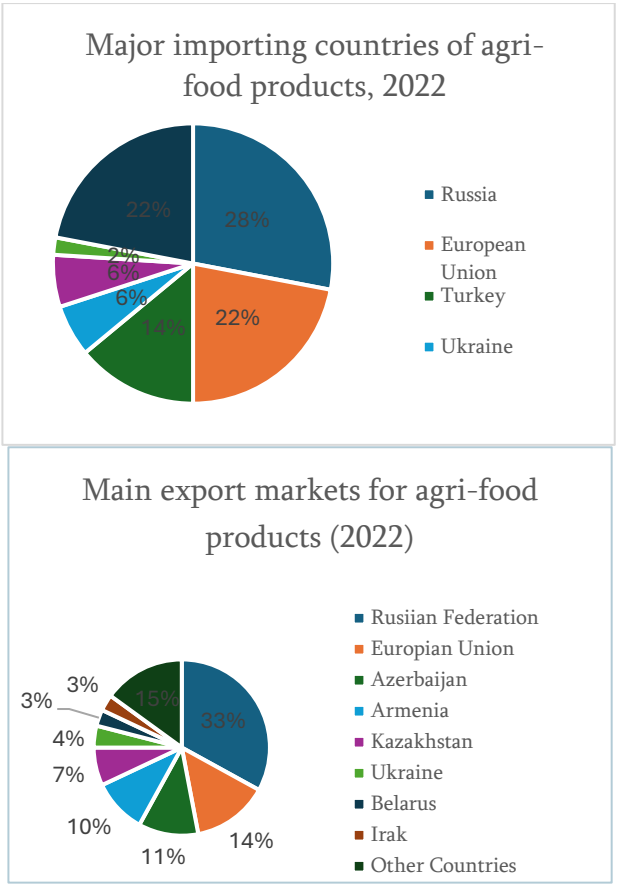
In 2023, Georgia exported agri-food products to about 100 countries. According to 2023 data, Georgia imported agri-food products worth 2,017 million USD, which is 8.85% higher than in 2022. In 2023, the share of agri-food products in the country's total imports was 13.7%. The following are mainly imported: cigarettes (7%), poultry meat (5%), sugar (5%), chocolate products (4%), wheat flour (4%), flour confectionery (4%), wheat (4%), margarine (3%), vegetable oil (3%), and others. Agri-food products were imported from 113 countries.

In 2022, compared to 2021, the negative trade balance of foreign trade in agri-food products increased by 2.9 times and amounted to 601 million USD. As for the period 2012-2022, the negative value of this indicator decreased by 20% (in 2012, the negative trade balance of foreign trade in agri-food products amounted to 753 million USD) (Agriculture M. o., Export-import of Georgian agri-food products, 2024)



Graph 4. Export-import of agri-food products, (million USD)

Also, from the above-mentioned report, we can present the main importing and exporting countries of agri-food products: (Agriculture M. o., Agriculture in numbers, 2022)



Graph 5-6: Major importing countries of agri-food products, 2022 & Main export markets for agri-food products (2022)

Although Georgia has the potential to increase the production and export of some agricultural products, the share of agricultural products in the volume of exports is still relatively low. Below is a table where agricultural goods have been specially selected, in which nuts and citrus crops seem to be leading; it is important that goods belonging to other groups have been presented as one group due to their small size (see Table 2).

