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Agricultural Subsidies: The Case of Georgia

This brief explores the role of government subsidy programs in Georgia's agricultural sector, with a focus on grapes, apples, and hazelnuts. These subsidies play a significant role in providing social assistance to the sector and in supporting farmers; however, their long-term impact on industry growth remains a subject of discussion. Key challenges include ensuring product quality, enhancing productivity, and expanding market opportunities, particularly regarding export market concentration and infrastructure constraints.

Introduction

Governments have historically intervened in agricultural markets under the pretext of promoting food security. At first, interventions aimed to provide affordable food for rapidly growing urban populations, afterwards more emphasis was put on enhancing agricultural productivity. Nowadays, agriculture remains a priority for policymakers due to its role in promoting inclusive growth and reducing poverty. Additionally, renewed concerns about food security have further driven these policy efforts (Gautam, 2015).

One of the key instruments of these interventions are subsidies in different forms – such as various input subsidies, price supports, and trade interventions. While their use has been widespread, the economic effectiveness of subsidies continues to be heavily debated. Economic theory suggests that subsidies are useful in resolving market failures; however, even in this case, the actual effect of subsidies is highly dependent on the specific implementation. Further, in many other cases, subsidies have led to distortions and have been detrimental to countries' own economic interests (Gautam, 2015).

Another important concern arises from the political economy of subsidies use. Widening rural-urban income disparities create political pressure to implement measures that support the livelihoods of the large agricultural population. Subsidies, due to their visibility, are a convenient instrument to increase political support from this population group. Further, subsidies offer immediate or near-immediate gains to recipients, whereas public capital investments take longer to deliver results, therefore subsidies are often used as a political instrument. Since political decision-making is typically driven by short-term considerations, often aligned with electoral cycles, long-term investments do not always align with political incentives (Gautam, 2015).

Box 1. Subsidies

Subsidies are financial assistance provided by governments to support or promote specific sectors, industries, or activities within the economy. They can take various forms, including direct cash payments, tax relief, low-interest loans, and in-kind support, such as the provision of goods and services at below-market prices. Subsidies play a significant role as a tool in government expenditure policy. They influence resource allocation decisions, income distribution, and expenditure efficiency (Schwartz & Clements, 1999).

In the case of Georgia, subsidies are the main instrument for support to the agricultural sector, with direct subsidies accounting on average 45 percent of total government expenditure in the sector (2014-2024). The government provides subsidies for most of the country's main crops, including wheat, grapes, hazelnut, tangerines and apples.

Given the scope of this policy brief, only subsidies for major perennial crops – grapes, hazelnuts and apples – are discussed. This as as the wheat sector involves additional food security considerations and due to lack of data for tangerines. Among perennial crops grapes have the highest share of total production (46 percent, including both white and red grapes), followed by tangerines at 14 percent, apples at 10 percent, and hazelnuts at 8 percent (2023, Geostat).

This policy brief firstly explains the Georgian context in more detail, followed by sub-sections discussing each major perennial crop sector, ending with conclusions and policy recommendations.

The Georgian Context

Agriculture plays a crucial role in Georgia's economy. As of 2024, 39 percent of the population resides in rural areas (Geostat, 2024), where agriculture serves as the primary source of income. The sector employs the largest share of the



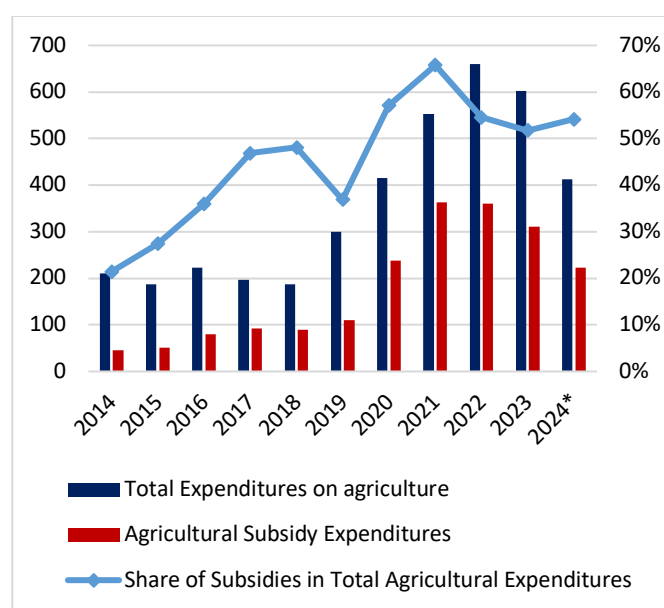
country's workforce—17 percent (Geostat, 2023)—yet it contributes to only 7 percent of Georgia's GDP (Geostat, 2023). At the same time, the disparity in income, and other major socio-economic indicators between the rural (agricultural) and urban population is large. For example, in Tbilisi, the capital of Georgia, the average monthly nominal earnings are 78 percent higher than the average for the rest of Georgia. Additionally, Tbilisi accounts for 70 percent of the total value added generated in the country (Geostat, 2023).

