COMPETITIVENESS OF GEORGIAN AGRICULTURE: INVESTMENT CASE STUDIES

LANDMARK LTD AND FOODLAND LTD

25 July 2014

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USAID ECONOMIC PROSPERITY INITIATIVE

CONTRACT NUMBER: AID-114-C-10-00004

DELOITTE CONSULTING LLP

USAID | GEORGIA

25 JULY 2014

DATA

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Project Component: Business Enabling Environment

Practice Area: Agriculture Policy

Key Words: Agriculture, Foreign Investment, Land Registration, Policy

ABSTRACT

A dual Canadian-Indian citizen invested in Georgian farmland between 2010 and 2012, engaging in the production of cereals, potatoes, and oilseeds and planning to expand into the lucrative Ayurvedic herb trade. One of his enterprises has been modestly successful, introducing novel pulse and oilseed crops to the Georgian market and demonstrating their suitability to the Georgian environment to local producers. Two of his other enterprises have failed as a result of sustained property invasions by neighboring villagers. Through examining the investor's case in detail, the researchers have developed recommendations for government and private investors to reduce the risk of conflict arising as a result of private entrepreneurs' activities, and to enhance the likelihood of benefits flowing from commercial investment in the Georgian countryside, to investors and surrounding communities alike.

ACRONYMS

DCFTA	Deep and Comprehensive Free Trade Agreement [with the EU]
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GEL	Georgian Lari
GNIA	Georgian National Investments Agency
IFC	International Finance Corporation
NATO	North Atlantic Treaty Organization
USAID	United States Agency for International Development
USD	US Dollars

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I. EXECUTIVE SUMMARY

Jagpal Singh is a Canadian national, born and raised in Punjab State of India. Having taken interest in Ayurvedic medicine, Mr. Singh investigated growing medicinal herbs in Georgia, noting that much of the country's climate was similar to Himachel Pradesh state in India. Operating in Georgia since 2009, Mr. Singh currently owns an Ayurvedic medicine store in Tbilisi and a number of businesses which seek to identify export commodities that can be grown cost-effectively in Georgia, to produce them on his own properties, and/or to contract Georgian farmers to grow them using the same technology.

In 2010, Mr. Singh registered Foodland Ltd. as his own landholding and agricultural production company in Shida Kartli, to farm licorice and other herbs. In 2012 he established Landmark Ltd. in Tsalka district, Kvemo Kartli. In the same year, encouraged by the Georgian National Investment Agency, Mr. Singh created Agricultural Investment and Development of Georgia LTD as a consulting firm servicing Indian investors in Georgian farmland.

At present, Foodland's properties in Shida Kartli (a total of 95ha) are occupied by squatters. Landmark Ltd is currently engaging in trials of novel crops in Tsalka, and is yet to yet to turn a profit.

On the one hand, this case demonstrates the critical role of foreign investors in developing potentially lucrative production and processing of non-traditional crops such as Ayurvedic herbs. Mr. Singh's concept of providing canola seed, lentil seed and training to farmers, and buying back the crop at harvest, is an interesting one with potential benefits for local farmers, improved national food security and enhanced exports. As Georgia's oilseed production is negligible, with only one sunflower seed crushing plant in Kakheti and one soybean crushing plant in Poti, and no crush for canola or any other oilseed, innovative programs like those represented by Landmark Ltd in Tsalka could reduce Georgia's reliance on imported staples like oil.

But the conflict surrounding Foodland Ltd activities has also attracted significant media attention and has done a great deal to impair investor confidence in the Georgian agricultural sector.

The lessons learned and recommendations related to this case fall into two categories: those concerning national and local government on the one hand and those concerning foreign investors on the other. We recommend that government maintain consistent and transparent long-term policies on foreign ownership of farmland and immigration, improve communications with the private sector regarding farm investment, improve co-ordination between national, regional and local governments regarding farmland privatization, establish guidelines for compensation of displaced grazers from public funds, disperse tax revenues generated in rural districts from commercial enterprises to local jurisdictions rather than remitting all taxes to national government, and to strengthen investor aftercare and supporting services.

Investors should take care to integrate Georgians into their permanent workforce, consider measured and culturally sensitive responses to conflict, to engage the local community before commencing operations, to manage the risks of theft prudently, and to fence their properties.

II. APPENDICES

A. BACKGROUND
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A. BACKGROUND

Jagpal Singh is a Canadian national who was born and raised in Punjab, a northern state in India. After several decades as a commodity trader and mobile telephony entrepreneur in North America, Mr. Singh developed an interest in Ayurvedic medicine, one of the world's oldest systems of medicine. Ayurvedic concepts of health and the treatment of disease draw heavily on herbal compounds and special diets, and in 2009 Mr. Singh began to investigate growing Ayurvedic herbs in Georgia. The climate in much of Georgia is similar to that of the state of Himachel Pradesh in India, one of the main centers of Ayurvedic herb cultivation in India.

