



Growing Inclusive Markets

Business Works for Development • Development Works for Business

CASE STUDY

Caucasus • Georgia

Begeli and Elkana: BIoTiful Life through Organic Products and Biodiversity

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Sector • Agriculture

Type of lead organization • MSME



Executive Summary

Begeli Ltd is a Georgian commercial company, which sells and promotes local organic products. It was founded in 2005 by the Georgian Fruit and Vegetable Ltd and Biological Farming Association Elkana, a Georgian non-governmental organization. Elkana currently represents about 344 individual farmers, 12 farmer groups, 4 farmer associations and 10 business units. The organization has been in operation since 1994 with a mission to contribute to sustainable agricultural development in Georgia. Begeli serves as a direct marketing and distribution channel for Elkana members, helping them to avoid costly middlemen. Begeli also pays them a premium for their produce to create an incentive for organic farming. Begeli thus serves as a springboard for Elkana members to get access to markets, to get involved in more efficient supply chains, to obtain knowledge of organic production and to enhance their revenue potential.

Begeli is housed in Elkana's office in the capital city of Georgia – Tbilisi. Currently, Begeli employs four people and had a turnover of around \$33,500 in 2008. It promotes its products through TV programs, exhibitions, food tastings, booklets as well as churches during Christian fasting holidays. Target consumers are mainly healthy life-style followers who have an average monthly income above \$1,000 per capita. They represent the Georgian upper-middle class. Furthermore, Begeli's products are bought by foreigners living in Georgia, people with allergy problems and sports school students. Begeli sells its products through supermarkets and privately placed orders.

Begeli developed incentives for local farmers to strengthen the cultivation of organic products by purchasing them with higher margins and providing training and consultation courses, while opening the way to local as well as international markets. Elkana helps Begeli to achieve its goals by supporting its members in increasing sustainable production of different varieties of crops, fruits and vegetables, which were destroyed or became extinct after the collapse of the USSR. Elkana provides periodical trainings to farmers in crop cultivation and production. Elkana's agrobiodiversity and organic farming projects provide more than 600 people with income generating jobs and varied skill sets, enrich the variety of Georgian agricultural products and increase the awareness of the importance of healthy eating among the population.

Begeli was able to change the lives of over 400 farmers by giving them income-generating opportunities, motivating them to intensify organic cultivation and by guaranteeing sales. Begeli has achieved about 10% annual growth rate during the first two years of its operation and the prospects are very promising with high double-digit growth rates. Begeli continues preserving and actively promoting over 250 types of products and seeds that were reintroduced by Elkana. Organic farming promoted by Begeli has significantly improved the quality and output of land, which increases the productivity of quality seeds, which, in turn, increases the health benefits of consumers.

Begeli still has many obstacles to overcome - the underdeveloped physical infrastructure in Georgian rural areas, high costs of food processing, a small domestic market as well as



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restricted access to export markets, all of which the company approaches proactively. In addition, Begeli plans to diversify its product range by becoming involved in the promotion of tea, wine and cheese products and gaining suppliers that can provide a steady stream of goods, which will help the company to grow and qualify for export markets.



Introduction

Begeli Ltd. is a Georgian marketing and sales company for locally produced organic products. Begeli supports the rural population in sustaining their production by linking them to markets. Begeli is the only Georgian company focused on the exclusive promotion and marketing of organic food, which is currently a very attractive sub-sector in the food industry in the developed world. Begeli was founded by the Biological Farming Association Elkana, an NGO, along with the Georgian Fruit and Vegetable Ltd. Elkana's goal is the improvement of the socio-economic conditions of the rural population of Georgia and increased environmental protection through fostering the development of sustainable organic farming and increasing the self-reliance of the rural population.

Begeli's objective is to make profits through providing support to local farmers in accessing markets in Georgia and abroad, conserving and sustainably using local agricultural biodiversity and promoting organic production and consumption in local markets. It is supported by its founding organization Elkana in its endeavours. The farmers Begeli works with are Elkana's members, who receive direct technical assistance from the latter.

Georgia

Georgia is a small transition country located in the South Caucasus (south-western Asia) with a population of about 4.6 million people and a GDP per capita of \$2,170.¹ It occupies an area of 69,700 square kilometres. Prior to the conflicts in Abkhazia and South Ossetia followed by the global financial crisis, the Georgian economy was on a strong growth track, based on strong inflows of foreign investment and robust government spending. However, growth slowed down from 10% annually to less than 3% in 2008 and is expected to slow further in 2009.² The conflict resulted in serious human losses and closure of one of Georgia's key trade routes, destroyed physical capital and disrupted macro-level relationships, thus significantly reducing investor confidence and livelihoods of the population (see Appendix I).