Table 2: Export of agricultural products by selected years, 2016-2024

				2016	2017	2018	2019	2020	2021	2022	2023
Total				261 435,76	155 723,39	142 870,06	165 220,15	230 947,45	285 536,78	302 428,85	351 884,41
08 - Edible fruit and nuts; Peel of melons or citrus	Total			200 573,11	107 199,46	103 553,86	122 072,03	171 802,84	216 810,70	203 962,93	206 856,83
	Armenia	2	2023	2 702,17	8 281,78	19 388,11	16 637,31	23 579,56	29 678,75	29 722,69	26 130,51
	France	7	2023	8 934,89	3 016,68	2 050,99	3 096,76	2 620,10	3 226,37	3 836,13	4 668,20
	Germany	4	2023	49 305,48	15 301,77	6 370,64	12 448,59	28 062,04	28 236,74	26 511,00	12 570,59
	Italy	3	2023	48 132,74	19 656,06	14 198,08	14 427,15	20 334,11	31 490,86	29 737,94	16 022,49
	Kazakhstan	9	2023	798,65	356,45	1 147,84	1 123,53	411,09	988,92	1 159,10	3 189,06
	Poland	8	2023	1 631,85	1 636,98	1 259,21	2 580,95	3 229,44	2 907,78	3 511,37	3 583,97
	Russian Federation	1	2023	20 058,46	25 542,63	30 572,28	36 411,37	53 650,62	72 151,02	75 064,33	95 603,17
	Spain	6	2023	8 608,37	2 204,45	2 020,45	2 900,95	4 033,91	4 536,92	5 270,65	6 596,67
	Turkey	5	2023	2 908,02	142,28	39,56	370,07	433,89	617,13	2 715,93	7 435,20
	Ukraine	10	2023	6 274,65	5 491,68	5 295,32	5 138,12	5 126,33	6 324,08	2 136,22	3 143,28
99 - Other Goods:live animals, fish, crustaceans and molluscus, live trees and other plants, flowers and decorative grass, silk, wool, fine or coarse animal hear, horsehair yarn and woden fabric	Total			60 862,65	48 523,93	39 316,20	43 148,12	59 144,61	68 726,08	98 465,91	145 027,58
	Azerbaijan	2	2023	4 747,43	12 209,46	18 492,45	15 607,74	23 303,46	23 590,61	42 163,97	41 299,03
	Armenia	4	2023	969,94	1 815,86	1 868,37	3 466,33	3 080,70	4 343,30	6 635,37	6 902,62
	France	5	2023	277,48	96,64		8,52		1 285,13	2 549,25	4 010,43
	Iran, Islamic Republic of	7	2023	62,70	69,54				32,50	382,04	2 155,21
	Iraq	1	2023	30 781,01	26 276,07	14 301,60	12 285,70	13 893,36	11 724,18	31 531,56	67 206,65
	Kazakhstan	8	2023	6 616,87	905,79	5,95	0,02	348,04	68,56	467,13	946,13
	Kuwait	6	2023	116,00	416,93	80,80	3 125,27	1 255,43	1 048,15	14,00	3 086,48
	Qatar	9	2023	409,25	205,40	95,63	533,26	413,50	337,58	294,70	800,94
	Saudi Arabia	3	2023	7 504,07	3 341,42	469,80	5 184,50	13 046,38	18 128,90	5 625,94	15 972,76
	Ukraine	10	2023	538,92	244,37	454,82	441,06	270,97	329,25	230,42	609,29

Source: (Georgia N. B., 2024)

It should also be noted that the growth trend is relatively small, but in recent years there has been a relatively significant increase from 2017 to 2021. Also, based on the data, it is clearly evident that the Russian Federation remains an important export and import country for Georgia in terms of agricultural goods, which cannot be considered a positive development, because the lack of forecasting by the Russian government, including when making trade and economic decisions, always calls into question the establishment of normal economic relations with Russia (we also note that we have not imported goods made from agricultural products, for example, wine).

According to the latest data, from September 1, 2023, to January 21, 2024:

- The volume of exported tangerines increased by 23.2 thousand tons (153%), and the value increased by 16.2 million USD (192%). Export countries are: Russia (32,767 tons), Armenia (4,832 tons), Ukraine (301 tons), Belarus (201 tons), Kazakhstan (161 tons), and Azerbaijan (79 tons).

- Hazelnuts worth 52.2 million USD were exported, mainly to the EU markets, namely, Italy (2,994 tons), Germany (959 tons), Spain (573 tons), France (422 tons), Poland (370 tons), the Czech Republic (308 tons), and others. In addition to the EU countries, exports were also carried out to Armenia (1,045 tons), Russia (690 tons), Turkey (596 tons), and other countries.