Since 2009 Mr. Singh has become the proprietor of a number of businesses in Georgia, including an Ayurvedic medicine store in Tbilisi and an agricultural investment consultancy. He is also the proprietor of Foodland Ltd, a landholding and agricultural production company in Shida Kartli, which he registered in 2010 with the intention of farming licorice and other herbs. Finally, Landmark Ltd, registered in 2012 with the participation of US and Indian partners, holds land in Tsalka district, Kvemo Kartli.

All of the land held by Foodland and Landmark is under freehold title.[1] A core objective of these companies is to identify export commodities that can be grown cost-effectively in Georgia and produce them on their own properties. Mr. Singh also planned to leverage Landmark/Foodland seed, chemical and technical capacity to upgrade the capacity of Georgian farmers to produce these export crops under contract.

For his properties in Khashmi and Zeghduleti (Shida Kartli), Tsalka (Kvemo Kartli) and Tsnori (Kakheti), Mr. Singh has selected crops that grow effectively in the climatic conditions of those sites. Indeed, Landmark's Tsalka property will produce dryland canola at a variable cost of USD 400 per hectare per year, which is a third of the USD 1200 per hectare per year neighboring operations incur to grow corn. Given that Georgia is a net maize exporter, but imports large quantities of oilseeds and oilseed meal each year, canola may be both a useful import substitute and export commodity for dryland cereal growers.

Neither Foodland nor Landmark are yet profit-making enterprises. While Mr. Singh is focusing Landmark's efforts on trials for novel crops, his investment in Foodland has found him embroiled in an intractable property dispute that lends itself to a number of lessons about land policy, investment facilitation and integrating a foreign farming operation into the Georgian context. With Foodland fields occupied by squatters who even now deny Mr. Singh access to the land, the lessons from this case are proving to be difficult ones.

FOODLAND LTD.

In 2010 Foodland established a pioneering project in Marana village, near Gori in Shida Kartli. The venture employed six full-time Indian farm laborers and managers, and utilized seasonal local labor at seeding time. The plot, like most in Georgia, was not fenced.

At the beginning of the growing season, Foodland planted imported Indian lentils on 20 Ha of their property. This marked the first time such a crop was to be cultivated in Georgia, but according to Mr. Singh it was an abortive attempt. When the crop was flowering, a number of neighboring farmers invaded the property with their cattle, which naturally grazed the crop to the ground. The loss of the crop was complete.

[1] For purposes of this case, "freehold title" denotes land that is owned outright, rather than under long term lease. Foodland has legal title to the land.

Foodland's second project was at Zeghduleti village, near Gori. Mr. Singh purchased the 75 ha plot from a Georgian citizen who had himself bought the land from the Government of Georgia as part of its privatization program. While the land had been in private hands for some time, the previous owner, who had purchased it in a privatization transaction from the previous government, had never cultivated it, and local farmers had never had their access to the land for grazing cattle interrupted. Under Foodland, Mr. Singh planned to cultivate Canadian varieties of maize, and he employed five full-time Indian staff. He also employed as many as six local laborers to support seeding and harvesting.

When Foodland first tried to prepare the land for crops, his neighbors erupted into fierce protests and even violent intimidation. The police responded rapidly at the request of the owner, and several local farmers were jailed. The project was able to continue peacefully enough thereafter, and Foodland proceeded to plant maize on 35ha of the property. As the plants matured and formed heads, Foodland noted that 60 percent of the crop had had at least four cobs per plant, about 30 percent of the crop had three cobs per plant, and the remaining 10 percent were showing two cobs per plant. This represented a healthy crop, and it provided Foodland reason for optimism that the yield would be above average. They immediately hired two local security staff to safeguard the crop.

Unfortunately, the harvest would not prove as bountiful as early indicators seemed to promise. At harvest time Foodland found that every single plant in the crop had been inexplicably reduced to a single cob. Disheartened by these results, Foodland moved forward with the harvest, electing to use local laborers to bring the crop in by hand as a public relations investment, rather than using a mechanized harvester. In the process, Foodland employees witnessed multiple laborers stealing cobs even as they harvested them. Finally, to store the now-meager harvest, Foodland rented a warehouse and a maize sheller. Ten or twelve tons of corn was stolen from the facility, despite the presence of security.

While there is little hard evidence to support the claim, Foodland sees no other explanation for the dramatic reduction in their harvest than persistent theft at all steps in the process. In the context, theft of the majority of the crop would have required the collaboration of the security staff, both in the field and at the storage facility Foodland had hired to store the harvest.

Following the disastrous first harvest, the property has been occupied by squatters who are effectively denying Foodland further use of the land.

Privatization of Grazing Land:
the Village Community Perspective

From a study by the European Initiative-Liberal Academy

A total of 400 households live in Zeghduleti village, each owning 1.25 hectares of land. Yields are very low due to a lack of irrigation and agricultural machinery, and the high prices of pesticides, herbicides, fertilizers, high quality seeds and plants. The main source of income for most locals is cattle and dairy production, and every family owns at least one cow.