Traditionally, Georgia has always been an agricultural country with diverse agricultural production. Today, about 55% of the total labour force of the country is still engaged in agriculture. However, the share of the agricultural sector in total GDP is less than 10%.³ This is mainly due to poor farming skills, traditional land-use, lack of modern infrastructure and an underdeveloped distribution system for agricultural products. 44% of the population lives in rural areas. 34% of the population lives below the national poverty line,⁴ while 4.7% of the population lives under the extreme poverty line, namely, below \$1.25 a day.⁵ This means that agriculture has a key role to play in economic development and poverty reduction.

¹ International Monetary Fund 2009. "World Economic Outlook database."

² Central Intelligence Agency. 2009. "The World Factbook, Economy Overview."

³ Statistical Yearbook of Georgia. 2007.

⁴ Poverty Reduction and Economic Growth Program of Georgia. 2000. The poverty line is the living minimum or the minimum consumption basket (2300 kcal per day).

⁵ UNDP. 2009. "Human Development Report." Georgia.



During the Soviet era, agriculture was characterized by absolute state ownership of all agricultural land and concentration of production in large-scale collective farms, which averaged 428 hectares in size.⁶ When Georgia became independent after the dissolution of the Soviet Union towards the end of 1991, the country was in total panic, facing a bitter civil war. Georgian agriculture literally collapsed, and the land held by large collective farms was quickly distributed to rural households in an attempt to avoid famine. This desperate goal was achieved as Georgian agriculture quickly recovered in 1993-95. The recovery raised the volume of agricultural production in recent years by 25%-30% above its lowest level in 1993, yet the initial collapse was so dramatic that agricultural output today is still 40% below what it was in 1988.⁷ Currently, the average plot size does not exceed one hectare.⁸

In addition, the agricultural sector in Georgia faces other serious challenges. Agricultural practices employed during the Soviet period resulted in significant erosion of biodiversity in agriculture, which undermined sustainability of crop production. Loss of biodiversity was further aggravated after the disintegration of the Soviet Union due to the difficulties related to the transition period, the collapse of the extension system and the absence of a well thought-through policy in the sustainable use of biodiversity in agriculture. Valuable collections and stocks of endemic varieties quickly began to disappear. Simultaneously, farmers had large stocks of previously marketable varieties of crops for which they were no longer able to purchase the necessary agrochemicals or irrigate due to the underdeveloped irrigation system. Research and state breeding stations had not fully considered the option of assisting farmers to adopt local varieties for conservation.

Farmers have few alternatives to promote their agricultural products in Georgia. They can either sell their products through middlemen, generating small margins over big quantities of products sold, or sell their products directly to the end-consumers. In the latter case, they can either sell their products on the Tbilisi market – which is difficult to access because of the dominance of middlemen there - or on local markets, where they generate higher margins but can only sell small quantities.

Establishment of Begeli

The Biological Farming Association Elkana is a Georgian non-governmental organization (NGO). Elkana's mission is to establish an alternative approach to rural economic development through the promotion of organic farming. One of the biggest objectives of Elkana is to recover, conserve and sustainably use Georgia's biodiversity.

⁶ Curtis, Glenn E. 2008. "Georgia: A Country Study: Land distribution." Washington GPO for the Library of Congress.

⁷ Kan, I., Kimhi, A., and Lerman, Z. 2006. "Farm Output, Non-Farm Income, and Commercialization in Rural Georgia." *e-Jade – The Electronic Journal of Agricultural and Development Economics* 3(2):276-286.

⁸ Mosashvili, G. 2003. "ICT technologies in the agrarian sector of Georgia." Department of Information, Georgian Academy of Agricultural Sciences.

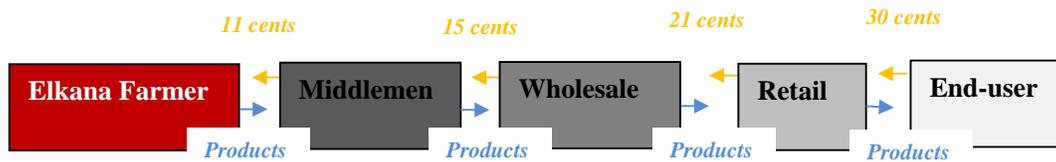


To scale-up organic farming in Georgia, a major constraint identified by Elkana was the absence of clear market opportunities for farmers. As a result, Begeli Ltd. was founded in 2005 to help market the products of its 400 members, who range from individual farmers to farmer groups and farmer associations.

Begeli and its Business Model

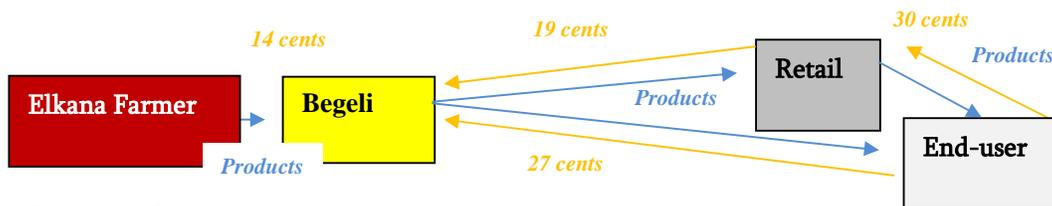
Begeli is a for-profit company focused on the distribution and promotion of organic produce of Elkana's members. Begeli currently employs four people. It is situated in Tbilisi, in Elkana's Head office. The company serves as a direct marketing and distribution channel for local farmers. Begeli provides farmers an alternative to the traditional distribution system, helping them to bypass middlemen (Figures 1 and 2). Begeli pays farmers a 10-15% higher price compared to the market wholesale price, thus encouraging farmers to intensify the cultivation of organic produce and allocating larger land plots for it. The company, along with Elkana, carries out marketing studies and supports local farmers with consultations on business planning and marketing issues.