- The value of exports of persimmons and karaliok amounted to 6.4 million USD, which is 18% higher than the same period of the previous year. Persimmons were exported to Russia (7,165 tons), Armenia (980 tons), Ukraine (641 tons), and other countries (61 tons). (GEORGIA M. O., 2024)

It should also be noted that the Ministry of Agriculture of the Autonomous Republic of Adjara adopted the Strategy for Agriculture and Rural Development for 2021-2027 and the Medium-Term Action Plan for 2022-2025. The aforementioned documents set out priority areas for regulation and development, in particular, further development of the agricultural sector, protection of the environment and natural resources, sustainable forest development, and programs and sub-programs were developed based on the aforementioned documents. For example, by 2022, the volume of such programs amounted to 7 (sustainable development of the agricultural sector, provision of agricultural extension, introduction of educational and scientific practices, popularization of local products, increase in export and investment potential, introduction of high-efficiency technologies, development of agricultural associations and household farms). Promotion, coordination of land reclamation systems - total 5,092,600 GEL. (Adjara, 2021)

Georgia may have a comparative advantage over other countries in the production of certain goods, but it is important to determine what place any type of agricultural product may have in Georgia's total export potential. As noted in the literature review, Georgia's export market is low-concentrated, which may indicate high competitiveness, but this does not give us a complete picture of the export potential of agricultural products; therefore, the widely used RCA and RXA indices are used for such research.

RCA index = (domestic goods exports/world goods exports)/(domestic total exports/world total exports);

- RXA index = (domestic goods exports/world goods exports-domestic goods exports)/(domestic total exports/world total exports-domestic total exports). (Lobzhanidze, 2024)

Based on the presented indices, we will identify the goods with export potential in the top 6 goods of Georgia for 2018-2023 and highlight agricultural products. (We also note that the co-authors of the article (Beridze, Tsinaridze, Smutchak, & Turmanidze, 2023) conducted a similar study was conducted by, and in this article, we present the revised and updated data:

Table 3. Dynamics of Competitive Advantage Indices for Georgia's Top 6 Goods in 2018-2023

RXA, HS codes	2018	2019	2020	2021	2022	2023
Tobacco, 24	0.000649	0.000196	0.022198	0.000339	0.000375	0,018567
Fertilizer, 31	0.040406	0.035468	0.028364	0.036432	0.072538	0,026125
Transport, 87	0.004245	0.00166	0.001374	0.000699	0.003751	0,371508
Alcohol and non-alcoholic beverages, 22	0.171631	0.180796	0.183983	0.173129	0.147939	0,116003
Walnut, 08	0.030958	0.040266	0.061549	0.061109	0.045784	0,378426
Ores, 26	0.198475	0.249389	0.334547	0.266462	0.288178	0,089878
RCA, HS codes	2018	2019	2020	2021	2022	2023
Tobacco, 24	0.272429	0.079912	0.028031	0.169569	0.195582	9,78261
Fertilizer, 31	13.24434	11.27057	8.981424	9.54095	14.09298	6,58812
Transport, 87	0.053527	0.020713	0.018774	0.010248	0.056346	4,58496
Alcohol and non-alcoholic beverages, 22	26.47837	27.14685	26.90538	27.16695	24.27867	18,12791
Walnut, 08	4.830001	5.841426	8.047908	9.255506	8.241722	5,59320
Ores, 26	18.02833	19.68317	23.12205	15.59173	21.60453	6,26653

Note: Data is taken from - https://ex-trade.geostat.ge/en, Foreign Trade Portal https://www.trademap.org/Country_SelProduct.aspx?nvpm=1%7c%7c%7c%7c%7cTOTAL%7c%7c%7c2%7c1%7c1%7c2%7c1%7c1%7c2%7c1%7c1%7c1, International Trade Centre

For the evaluation of the indices, the indicator must be greater than 1. Accordingly, if we look at the table, we find that out of the top 6 export goods, in the case of the RCA index, only 1 agricultural product is included, and this is nuts (hazelnuts). Its indicator has increased, especially from 2020 to 2022. It should also be noted that in the case of the RCA index, the volume of Georgia's exports is excluded from the world export of goods; respectively, in the RCA and RXA, it is precisely this data that gives us such a difference. Such a difference also indicates that Georgia has a competitive advantage in relation to nuts (hazelnuts) compared to other countries.