The land acquired by Foodland Ltd has a long history of being used as traditional grazing land by villagers. In 2008, 73 ha of this land was categorized as agricultural land by Environmental Protection Agency and subsequently privatized through an auction. The locals learned about the auction only two days before it was conducted, managed to collect GEL 4000, and took part in the bidding process. They lost, and the land was acquired for GEL 7000 by a Georgian speculator who later sold it to Foodland Ltd, undermining the main source of income for 400 Zeghuleti households.

The villagers started protesting and tried to prevent the new owner from cultivating the land, to no avail. They collected signatures and petitioned the Head of Georgian Parliament, Davit Usupashvili, but their complaint has not been taken up by the prosecution office. Gori municipality officials tried to address the conflict and arranged a transfer of 54Ha of pasture land to the locals, out of which 25ha would be taken from Foodland Ltd, but this solution fell short of satisfying the villagers' demands.

Mr. Singh, the owner of Foodland Ltd, is willing to sell the land to the locals but has so far failed to agree on price. Other investors expressed interest in buying the land but changed their mind after talking to the locals.

It would appear that neither the investor not the local community are happy with the conduct of government in this case. Private property rights have been usurped, and concurrently the needs of vulnerable citizens to maintain their cattle herds have not been considered when land was privatized.

LANDMARK LTD.

Landmark LTD's first project in 2013 was production of 30 Ha of dryland potatoes in Tsalka, Kvemo Kartli. The company engaged 70-80 local people to de-stone the property by hand. Local village tractors and trailers were hired from neighboring farmers for this activity.

At harvest, local Soviet-era tractors and simple potato lifters were used. Around sixty women were engaged to pick up potatoes from the ground and place them in bins, and then to bag the potatoes in 50 kg bags. A team of 20 male laborers was engaged in moving potato around the property and onto trucks. The property employs two security guards and six Indian staff.

Landmark is engaged in the popularization of mustard, canola and mung bean among Georgian farmers, as export crops and import replacement commodities (oilseed).

B. METHODOLOGY

This case study is based on a series of interviews with stakeholders in the affected business, local government and the local population. Company managers shared confidential information about their businesses and investments, including data on their financial performance and, where relevant, ongoing disputes with government and members of the local community. After initial interviews with company leaders identified challenges, successes, lessons learned and themes that could support broader conclusions about the investment environment, ISET sought to identify other voices to ensure nuances and other points of view were included in the report. When they are included in the report, ISET clearly identified instances where stakeholders' views of the facts or outcomes differ significantly or are contradictory.

C. FINDINGS

THE BUSINESS ENABLING ENVIRONMENT

Since 2003, Georgia has been steadily climbing many of the international rankings that are supposed to reflect the ease of doing business within its borders. The most dramatic of these was ranking 8th of 189 countries in the IFC/World Bank's Doing Business survey, but Georgia has also done well in World Economic Forum's Global Competitiveness Index and Transparency International's Corruption Perceptions Index. But individual investors have very different experiences from those implied by these rankings. Based on ISET's findings in this case, Foodland and Landmark encountered challenges that fall into several categories.

RULE OF LAW AND GOVERNMENT SUPPORT

Perhaps the most significant challenge Mr. Singh encountered in the course of his experience was an overarching sense of lawlessness. Whether in trying to mitigate the effects of protests on his business, resolving the ongoing problem of squatters on Foodland's estates, or experiencing the direct theft of his crop at all stages of the production chain, he encountered a persistent sense that he was on his own and largely unsupported by the government or the community he was invested in. While this experience is not uncommon in economically underdeveloped environments like Georgia or India, Mr. Singh's experience in Canada had left him largely unprepared to deal with this challenge.

Contributing to the feeling of lawlessness was the sense that the invasion of Foodland property and the continued presence of squatters appeared at times to be actively encouraged by local officials. Because laws underpinning land title holders' rights in Canada and India are rigorously enforced by functioning, independent judiciaries and strong bureaucracies, Mr. Singh was unprepared for the reaction and lack of support he encountered in this case.

LABOR QUALITY AND AVAILABILITY

In this investor's experience, Georgian labor resources are underqualified and lack the willingness to learn new techniques. Mr. Singh described the local contractors he employed as seasonal labor as reluctant to comply with instructions or deploy modern farming techniques or technologies. In resisting guidance, they often express their belief that their Soviet-era expertise is adequate to the task. While he may be criticized for failing to engage more Georgians in his full-time labor force, he found with every attempt at integrating Georgians into his core team that his operation suffered significant drops in productivity. Both Indian and Canadian machinery operators are not only skilled at the outset, but they demonstrate continued openness to instruction and new, more effective techniques. In his Foodland and Landmark operations, Mr. Singh employs only Indians as full-time labor, citing their sound technical skills and high productivity as justification of salary packages three times higher than prevailing rates among Georgians. For Mr. Singh, the ability to maintain his Indian team of laborers in Georgia is critical to the viability of his operations, and without them he would have exited the Georgian agribusiness sector two years ago.