In recent year, the country has undertaken significant efforts to modernize and improve the agricultural sector, yet significant challenges remain. Georgian agriculture is largely characterized by small, fragmented family farms focused on subsistence farming with restricted market access. They are highly vulnerable to weather conditions, yet there is little awareness of or adoption of insurance and risk mitigation measures (State Audit Office of Georgia, 2023). Traditional farming methods remain dominant, with limited use of modern technology. Additionally, most farmers operate on a small scale and lack cooperation and coordination, further hindering efficiency and competitiveness. As a result, they often struggle with low productivity and have difficulty producing high-quality products in stable quantities. Lastly, a high dependency on the Russian market for most agricultural products poses significant risks, as Russia is not a stable trade partner.

Given this context, agricultural subsidies are a highly important topic in Georgia. The Georgian government implements various subsidy programs to support agricultural sectors such as fruit production, viticulture, hazelnut farming, and wheat production. These initiatives aim to promote the sales of grapes, non-standard apples, and tangerines, enhance hazelnut production, and ensure food security by subsidizing essential staples like wheat, particularly during the Covid-19 pandemic.

Starting from 2014 to 2024 (Figure 1), the share of subsidies in total agricultural expenditure has followed an increasing trend, ranging from 21.4 percent in 2014 to peaking at 67.5 percent in 2021. In 2024 the respective share is 54.1 percent. A decline occurred in 2022–2023, following the stabilization of the Covid-19 pandemic. Apart from this, the share of subsidies within agricultural expenditures has been increasing over the last ten years.

Figure 1. Total and subsidy expenditures on agriculture, million GEL (2014-2024)



Source: Geostat, 2025.

While these programs are designed to assist farmers and increase sales, how these subsidies support in addressing the mentioned structural challenges – therefore advancing the effectiveness of the sector – is under question.

The Grape Subsidy Programs

The grape subsidy programs in Georgia are primarily aimed at supporting viticulture in key wine-producing regions, such as Kakheti, Racha-Lechkhumi, and Kvemo Svaneti. These subsidies were designed to stabilize farmers' incomes and ensure smooth harvests, to guarantee that even lower-quality grapes will be sold, particularly for grape varieties used in wine production. In general, the government uses two types of

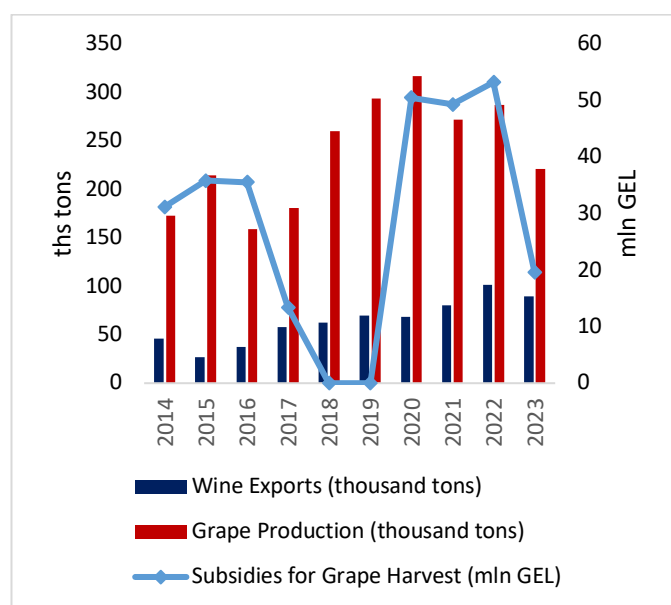


subsidies: direct and indirect. Direct subsidies involve paying farmers a certain amount of money per kilogram of grapes. Indirect subsidies are implemented through state-owned companies that are responsible for purchasing grapes from farmers.

Georgia's grape subsidy program (direct subsidies) was introduced in 2008 and has been implemented every year except for in 2018 and 2019. Starting from 2014, the government provided substantial direct financial support to grape producers. However, starting in 2017, direct subsidies began to decline sharply, and by 2018–2019, the government announced that it would no longer directly subsidize the grape harvest. However, during this period, the state's grape purchasing program remained in place, purchasing any surplus grapes left on the market after private acquisitions.