Figure 1: Traditional value chain (Given prices are for 1kg. tomatoes):



Source: Author

Figure 2: Value chain with Begeli



Source: Author

Begeli's annual turnover in 2008 was about \$33,500. It plans to increase its revenues to \$60,000 in 2009, despite the economic slowdown in Georgia due to the global financial crisis. Currently, all of Begeli's profits are reinvested in the business.

Figure 3: Breakdown of Begeli's revenues:

Revenue breakdown	2007 (\$)	2008 (\$)
Revenues through supermarket sales	20,878	11,117
Revenues through direct orders (via telephone or the internet)	10,021	22,428
Total	30,900	33,546



Although the most explicit objective driving its business is making a profit, Begeli's inclusive business model and mission emphasize:

1. Supporting local farmers in accessing markets in Georgia and abroad, through engaging them in its supply chain
2. Providing maximum possible returns to the rural population
3. The conservation and sustainable use of local agricultural biodiversity
4. Raising awareness among the Georgian public about the benefits of organic production

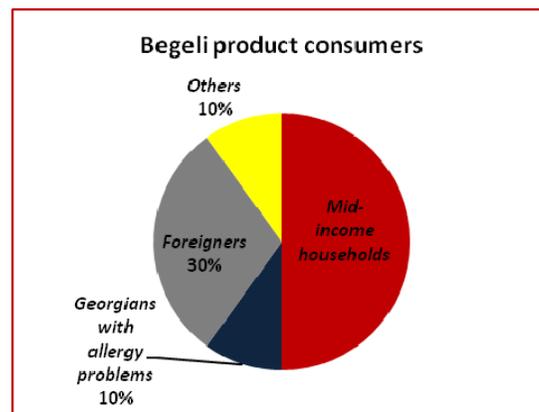
The last goal is pursued primarily with Elkana's support.

Begeli's products are one of a kind in the Georgian market, since there are no other local organic producers. Currently, all organic products are imported from neighbouring countries, mainly Turkey. Begeli's products have to go through a certification process in order to be exported to foreign markets, where certification of organic products is mandatory. About 40 farmers are currently in the process of having their products certified. Therefore, its prices are almost the same or sometimes 5-15% higher compared to local (non-organic) products, depending on the type of product.

Begeli's board of directors consists of seven people. Four of them represent Elkana and three represent the Georgian Fruit and Vegetable Ltd. The CEO of Begeli, Irakli Javakhishvili, is appointed by the board of directors and reports to them on a semi-annual basis. Irakli Javakhishvili used to be one of the area managers of Elkana.

SALES

At present, Begeli has several sales channels including supermarkets, telephones, as well as its recently launched online shop (www.begeli.ge). However, the demand for online orders is still very low.⁹



Source: Author

⁹ According to Internet World Statistics, in 2007 about 7.6% (332,000) of Georgian population used internet.



The major supermarkets which Begeli uses as distribution channels include Goodwill supermarkets, Georgita international food supermarket store in Tbilisi, Ebis supermarket chain, Populi supermarkets, the Begeli specialised wine store, three small private stores and the US Embassy.¹⁰

Previously, most sales were conducted through supermarkets as opposed to private orders (70% in 2007). However, the trend is slowly reversing in favour of telephone orders (70% in 2008). This is due to the barriers the retailers impose on the products from small-scale farms - they have an 18% sales tax and a 20-25% retail margin. In addition, they are very selective about the product requirements. For example, fruit size and shape must match the set level in the store. Consequently, it is more effective for Begeli and better value for consumers to sell the products directly to the latter.

Begeli's sales began in 2006. The initial product mix consisted of three sorts of cereals, two types of honey, tea, two types of juice and fruits and vegetables. Today the product mix has significantly enlarged to include packaged food (five different kinds of wine, two kinds of tea, five sorts of cereals, four types of vegetable squash, two kinds of organic juice) and bulk food (two types of white wine, two types of red wine, two types of tea, two types of honey, three types of vegetables).

“Our consumers play a very important role in our success. Most of our customers are middle aged, well-educated people with an average monthly salary above \$1,000. These are people, who are health conscious and have families. We also target several sports schools and people who work in international organizations. Our consumers are also Georgian people who follow the fasting rituals of the Orthodox Church in Georgia. For that reason, Begeli is starting to cooperate with the church to provide nutritious and protein-rich food. In the future, organic certification will play an important role too, as it will let us expand our sales by exporting our products to foreign markets,” says Irakli Javakhishvili.