MARKET ARRANGEMENTS

Market arrangements for farmers in Georgia are relatively underdeveloped. Local traders and processors have proven to be generally unwilling to engage in forward contracting or other market mechanisms that are common in more favorable agribusiness environments. This introduces significant price risk to farming operations, especially those that reach significant scale. Mr. Singh expressed the view that he will need to focus on producing export quantities of commodities to sell abroad, as more sophisticated foreign traders are well acquainted with forward contracts and financial instruments like futures contracts to minimize risk.[2] In a context where improvements in domestic production directly displace imports to the benefit of consumers, this outcome is especially troublesome.

MARKET SUPPORT SYSTEMS AND SERVICE PROVIDERS

Like most small and medium-size businesses, Mr. Singh's enterprises have had had to rely on external providers of transport, storage, and machinery services. In every one of these cases, the quality of services and the competition among service providers were deeply lacking, and in many cases contributed to higher costs and the destruction of value for his businesses.

- **Transportation**: Mr. Singh describes transportation of crop as being a major productivity challenge, with wild variations in price of cartage and cargo compartment quality. Older trucks with open tops may lose as much as half of inventory in transit through spillage or theft. Bagging grains may reduce losses, but to effectively use them requires investment in expensive grain handling facilities and a bagging shed. In contrast, the fleets of trucks available for grain carting and potato transport in Canada and India are purpose-built, very modern and readily available at reasonable cost.
- **Storage capacity:** Georgia has no government-owned storage and very little private storage capacity. Private grain storage facilities usually demand that they become the final customer for the grain, or they charge a substantial surcharge. This requirement to sell "off the header" is financially unappealing to farmers, because traders discount very heavily, taking advantage of farmers' desperation to offload a commodity before it is damaged by rain, fungus or pests. As a result, farmers are forced to build on-farm storage, which is simply not cost-effective for small or

[2] In India, the state mandates a floor price for all commodities several weeks before planting, to assist farmers in making decisions on what crops to grow. If private Indian traders are not willing to pay the floor price, the state must purchase the commodity at the floor price, regardless of whether it has room in the state granaries or not. An unintended consequence of this is millions of tons of grain a year being damaged and discarded by the state due to lack of properly constructed state storage capacity.

mid-sized enterprises. In Canada, there is significant competition between commercial grain storage providers, and farmers have considerable flexibility regarding the time of sale.

- **Machinery:** Mr. Singh was promised by the previous national government that operating mid-sized plots would be worthwhile as the state mechanization service, the *Meqanizatori,* could provide preferential and efficient service with modern equipment, obviating the need to buy expensive equipment for mid-sized plots. The reality, unfortunately, was that the equipment and services made available were often inadequate or, worse, actually cause damage to the land.[3] Mr. Singh describes numerous incidents in which sophisticated European implements that he from the *Meqanizatori* arrived broken, filthy and inoperable. With little alternative, his operations lost valuable time and resources repairing a contractor's equipment. In Mr. Singh's experience, the majority of *Meqanizatori* machinery operators have little or no knowledge of how properly to adjust or use their equipment. He described occasions on which equipment that he had booked and paid for in advance arrived late, sometimes by many days. As a result, vital farm operations were often forced to be executed well outside acceptable windows for time-critical tasks. When he sought improvements in service from *Meqanizatori* management, he found that they are not customer-focused, and they exhibit little concern for the losses they cause their clients. Based on his repeated experiences, Mr. Singh's clearly sees it as unrealistic for commercial investors to rely on *Meqanizatori* for their operations. Rather than relying on what he describes as a dysfunctional state contractor, Mr. Singh advises that farmers buy their own equipment to ensure timely and competent field operations.

INFRASTRUCTURE

Mr. Singh's business has not been significantly hampered by general infrastructure issues like irrigation or access to gas and electricity. Still, he notes that building a power line in Georgia is expensive compared to other markets in his experience.[4] He also reports no major concerns with road, rail or air transport infrastructure, though rail may become important when the company begins exporting canola and lentils abroad.

THE EFFECTS OF THE INVESTMENT IN GEORGIA

There are several channels through which successful foreign investment in Georgia's agricultural sector would benefit the economy at large. Under the circumstances, however, the results for Foodland and Landmark fall well below their potential benefits for the economy, the community and the workforce.

LOCAL EMPLOYMENT AND WORKFORCE DEVELOPMENT

One major benefit of many foreign investments is knowledge transfer, a key aspect of which can be employee training and workforce development. This often includes technical and operational training as well as knowledge upgrades in management, health and safety. Unfortunately, Mr. Singh's operations have had relatively little impact on employment or the quality of the Georgian labor force, since his company uses local labor only on a temporary, seasonal basis. Foodland and Landmark invest very little in training these contractors, who are mostly unskilled laborers. Likewise, neither management nor permanent labor currently receives formal training.

This situation may change with the signing of EU-Georgia Deep and Comprehensive Free Trade Agreement (DCFTA), which would require farms to implement proper, extensive quality assurance.

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[3] In one incident, an attempt by Meqanizatori to de-stone Foodland's Kashmi property of 50 Ha was completely ineffective and caused destructive soil compaction on Mr. Singh's property. No refund or compensation was paid.