The Covid-19 pandemic in 2020 prompted a renewed surge in subsidies, with financial support reaching its highest levels in years. This elevated support continued until 2022 but was significantly reduced again in 2023 (by 63 percent), following a decline in production (Figure 2).

Figure 2. Grape production, subsidies and wine exports (2014-2023)



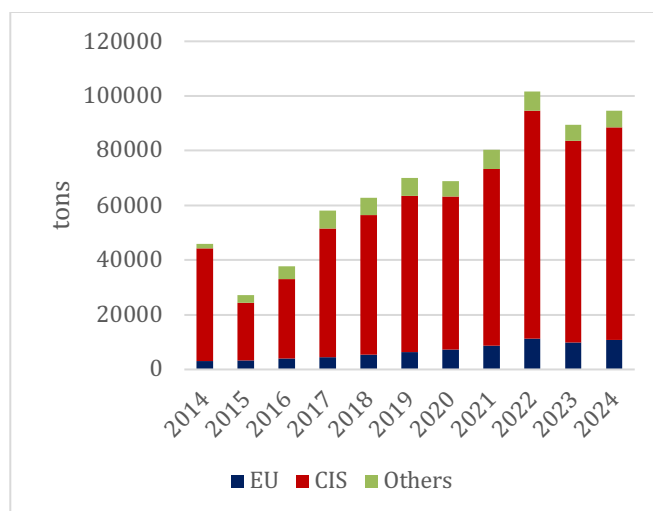
Source: Geostat, 2025.

Grape production has generally followed an upward trend, with record harvests in 2019 and 2020. Given the absence of direct subsidies in 2017 and 2018, the effect of subsidies on production levels is questionable. In more recent years, production has become more volatile, displaying a noticeable decline by 2023.

Wine exports, a crucial part of Georgia's economy, have grown steadily, with volumes peaking in 2022, and persisting at high levels ever since. Export revenues have also increased consistently, reaching an all-time high in 2024, according to preliminary data.

The main destination for the Georgian wine sector is CIS countries. Russia accounts for the largest share among the CIS, with an average of 75.4 percent, between 2014-2024. Russia's share has been increasing in recent years, reaching 85.8 percent in 2024 (among CIS countries). The average share of exports to the EU of total exports is 10 percent (Figure 3).

Figure 3. Wine exports by country groups (2014-2024)



Source: Geostat, 2025.

Although subsidies played a key role in revitalizing Georgia's wine industry following the collapse of the Soviet Union, especially as grape production and processing have increased over the years, their long-term impact have been problematic (Ghvanidze, Bitsch, Hanf, &



Svanidze, 2020). Since subsidies were introduced in 2008, Georgia's grape market has become heavily distorted, with prices shaped by government support rather than supply and demand dynamics.

Even though a significant portion of government funding for the sector is allocated to subsidies, the way in which subsidies affect grape production levels is not obvious. Other sector insufficiencies, such as quality issues and exporting market diversification are inadequately addressed. Grape quality remains a key issue, as farmers lack incentives to improve production practices, knowing that the government will purchase their yield regardless. Additionally, Georgia's heavy reliance on its main export partner, Russia, poses significant risks, and the share of exports to EU countries has not seen substantial growth. Overall, since the subsidies aim to stabilize producers' income rather than to address structural issues in the sector, they may be considered social support.

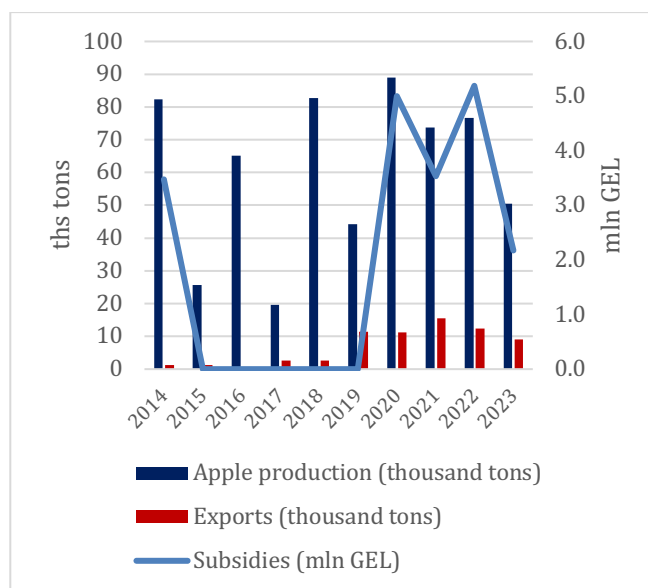
The Apple Subsidy Program

The apple subsidy program in Georgia was introduced in 2014 to support the sale of non-standard apples after market prices dropped to a record low 0.02 GEL. Non-standard apples are damaged fruits that fall from trees due to wind, hail, or other natural factors. Typically unfit for direct consumption, these lower-quality apples are primarily used by factories to produce apple concentrate. The program aimed to stabilize prices and provide financial relief to farmers. Processing companies received financial support for each kilogram of non-standard apples purchased.