Market Constraints and Strategies: Implementation of Begeli's Business Model

Begeli faced several challenges implementing its business model. One of the major constraints is the lack of skills and experience among farmers in the area of organic farming. Farmers mostly practice traditional agricultural methods that required intensive manual work and are very time-consuming and ineffective. They often have little knowledge about effective farming practices and in particular about organic agriculture and its benefits. This is the result of the severe crisis after the break-up of the USSR and the poorly planned change in agricultural structures. In addition, farmers only have access to local markets and are not familiar with alternative sales channels. They lack knowledge about international farming

¹⁰ Begeli supplies its products to eight stores of the Ebis chain (out of fifteen total).



standards and do not know what other types of crops they could grow and which entities could help them.

Begeli could rely on the work of its founder and partner Elkana. Since 1994, Elkana has published the magazine “Bio-farmer” and conducts seminars and conferences for farmers in all regions of Georgia to raise farmers’ awareness on organic farming and to provide information. Elkana also invests in leveraging the strengths of the poor to grow organic produce through seminars, consulting, trainings and through providing technical assistance.

In addition, consumers lack information about the existence and benefits of local organic produce in the Georgian market. Thus, Begeli conducts several activities to promote farmers’ products and their benefits. Begeli uses several promotion channels to introduce the products of Elkana members into the local market. *“The most effective means of promotion are food tastings in luxurious hotels like the Marriot and the Sheraton, which are conducted a few times a year”*, says Irakli Javakhashvili. Other methods include exhibitions in Georgia and abroad as well as TV programs.

Georgian society has strong traditional religious values, with most of the population following fasting holidays. Thus, Begeli also cooperates with church pastors in supplying feast food (beans, chickpeas, peas, cowpeas, soybeans, etc). Beans, for example, are protein-rich and contain nutritious components, and are thus ideal fasting food.

Figure 4: Begeli products carry the company’s name “Begeli” on the package and always have “product of Elkana members” printed on the bottom of the label.



Source: Begeli



Another challenge is the lack of laws governing organic production in Georgia, which makes it harder for farmers, particularly Elkana members, to promote their products internationally. Therefore, one of the solutions that Begeli and Elkana jointly pursued was supporting the establishment of the first regional certification body Caucascert. Through Caucascert, farmers get organic food certification, which allows them to have access to new local, regional and foreign markets. In addition, Elkana co-finances up to 50% of the certification fee, which makes it less costly for the members.

Furthermore, remote regions of Georgia are characterized by an underdeveloped physical infrastructure. Farmers do not have the necessary technical facilities for working effectively. The lack of storage facilities is a burden for farmers, as they have to face the risk of product spoilage and unreliable supplies, since they cannot transport the products to far regions. This forces many farmers to transport their winter inventories through middlemen to storage facilities located in Armenia. After Begeli's establishment, farmers were able to directly sell products to Begeli, which distributes them to end-users or retailers, lowering the need for storage.

Another challenge was the lack of financial resources amongst farmers. Since access to credit markets is very limited in rural areas – the average bank loan interest rate is 24% per annum – there is no incentive for farmers to enlarge their organic agricultural activities. To provide incentives for the same, Begeli purchases products from Elkana farmers with a 10-15% markup compared to other middlemen, significantly increasing income opportunities for the farmers.