[4] In India, for example, service connection to the grid requires five days, and the cost is borne by the power utility. In Georgia, connection takes two weeks, and the cost must be borne by the investor/customer.

This would be an area in which Landmark and Foodland would fund extensive training for their employees.

As noted elsewhere, the benefits of employment with Foodland and Landmark are largely temporary for local human resources. Mr. Singh's Tsalka property has had few interruptions to its operations, and in addition to its six Indian staff it provides seasonal, temporary employment for the local workforce. In May the company was employing six local laborers for canola and potato seeding in May, and at the end of the season the potato harvest will employ at least 60 women and 20 men as pickers, baggers and loaders.

In contrast, neither the Tsnori property nor Mr. Singh's operations in Shida Kartli are providing even temporary employment. Citing his disillusionment, Mr. Singh has left the Tsnori property to lay fallow, and 75 ha of his Foodland property in Shidi Kartli are currently occupied by squatters and inaccessible for employment-generating farming.[5] As a result, these properties are generating no employment for local villagers.

GOVERNMENT REVENUE

Because neither business has yet made a profit, the investment has not yet resulted in corporate income tax for the government. Mr. Singh's companies incorporate total land holdings of 426 ha. Despite being unable to make productive use of much of the land, the companies pay associated property taxes of some GEL 28,000 annually. The company contributes another GEL 1500 per month in salaries tax remittances.

REGIONAL AND NATIONAL SERVICE PROVIDERS

Following their experience with the *Meqanizatori,* on its Tsalka property Landmark has opted to utilize local, Soviet-era equipment owned by neighboring farmers. While the equipment is outmoded, the overall cost is lower and engaging local service providers fosters better relations with the community. For a limited number of operations, only the *Meqanizatori* has equipment of suitable precision, so Landmark does utilize them for some work.

Landmark and Foodland purchase all farm chemicals domestically. While this is beneficial to local businesses, it should be noted that buying from local providers results in costs close to double what they would be if the commodities were purchased at international market prices. Landmark purchases diesel fuel for its water pumps at a local service station in Tsalka.

The companies use no local consultants.

PRODUCT AND PROCESS INNOVATION

Foodland's properties in Shida Kartli have traditionally only been used for cattle grazing by small scale grazers, none of whom paid lease fees or agistment charges. These grazers keep their cattle in sheds at night, feeding them on low quality roughage and moving them about the village by day to graze on whatever grass or other material might be available. These cattle are milked twice daily and typically yield only 1200-1500 liters per lactation. Properties adjacent to the Tsnori property grow dryland wheat, barley, and sunflower. Wheat and barley yields are typically three tons per hectare, and sunflower yields two tons per hectare.

As the first growers of Canadian canola and Indian lentils in Georgia, Mr. Singh's Landmark enterprise has introduced innovation crops to the region. They plant canola in May, using an onion planter after a single, light cultivation of the soil, and they harvest the crop at the end of August. The process results in yields of 2.4 tons per hectare dryland, with an oil yield of around 41-43%. Indian lentils are planted

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[5] Incidentally, another 82 Ha of land owned by AID Georgia LLC's Indian customer and 150 ha of land owned by another Indian investor in the same district are similarly occupied. These investors have been unable to access their land since the Georgian Dream's election victory in October 2012, and Mr. Singh insists that there is a direct causal link between the two events.

in the first week of May and harvested 75 days later. They yield 2.5 tons per hectare dryland. Neighbors in Tsalka frequently visit the farm, asking lots of questions and enquiring as to how they can buy seed.

While Landmark could supply seed at cost, provide farmers with training in production methodologies, and write a forward contract tied to the program,[6] none of the local farmers have yet demonstrated the financial resources to proceed with an outsourcing contract. Small and mid-sized farmers perceive they lack access to finance to successfully execute such supply contracts. Mr. Singh is now liaising with banks to see what cheap credit schemes his potential contractors can avail themselves of. In most cases, two years of audited financial records are required to secure such loans, which most small farmers do not have.

CURRENT ACCOUNT DEFICIT AND FOOD IMPORTS

Broadly speaking, any increase in local production of a commodity consumed in Georgia has the potential to benefit consumers and reduce Georgia's dependence on imports. For example, last year's trial potato harvest was 16 tons per hectare, with an approximate farm gate price of GEL 240,000. This has the potential to displace an equivalent value of Turkish potato from the Georgian market.

Should Landmark's canola project be successful, domestic oilseed crushing could displace millions of dollars' worth of imported vegetable oil (canola) from Ukraine as well as significant quantities of oilseed meal consumed by pig and poultry farms in Georgia. Georgia's oilseed production is currently negligible, with only one sunflower seed crushing plant in Kakheti, a new soybean crushing plant in Poti (processing imported soybeans) and no crush for canola or any other oilseed. Georgia is highly dependent upon cooking and salad oil from Turkey, EU, Ukraine and Russia. Innovative programs to reduce Georgia's reliance on imported staples like cooking oil are to be encouraged.