The program was discontinued between 2015 and 2019, before it resumed in 2020. The number of companies involved in purchasing non-standard apples for further processing ranges from 12 to 15 over the years.

As for apple production levels, although there were significant production surges in 2016, 2018, and 2020, these increases have been volatile and unstable.

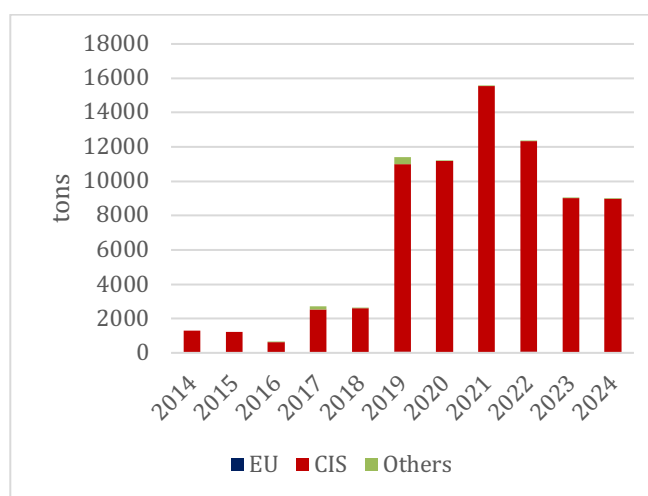
Figure 4. Apple production, subsidies and exports (2014-2023)



Source: Geostat, 2025.

In terms of exports, the volume increased sharply between 2018 and 2019, reaching its peak in 2021 before gradually declining. Most apple exports are directed to CIS countries, with Russia accounting for an average of 94 percent between 2018 and 2024. In contrast, the EU's share remains minimal, averaging less than 1 percent, with no exports recorded to the EU in half of the considered years.

Figure 5. Apple exports by country group (2014-2024)



Source: Geostat, 2025.



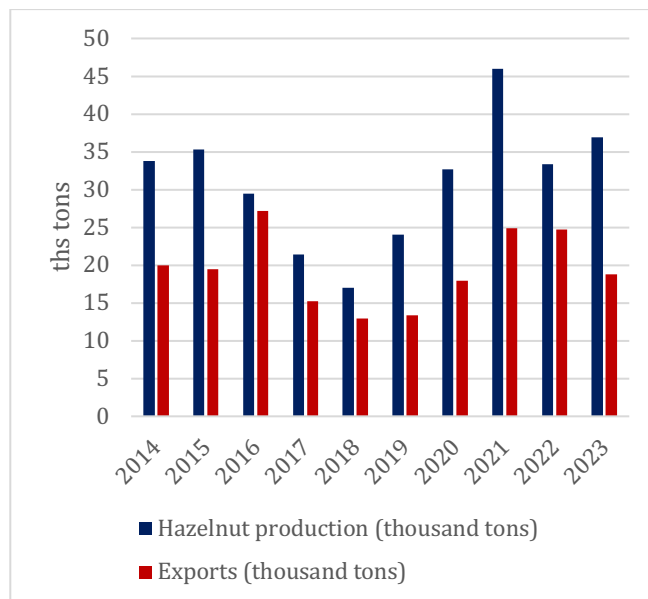
While apple production is highly vulnerable to weather conditions, the adoption of insurance remains low. The provided subsidy program supports farmers in producing lower-quality non-standard apples, thus limiting the incentives to enhance product quality, productivity, or production practices, as farmers rely on the government to purchase their produce regardless. Similar to the grape industry, government support in the apple market functions more as a social assistance rather than a tool for industry advancement.

The Hazelnut Subsidy Program

Georgia introduced the Hazelnut Production Support Program in 2022 to enhance competitiveness, assist farmers, and improve disease management. The program registered hazelnut orchards in a national cadaster, enabling better monitoring and targeted support, to subsidize the purchase of pesticides and agrochemicals essential for hazelnut care and cultivation. The program has continued in 2023 and 2024, with subsidies amounting 22 and 22.6 million GEL, respectively.