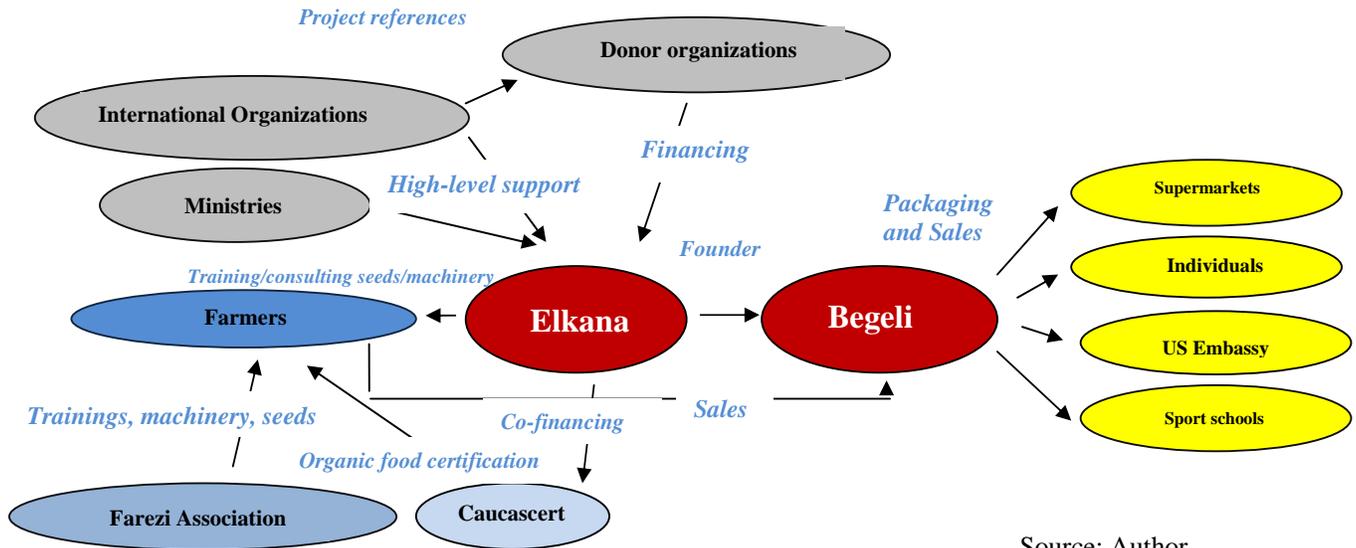
Also, Begeli's founder and partner Elkana attempted to resolve this obstacle through several initiatives. Farezi, one of Elkana's member associations, provides the farmers machinery at a 50% discount. Secondly, Elkana started a program to facilitate access to seeds for poor farmers. Through this program, farmers agree to participate in a seed multiplication system by returning 1.5 times the original amount of seeds distributed to them. One unit of the returned seed material is used for incorporating new farmers and/or for further multiplication, while the remaining part is stocked as a security fund in case of poor future harvests.¹¹ People who lived in extreme poverty are eager to undertake this venture as they do not have any other means to afford seeds and other extension services provided by Elkana. The program also guarantees purchase of crops and produce from farmers.

¹¹ UNDP. 2004. Global Environmental Facility.



Business and its Relationships

Figure 5: The interplay of different actors engaged in the business model.



Source: Author

The biggest partner of Begeli is one of its founders, Elkana. Elkana in turn collaborates with a number of international and donor organizations and several institutes, providing public affairs support and acting as a point of contact for Begeli. Elkana and all the cooperating international and donor organizations assist Begeli in the extension of its technical and marketing services to farmers, as well as in the organization of educational trainings for the farmers in the field of organic farming. Together with international partners, Elkana organizes bio-farm exhibitions and conferences, thus promoting local organic food both in local and international markets. In the course of its activities, Elkana also implements micro projects in the fields of rural infrastructure and sustainable agricultural development.

ELKANA

The Biological Farming Association Elkana, a Georgian non-governmental organization (NGO), was founded in August 1994 by five representatives of the Georgian Green Movement NGO. Two founding members were from the Institute of Botany of Georgia and one was a farmer from the Javakhq region. Elkana's mission is to establish an alternative approach to rural economic development through the promotion of organic farming. One of the biggest objectives of Elkana is to recover, conserve and use sustainably the biodiversity of Georgia. The representatives of the Green Movement believe in and promote agricultural practices that eliminate the use of pesticides, preserving country's old agricultural traditions. Organizations like the United Nations Development Program (UNDP) along with the Global

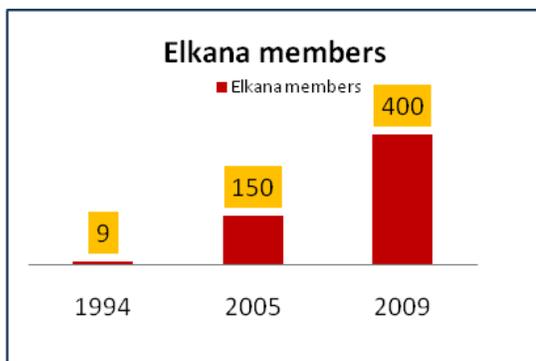


Environmental Facility (GEF), the Swiss Agency for Development and Cooperation (SDC), the Swiss HEKS/EPER (Hilfswerk der Evangelischen Kirchen der Schweiz), Avalon and Eurasia Foundation have assisted and co-funded Elkana's activities.

Elkana employs 35 people, 25 of which work in Tbilisi and the rest in Marneuli, Akhaltsikha and Ozurgeti. For the organizational structure of Elkana, see Appendix II.

Over the course of the two decades, the organization grew to 400 members, out of which 344 are individual farmers, 12 farmer groups, 8 farmer associations/unions and 11 business units within Elkana. The organization encourages participation irrespective of gender, age, disability or ethnicity.

Elkana provides the following main services to its members:



Source: Author

1. Assistance in the conversion to organic farming through the supply of seed and planting material of traditional crops, training and other related agricultural extension services
2. Advice in business planning and marketing
3. Community mobilization (for example, through the organization of cooperatives and associations)
4. Promotion of organic agriculture to end-markets
5. Lobbying public entities

Elkana has helped to establish co-operative agricultural processing operations in the following areas - wine (Kakheti), tea (Juria), cheese processing (Aspindza), and juice processing. The membership has a symbolic annual fee of \$5, \$15 for access to consultation services, and \$50 for access to business plan consulting. Currently Elkana is reviewing the membership system so that fees are paid according to the number of services used. The NGO is not yet financially sustainable and depends on funding from international and donor organizations for 90% of its activities (see appendix III).