4. Conclusion

Agricultural financing can significantly impact the development of the sector and contribute to the socio-economic development of the rural population, but the effectiveness of such a connection may vary depending on the volume and type of financing. Georgia, with its geographical location, may have significant advantages compared to other countries, but the factors existing in the country remain challenging and need to be addressed or regulated more effectively, namely:

- Smallholder farming and fragmentation of plots;
- Acceleration of technological processes and their inclusion in the production process;
- Increase in agro-credits through state credit lines;
- Increase and expansion of grant project financing;
- Deepening of agro-technological knowledge of farmers;
- Promotion and facilitation of the growth of export markets;

As noted in the paper, the volume of foreign investments in agriculture has not exceeded 1% for the past 10 years, while the volume of local private investments is also low, due to unpromising/unprofitable; therefore, the state has to fill such a “shortfall”, which is certainly not enough to solve most of the problems in the sector. In addition, even though funding in agriculture has been increasing for the past 5 years, this has not had a positive impact on the increase in the number of unemployed, since we are dealing with a more inverse proportion, namely, since 2017, the number of employed people in agriculture has decreased from 22% to 17% of the total number of employed people.

Similar trends are observed in relation to the gross domestic product; despite the increase in financing, the share of agriculture in the gross domestic product has decreased. It should also be noted that by 2023, although the volume of agricultural exports has increased to 1,437 million USD, the volume of imports has also increased, and the negative balance is at its maximum in recent years and amounts to -580 million USD (this was higher only in 2022, - 610 million USD).

Attention should be paid to the scale of the export and import map of agri-food products. Unfortunately, despite the Association Agreement with the EU, the Russian Federation remains the leader in this field as a trade partner of Georgia, and in terms of exports, the volume of the Russian market is 2.5 times larger than the volume of the EU market. Of course, the replacement and diversification of markets remains a challenge for Georgia. No positive relationship was found between financing the sector and the stabilization of urbanization, despite the fact that the state has additionally adopted a law on the status of high-mountainous regions, which provides benefits to citizens with such status. Compared to 2016, the number of residents in rural areas decreased by almost 3% and amounted to 39.6%. The Free Trade Agreement signed between Georgia and China, which entered into force on January 1, 2018, should also play an important role in the development of foreign trade and the competitiveness of national products, increasing the export potential. It is also worth noting the fact that China is one of Georgia's largest trading partners, and the signing of the Free Trade Agreement has made a great contribution to this. Thanks to this agreement, 94% of goods exported from Georgia were exempted

from customs duties. China is Georgia's largest trading partner, as indicated by the fact that, based on recent statistics, it is in 3rd and 4th place in terms of export and import data. As a result of the Free Trade Agreement signed, exports of such products to China have significantly increased, such as Alcoholic beverages, wine, and mineral waters. There is, therefore, a high expectation that nuts will be added to other agricultural products in the RCA index.

Based on the recommendations received from the European Union, Georgia has implemented a food safety strategy, the verification of which is ensured by the state. After taking into account the recommendations received from the European Union, a special role in the control of food safety is assigned to the country in the production of agricultural products that comply with EU standards. The production of products that meet export standards requires private and public investments, and companies that are oriented towards export, compared to companies oriented towards the domestic market, often have to update their fixed assets and standards, which accordingly requires attracting investments and increasing costs, since it is necessary to frequently update the equipment, standards and technological line existing in the company, to approach modern requirements and gain competitive advantages, but their positive side is that, unlike European countries, labor resources are cheap in Georgia and labor costs are low, which allows Georgian agricultural products to have an advantage in price competition in the EU market.

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