Hazelnut production in Georgia has been highly volatile in the past decade. The sector experienced its most severe crisis in 2017-2018 when fungal diseases and an Asian stink bug (*Pharosana*) invasion devastated yields. Consequently, both the quantity and quality of hazelnut production declined. In 2019, the production began to recover, peaking in 2021. However, unfavorable weather conditions resulted in a decline in 2022, with only a partial rebound in 2023.

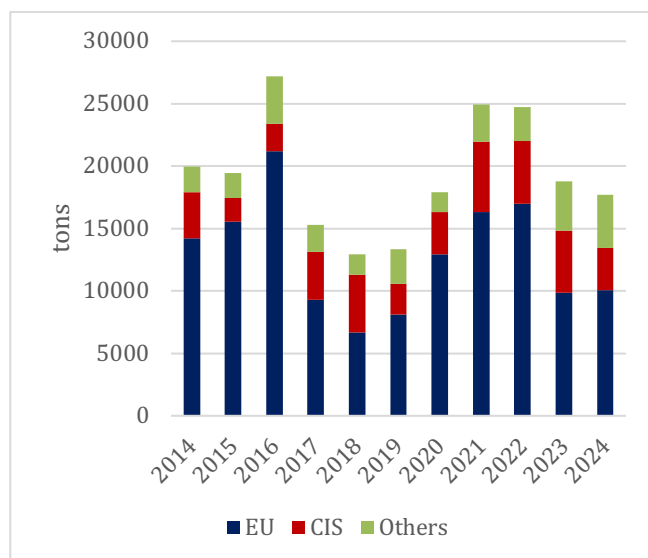
Figure 6. Hazelnut production and exports (2014-2023)



Source: Geostat, 2025.

Hazelnut is mainly exported to EU countries, with an average share of 65.3 percent, between 2014 and 2024. The share of CIS countries in this period is 20.2 percent. However, the share exported to EU countries has been declining 2023 and 2024, to 52.4 and 56.7 percent, respectively.

Figure 7. Hazelnut exports by country group (2014-2024)



Source: Geostat, 2025.



The subsidy scheme in the hazelnut sector seems to be more targeted at the issues the sector is facing, compared to the other discussed programs. The effects are however yet to be explored as the program began in 2022. However, several challenges remain, such as insufficient technical facilities for drying and storing goods essential for ensuring the quality of products (Gelashvili, Deisadze & Seturidze, 2023).

Conclusion and Recommendations

Although the government of Georgia provides substantial support for the agricultural sector, it still suffers from various challenges. Product quality, high vulnerability to weather events and export dependency on unstable partners are major issues for the grape and apple sectors. Further, the effectiveness of the direct financial support and the corresponding incentives within these sectors can be questioned.

For these crops, the subsidy programs seem to function more as social assistance rather than tools for industry development. In the grape sector, guaranteed government purchases reduce incentives for farmers to improve grape quality. Similarly, the apple subsidy program encourages the cultivation of non-standard apples, as farmers rely on state-backed purchases rather than market-driven quality improvements. Apple production has also shown significant volatility over the years, further highlighting the sector's instability.

Additionally, heavy dependence on Russia as a primary export market for these crops presents economic risks. Diversification, particularly to the EU, has remained limited.

As for the hazelnut sector, the subsidy program aims to address some of the structural challenges, while this sector also relies less on the Russian market. However, some issues with infrastructural equipment remain unresolved.

Overall, the share of subsidies in agriculture is very high; further, the design of the programs mainly prioritizes short-term income stability for farmers rather than long-term market competitiveness and sectoral development. To address the discussed systemic challenges, it is essential to develop targeted policies tailored to the specific needs of each sector. While the priorities may differ across each crop, several key areas require focused attention:

- **Quality of Products** – Enhancing product quality through ensuring food safety standards, improved farming and manufacturing practices, and better regulatory frameworks can help increase competitiveness in both domestic and international markets.
- **Market Diversification** – Strengthening ties with new international partners and improving branding strategies can help industries access new markets and reduce risks associated with economic or political fluctuations in dominant trade partners.
- **Infrastructure Development** – Poor infrastructure remains a challenge for the sector. Investments in post-harvest drying and storage facilities, as well as modern machinery and equipment, will enhance efficiency, reduce losses, and improve product quality.
- **Adoption of innovative farming practices**– Adopting innovative farming practices boosts productivity, lowers costs, and enhances sustainability. It helps farmers adapt to changing weather conditions, making agriculture more efficient, environmentally friendly, and resilient.

By addressing these fundamental issues, policies can play a role in contributing to the long-term stability and growth of the agricultural sector, ultimately strengthening the economy and increasing global competitiveness.



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