FAREZI FARMER'S UNION

Farezi was established in 2003 and works with farmers in the Samtskhe-Javakhi region in south-central Georgia. It was created by nine farmers involved in Elkana's agrobiodiversity project to facilitate seed multiplication and distribution for targeted crops. For that purpose, Farezi members distributed seeds to farmers at no charge, and at the end of the period the farmers returned the seed amounts, keeping the rest for their own usage or sale.

Currently Farezi has approximately 120 members - all of them are also members of Elkana. They hold monthly meetings, and about 70 to 80 members attend each time. There is a largely



symbolic annual subscription of \$3. The Farezi board now has two members from each of the six sub-regions within Samtskhe-Javakhq.

Farezi's objectives are to strengthen the rural economy by enhancing farmers' education and introducing new agricultural techniques. It also aims to help Elkana farmers gain better access to markets. Among other activities, it has collected specimens of local varieties of fruit trees to ensure that they do not die out. It also promotes new varieties of crops and new techniques for cultivating them. It has been working with Elkana and has been supported by the UNDP and other international donors. Farezi provides affordable services through its local presence to all Elkana members. For the future, Farezi has discussed the idea of setting up a credit union with initial funding provided by an extra membership subscription of \$25.¹² While they would not have large sums at their disposal, farmers could use loans to make small purchases of livestock and seeds. For that purpose, Elkana organizes trainings, business plan consulting and seminars in cooperation with Farezi Association. They also organize thematic 2-day farmer workshops twice a year that have 20-30 participants on average. Farezi has helped many farmers in expanding their agricultural activities by providing them with machinery at half price.

“Farezi has provided me with machinery at half price, which has greatly helped me as I didn't have enough cash for purchasing them or access to banks for obtaining credit. But at the same time, I still need more automated tools as (work) is slow due to the manual operating tools that I currently use,” says one of the farmers in the Javakhq region.

CAUCASCERT LTD

Elkana contributed to the establishment of the first regional certifying body for organic farming - Caucascert Ltd. It was established in October 2005 with support from the regional project “Strengthening of Organic Agriculture in South Caucasus”, financed by the Swiss Agency for Development and Cooperation (SDC) and HEKS – EPER (a Swiss donor organization). The main objective of the body is to provide producers of organic products with quality certification and inspection services to assist their access to organic markets. The certificates are valid for the entire European Union.

The accreditation process takes 3 years. Of all the Elkana members, only one wine producer has obtained this certificate so far and 40 applications are still in progress. The application for the certificate costs 1500 Euro, and Elkana helps producers by co-sharing these costs. Applicants can also get group certification.

¹² USAID. 2005. “Economic Civil Society Organizations in Democracy-Building: Experiences from Three Transition Countries.”



MINISTRY OF ENVIRONMENT AND NATURAL RESOURCES

The Ministry supports Begeli's inclusive business model indirectly by providing positive references to Elkana to help the NGO access funding from international and donor organizations. For instance, it was instrumental in getting the Millennium Challenge program to co-fund one of Elkana's business plans for farmers. *"We cooperate very effectively. We have a very good relationship with Mariam Jorjadze, Elkana Director. She is a very active person and well respected among all the stakeholders and we would like Elkana to expand in the future,"* says Nona Khelaya, the Ministry representative on the Steering Committee of Elkana. In addition, the Ministry encourages and promotes agricultural laws and regulations.

INTERNATIONAL AND DONOR ORGANIZATIONS

The biggest international and donor organizations that have supported Elkana, thus providing indirect support for Begeli, are the UNDP along with the Global Environmental Facility (GEF), Oxfam Novib, SDC, HEKS/EPER, GTZ, Agricultural Academy of Georgia and the Eurasian Foundation. These organizations funded most of Elkana's biodiversity conservation programs, created networking opportunities with other local and foreign associations and provided specialists for farmers' trainings and consulting. A list of the biggest international and donor organizations and their contributions to Elkana's projects is provided in Appendix III.

Achievements and Challenges

With Elkana's support, Begeli has had positive environmental, social and economical results. On the environmental side, Begeli has succeeded in actively promoting organic products. Many farmers have turned to organic farming and consumer preferences for organic products have increased. The increase in organic farming has significantly improved the quality and output of land, and will also have health benefits for consumers. The growth of organic farming and preservation of biodiversity was made possible through the agro-biodiversity program implemented by Elkana, which brought back to life a broad range of agricultural products. Today, up to 250 types of products and seeds are preserved in the Elkana seed repository. Seed material for 17 cereals and five legume crops have been exchanged with the National Seed Bank.