COMMUNITY RELATIONS AND THE ROLE OF GOVERNMENT

When the land in Shida Kartli that Foodland now occupies was originally privatized, the purchase by a Georgian investor caused little stir in the local community. His presence was effectively unfelt, as he neither took up occupation nor cultivated the property. When Foodland arrived, however, resentment arose fairly quickly, and as a result of several converging factors.

Mr. Singh and his team reported antipathy from many of the locals from the outset, and his decision to use only Indian management and permanent labor probably did little to alleviate the problem. These reactions would have been exacerbated when a foreign investor began to deny local grazers access to land they had freely grazed for years, and bridging the gap would have become impossible after a violent confrontation led to several villagers being arrested, tried and jailed.

While protests and property invasions at Foodland's estates were swiftly dealt with by police in 2010, Mr. Singh reported a significant shift in attitude and support in late 2012, which he attributes to the change in government. Property invasions became a frequent occurrence on Foodland's estates, and violent confrontations between Foodland staff and villagers began to prevent any access to the two properties in Shida Kartli.

As a result of what he saw as inaction by local police or the prosecutor's office, Mr. Singh began to appeal to a variety of public sector officials. He claims to have approached the Gamgebeli of Shida Kartli, the local MP, the Ministry of Economy, the Ministry of Agriculture (twice), the Business Ombudsman, and the Prime Minister's office. To date he insists he has received no assistance from any of these bodies. In one conversation recounted by Mr. Singh, the Shida Kartli Gamgebeli addressed Mr. Singh in English, indicating that his property rights would be respected. In the same

[6] Pricing would be based on a floating price (e.g. Price on date of delivery = CIF Dubai minus $200).

forum, he turned to the villagers and encouraged them to hold firm and maintain their illegal occupation of Foodland's property.[7]

The upshot, according to Mr. Singh, is that two of the enterprise's properties remain illegally occupied by squatters with the tacit encouragement of local government. Operations at these estates have effectively come to a halt, and he insists that local police are refusing to intervene despite a clear infringement of private property rights.

When asked about the broader implications of the actions—and inaction—he has seen on the part of government, Mr. Singh raised broader concerns about the treatment of foreign investors.

Mr. Singh has approached the International Chamber of Commerce for lobbying assistance, and he was recently interviewed on Rustavi 2 to discuss his case. He has recently appealed to the Ambassadors of all NATO member states in Tbilisi, advising them that Georgia is not meeting its requirements for private property protection and good governance as a NATO MAP-aspirant should.

OVERALL CONCLUSIONS AND LESSONS LEARNED

LOST VALUE TO GEORGIA

The failure so far of Foodland and Landmark investments to bear fruit is more than a financial loss for Mr. Singh and his investors. With support, this entrepreneur's ideas and approaches to farming, his business models and approaches to management, have the potential to have a lasting, positive effect on Georgia's economic development.

The potentially lucrative trade in production and processing Ayurvedic herbs will arguably never happen without Indian investors being involved in the supply chain, including production. Mr. Singh's concept of providing canola seed, lentil seed and training to farmers, and buying back the crop at harvest, is an interesting one with potential benefits for local farmers, improved national food security and enhanced exports, but he must do further work with financial institutions to ensure that his contractors are properly financed. He does not have the financial resources to finance the farmers himself and also does not have the ability to protect himself against default on supply contracts.

INVESTMENT POLICY AND INVESTOR SUPPORT

Among the primary factors that attracted Mr. Singh to Georgia were the availability of cheap freehold land and a liberal visa regime for both management and labor, with no local labor quota. It is no stretch to assume that other agribusiness investors would cite similar drivers of their investment decisions, and both have been eroded by recent policy changes and actions described in this case.

The challenges Mr. Singh faced in accessing his lawfully acquired land has attracted significant media attention, and for those who know of it the case has undoubtedly impaired investor confidence in the Georgian agricultural sector. If allegations of government acquiescence to—or worse, incitement of—property invasions are true, there should be broader implications for responsible officials. Private property rights are a cornerstone of normal commercial activity, and de facto expropriation of assets in the manner that Mr. Singh alleges can have a catastrophic effect on investor sentiment.

The shifting landscape on foreign labor and management also has a detrimental effect on investor sentiment. While it is not uncommon for governments to control foreigners' access to employment, the application of policies should be transparent and equitable.

Based on his experience in this case, Mr. Singh feels very strongly that existing structures for remediation of abuse of investor rights are dysfunctional. In his view, the Georgian National Investment Agency, which claims to be a "One Stop Shop," failed to provide adequate post-

[7] It is claimed that Mr. Singh's Georgian assistant overheard the official's conversation and provided Mr. Singh with the translation.

investment service to ameliorate problems. In this case, he points out that GNIA has failed to provide redress. Similarly, he insists that the Business Ombudsman is unresponsive, and the Ministries of Economic and Sustainable Development and Agriculture have not been effective in resolving the issue of property invasion. And whether the view is justified or not, aggrieved investors are reluctant to proceed through the courts, fearing that the judiciary is not independent of the government..