On the social level, Begeli serves as a link between Elkana members and the end-consumer markets. The livelihoods of the 400 Elkana members and their families have significantly changed thanks to Begeli. They have gained knowledge of organic agriculture and entrepreneurial skill sets to grow their businesses, they have greater income-generating opportunities as a result of having access to higher value markets and they are motivated to intensify their organic cultivation and produce more.

"My husband and I have been Elkana members for four years. Our income increased. Since in Tsnisi the living is mainly earned through barter, we didn't have access to cash. We



learned a lot during the trainings that Elkana organizes. Also, Elkana's presence helped us to give good education to our kids in Tbilisi," says Guram Nemsadze, a farmer from Javakhq region.

Each farmer is trained at least three times a year. Most farmers use local crops for their own consumption as well. Not only has their food consumption increased, but they also have access to an enriched assortment of healthier food due to its organic qualities.

"In general, I am very glad being part of Elkana and working with Begeli. I very much appreciate the actions Elkana and Begeli do for us. Having the guarantee that Begeli will purchase my stocks of seeds and crops and will pay higher prices gives me confidence and motivation to continue my agricultural activities and lessens my risk of growing large quantities of crops," says Levan Baloyan, a farmer from Tsnisi village from Javakhq.

During the agro-biodiversity program, farmers had the chance to cooperate with scientists and local authorities, which gave them greater knowledge about the importance of organic farming. One of the biggest achievements of Elkana and Begeli is that farmers now approach their activities from an entrepreneurial viewpoint, which enables them to successfully turn their small-scale agricultural activities to profitable businesses.

On the economic level, Begeli is still a start-up, but has a very promising future due to a global shift towards organic farming. Many more people are using organic products, as they become more health conscious. Begeli has achieved about 10% annual growth rate during its first two years of operations. Begeli is expected to have more rapid growth after the certification process is completed, as this will open new markets for the company's sales.

Looking Ahead

Although Begeli is still in its start-up phase, its prospects are bright due to the rising awareness among the population about the benefits of organic products, as well as export opportunities. It plans to grow aggressively in the coming years.

Begeli still faces constraints in accessing international markets, especially after the border with Russia was closed after the conflict in Aug 2008. The long process of food certification also hinders the export process. Also, many farmers have low incentives for producing large quantities, as according to the Value Added Tax law, farmers are exempt from paying VAT if their annual revenues are equal to or less than \$50,000.

In the near future, Begeli and its partner Elkana plan to open a special exhibition shop for biological products in Tbilisi, which will help to increase their sales and market share. Also, Begeli is planning to start producing wines and export high-class wines to Europe. Apart from exploring opportunities in export markets, Begeli is also trying to grow its share in the domestic market by entering the Batumi and Kutaisi markets.¹³¹⁴ Begeli's long-term plans

¹³ Batumi is a seaside city on the Black Sea coast and capital of Adjara, an autonomous republic in southwest Georgia.



include increasing its product mix by introducing tea, wine and butter products. Begeli also plans to introduce stricter quality control.

Elkana and other supporting organizations help Begeli with its development and export strategies. Heidi Eterovic from the UNDP office in Georgia says, *“First of all, we are looking for external markets for Begeli to help export its products. Through several months of research and investigation we concluded that the Georgian product that can have the most demand in the world is wine. Therefore we suggested Begeli to focus on organic wine making as one of the new areas for carrying on their business model. We also calculated, that the maximum capacity Elkana members can produce is 300,000 bottles annually, and this number will grow over time. We think that they should try to publicize their activities through more energetic marketing and PR.”*

The world organic market has been growing by 20% annually since 1990, with future growth estimates ranging between 10-50% per annum. While organic food has become increasingly popular in Georgia, the local market is still quite small. However, consumers are increasingly willing to pay a premium for quality, healthy food. In the long run, Begeli and Elkana anticipate significant growth in demand for organic products, and they are positioning themselves to take advantage of this trend.

¹⁴ Kutaisi is Georgia's second largest city and the capital of the western region of Imereti. It is 221 km from Tbilisi.



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Annexes

ANNEX 1: QUICK FACTS ABOUT GEORGIA¹⁵

Georgia	
	
Land area:	69,700 sq. km (26,916 sq mi)
Population:	4,260,000
Religion:	Orthodox Christianity
Official currency:	Lari
Languages:	Georgian (official), Russian
Capital City:	Tbilisi (1.48 million)
Ethnic Groups:	83.8% Georgian, 6.5% Azeri, 5.7% Armenian, 1.5% Russian, 2.5% other
Government:	Unitary semi-presidential republic
GDP:	\$12.864 billion USD
GDP per capita:	\$4,869 USD

ANNEX 2. MAP OF GEORGIA



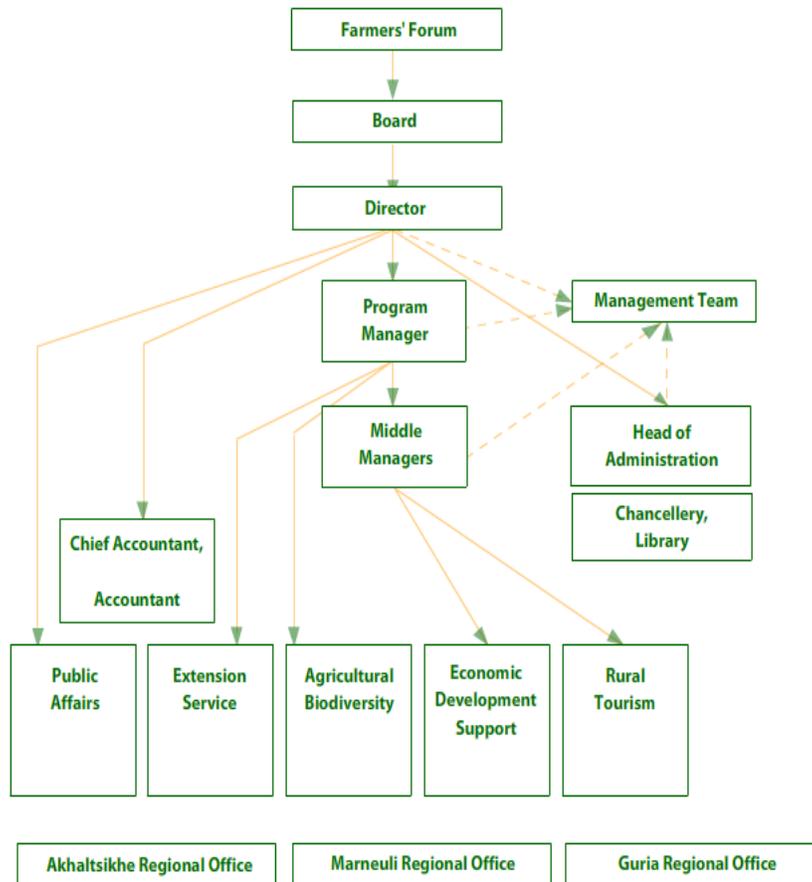
Source: CIA Factbook¹⁶

¹⁵ Central Intelligence Agency, World Factbook, Georgia, November 2009

¹⁶ <https://www.cia.gov/library/publications/the-world-factbook/geos/gg.html>. Retrieved on 26 November 2010.



ANNEX 3: ELKANA'S ORGANISATIONAL STRUCTURE¹⁷



ANNEX 4: ELKANA AND BEGELI'S PARTNERS AND DONORS

UNDP/Global Environmental Facility (GEF): Through UNDP, GEF financed the project on Recovery, Conservation, and Sustainable Use of Georgia's Agrobiodiversity, that was first launched in 2000, and then operated on full-scale starting from 2004. GEF provided \$982,000 for this project with a total budget of \$2.7mln. The project was developed to remove some of the most prevalent obstacles to sustainable agro-biodiversity, such as scarcity of seeds and planting materials, unfamiliarity of the farmers with the importance of agro-biodiversity, poor access to markets, lack of information on production technologies for indigenous crops and an absence of links between farmers and researchers.

Oxfam Novib from the Netherlands: Oxfam Novib financed the project "Development of Organic Farming and Encouragement of Self-Help in Rural Population" which started in 2009 and will be completed in 2011. Oxfam Novib financed the 'Knowledge Exchange Program on

¹⁷ www.elkana.ge



Organic Farming’ in 2007-2008 and the ‘Exchange and Training Program on Organic Agriculture for Rural Actors’ from Tajikistan, Uzbekistan, Armenia, Azerbaijan and Georgia in 2007. Oxfam Novib also supported the establishment of the Biological Farming Training Centre of Elkana in 2004-2007.

Swiss Agency for Development and Cooperation (SDC) – Switzerland: SDC financed a project on the strengthening of organic farming in the South Caucasus and the ‘Tourism and Rural Development Project’ during 2006-2008. Also, SDC co-financed the Development of Ecological Culture in Caucasus /Organic Certification Scheme Development during 2002-2005 organized by Elkana.

HEKS/EPER – Switzerland: The program financed the project “Strengthening of organic farming in the South Caucasus” throughout its whole implementation course starting from year 2002. The project will be completed in 2011. Also, Elkana started the Development of Ecological Culture in Caucasus /Organic Certification Scheme with HEKS/EPER assistance.

Among other partners of Elkana are the Georgian Fruit and Vegetable Ltd., the German Technical Cooperation (GTZ), the Research Institute for Horticulture, Viticulture and Wine-Makin, the Agrarian State University of Georgia, the Agricultural Academy of Georgia, the Farmers Association in Samtskhe-Javakhq, Noah's Ark Centre for Recovery of Endangered Species (NACRES), Orchis Georgian Society Of Nature Explorers, Avalon from the Netherlands, Eurasia Foundation, etc.



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The information presented in this case study has been made available to the company in subject to ensure its accuracy and is accurate to the best of the author's knowledge. The views expressed in the case study are the ones of the author and do not necessarily reflect those of the UN, UNDP or their Member States.

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