BUDGETARY POLICY

Budgetary centralization severely hampers the incentive for local government officials to foster local agro-industry. A foreign entrant to the local land market, once cultivation begins, often experiences tension and confrontation that the officials are supposed to resolve; the officials' workload increases and stress levels rise. If tax revenue from the new entrant were retained mostly in the local jurisdiction, officials would have a keen interest in attracting investment and keeping investors happy while ameliorating local concerns; the future tax revenue can underpin their local infrastructure, education and health spending. The current practice of all tax revenue being sent to Tbilisi, and some then being rebated to the regions without any relationship with the tax revenue of the region, fails to reward good local government performance and fails to punish inept local governance. With direct elections of local officials a major new trend in Georgian politics, communities should be able to judge their local officials' worth and suitability for re-election by what economic opportunities government can facilitate in their local communities.

COMMUNICATIONS AND COMMUNITY ENGAGEMENT

Further lessons can be found in the lack of communication between the various parties in this case. Whether between investors and the communities they are moving into, or between communities and the national government, improved communication and coordination would have made an enormous difference in the outcome of this case.

Opting to only use foreign labor may have been a strategic error. While Indian laborers may be more productive and therefore more cost-effective, neighboring communities will almost certainly resent the lack of engagement and “lost” employment opportunities. A prudent approach for investors would be to engage a mix of foreign and local labor and management, even if it requires extensive additional investment in capacity development. This is not only a prudent community relations exercise but an investment in sustainability. A workforce that includes locals invested in its future is a substantially more sustainable venture.

In common with many businesses owned by South Asian and Middle Eastern entrepreneurs, there is not a strong sense of investment in staff training, and not a great emphasis on monitoring of productivity, benchmarking or quality management. There is skepticism regarding the return on investment for staff training, for both labor and management. A more informal methodology based on personal relationships between employer and employees, addressing contingencies as they arise instead of formal risk management and contingency planning, and a reluctance to use modern performance monitoring equipment and databases, is common to many such enterprises in Georgia, Africa and Southeast Asia. Productivity superiority to local ventures is often more attributable to very industrious labor force, good quality inputs and a robust market, rather than a very disciplined and well documented management system.

D. RECOMMENDATIONS

RECOMMENDATIONS FOR GOVERNMENT

Over the past decade, the Georgian Government has made a lot of progress in building Georgia’s reputation as a place to do business. However, the challenges faced by Foodland and Landmark highlight a number of areas that would seem to contradict that progress. Unless these issues are addressed, Georgia could lose the momentum it developed in 2003-2012 as a destination for FDI in agricultural enterprises.

- **Implement consistent long-term policies on property investment and immigration:** Given the generally liberal business environment, availability of cheap freehold land, a relatively liberal visa regime for both management and labor, and no local labor quota (see box), Georgia has had a strong pull for foreign investors. These strong pull factors were weakened by the July 2013 moratorium on the acquisition of agricultural land by foreigners and subsequent changes in visa and labor regulations. Laws that discriminate against foreign investors over domestic ones, including in the acquisition of land, will have a dramatic chilling effect on investment in land-dependent activities like agriculture. Regardless of the nationality of the investor, land transactions should be smooth and as free of excessive bureaucratic red tape as possible; it is discriminatory that a foreign investor be subjected to lengthy approvals for land purchase when domestic investors are not. Given the apathy among urban Georgian investors for agricultural investment, it is important that the market be as open as possible to foreign investment to stimulate economic growth in the countryside.

Using Foreign Labor in Georgia

Most countries don't permit foreign labor in agriculture on a laissez-faire basis. Some countries have seasonal labor permits if they have a local labor shortage (e.g. during cyclical harvest seasons). Others have a formula that requires quotas of local labor to be hired to match foreign farm laborers.

In Georgia, the regime has been comparatively liberal, but recent policy changes have brought rules into closer alignment with other markets. Previously, if businesses needed foreign workers, they could bring most to work under a 360 day visa that workers could obtain on arrival, on the basis that they came from countries with a higher GDP per capita than Georgia. Those from countries not on the list approved for 360 days could relatively easily get a temporary residency visa.

But it’s not clear that the new rules are being applied equally. Now visas for workers from the Middle East, South Asia and China are difficult to arrange, visa renewals for foreign managers or owner-operators are often denied, and in many cases senior foreign management personnel are having visa applications for their dependent spouses and children denied, splitting their families.

- **Improve communication between public and private sectors:** The case highlights a number of areas where close coordination between the public and private sectors would have avoided, or at least mitigated, conflict. Local grazers should not be surprised when public grazing land is privatized and cultivated, and when it inevitably affects their livelihoods they should be transparently compensated from state funds (or alternative land). When an investor changes the status of land that has been historically been uncultivated or fences the land for private use, investors should clearly communicate their plans to the local government. Without sufficient warning of impending changes, a local government does not have sufficient time to communicate to citizens or plan to provide direct compensation or other assistance.

- **Improve cooperation between local government and national government in the privatization process:** The present institutional setup, which puts all agricultural land solely under the jurisdiction of the Ministry of Economy, effectively excludes local government stakeholders and their constituents from the privatization process. Left out of the process and provided no advance communications, local governments have no opportunity to engage in public-private communications (see above) or plan to compensate or otherwise accommodate local grazers. At the very least it is important that national and local government have effective communication to provide adequate reaction time to local government.

- **Establish guidelines to compensate farmers who lose access to grazing land:** While close coordination between investors and local government is important to ensure that no one is surprised by land being repurposed, ultimately government needs to play a role in mitigating the effects of lost grazing lands on local communities. Whether through direct compensation or the provision of other lands, there should be transparent guidelines for local governments in such cases. Grazers should be compensated from state funds, or state land banks, when land historically used for grazing is to be shifted to the cultivation of crops. Investment timetables accompanied by taxation remittance cash flows supplied by investors can justify such public subsidy, at least in the short term.

- **Disperse tax revenues to local communities affected by investment:** Budgetary centralization severely hampers incentives for local government to foster local agro-industry (or indeed any industry). As we have learned, the entry of foreign investors into the local land market can result in confrontation as they begin to cultivate and shift access away from local populations to what were once common resources. If tax revenues from business activities were at least partially retained in the local jurisdiction, local officials would have a keen interest in attracting investment and keeping investors happy while ameliorating local concerns. The current practice of sending all tax revenue to Tbilisi and then rebating it to municipalities based on factors other than tax-generating performance does little to support good local governance. A significant proportion of taxes collected in rural regions should stay in the regions of origin for allocation to local infrastructure, public services and social welfare.
- **Strengthen investor aftercare and supporting services:** The Georgian National Investment Agency (GNIA) identifies itself as a "one stop shop" for investors, and it includes post-investment follow-up and support among the services it promotes. In this case, the GNIA was not active in the experience Mr. Singh had in trying to successfully operate—and not just start up—his businesses in Georgia. Other support mechanisms like the Business Ombudsman or the Ministry of Economy and Ministry of Agriculture proved ineffective in preventing or mitigating the effects of the challenges faced by Foodland or Landmark. Foreign investors should have a known point of contact within the government for when these kinds of unforeseen challenges arise, and effective, ongoing investor after care may well have prevented the escalation at several points along the chain of events. Aftercare providers should have the necessary power to cut through red tape, to provide ready access to senior decision makers without paying "consultancy fees", and to resolve poor co-ordination between different government agencies affecting investors' operations.

RECOMMENDATIONS FOR INVESTORS

While Foodland and Landmark encountered a number of challenges that could have been mitigated with better support and responsiveness by the public sector, the case also highlights a number tactical missteps that might have been prevented.

- **Employ Georgians as part of the permanent labor force:** While the law had no provisions requiring the use of Georgian labor, relations with the community and local government might have been markedly improved if the investment were providing local employment. While Indian laborers may have superior technical skills and a work ethic more familiar to an investor, the benefit of employing only foreigners is lost if a breakdown in relations with the local community effectively sinks an operation. A more prudent approach would be to engage a mix of foreign and local labor and management, not only as a community relations exercise but to enhance the sustainability of the venture. Because foreigners are unlikely to want to work in Georgia in the long run, they have little incentive to feel invested in the enterprise or to help mitigate conflict with the broader community. Investors should actively plan to develop a local cadre of skilled labor and managers.
- **Consider measured, culturally sensitive responses to conflict:** When Mr. Singh sought the arrest and prosecution of the parties engaged in protests, their resulting imprisonment might have been a tactical victory. Strategically, though, it was a lot less positive. A more conciliatory approach would probably have resulted in better dialogue, and an amicable resolution may have been possible.
- **Engage the local community before commencing operations:** While investors may feel a sense of urgency to move forward on an action plan, a prudent investor will seek to engage with the local community before commencing operations. Activities like building churches, equipping

local schools with computers, or building village clinics are relatively cheap, and they can go a long way in developing significant goodwill in the community. These costs can be folded into investment planning, and they may ultimately spell the difference between the success or failure of a business. There were a number of options Mr. Singh might have taken to ameliorate the loss of grazing land, including employing displaced grazers, producing forage for the displaced, or other strategies. By engaging with the community, an investor can identify these options in collaboration with affected stakeholders and quantify costs that can shared with government and/or donor organizations.

- **Manage the threat of theft realistically:** Theft is an ever-present problem for rural enterprises in many economically challenged environments, and Georgia is no exception. Even in Soviet times, varying levels of theft, corruption and rent-seeking were common. While a foreign investor may feel specifically targeted, domestic enterprises also suffer in this regard. Investors should take realistic steps to protect their investment and control access to valuable resources. Fencing, security patrolling, and proper inventory management need to be considered.
- **Fence property:** In common with many other commercial farms in Georgia, the owners in this case left their property unfenced. They were then dismayed when neighbors grazed their livestock on the property. It is unrealistic to assume that villagers will automatically respect an invisible boundary, and even more so when the land has been accessible to them for years. Investors should plan for and install a robust fence line and arrange for it to be properly patrolled.

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