Challenges of the development and regulation of the state agroinsurance program in Georgia

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Abstract.
There are many risks that are really damaging the country’s economy and its important constituent sector, agriculture. Existing risks cause serious damage to the agro sector as a whole and to the entities engaged in agribusiness. It is clear that it is premature to talk about the global insurance protection of the country’s agro sector, however, in the last few years, serious steps have been taken in the direction of agriculture protection in Georgia, and several important projects are being implemented. It is worth noting the state program of agroinsurance, the main purpose of which is to promote agricultural activities and to compensate the persons involved in this activity for the losses caused by the insurance cases caused by the risks in the agro sector. The main goal of the paper is to study and analyze the challenges in the agro sector of Georgia and the ways to overcome them, the relevance of the state-supported agroinsurance program and its impact on the country’s agrarian sector. The modern state of agriculture, the risks facing it and the possibilities of the agroinsurance project are discussed. As a result of the analysis, some disharmony, inconsistency and problems have been revealed. Although this is an important project, through which farmers are given a unique opportunity to insure the risks they face at an affordable price and avoid financial losses, the problem is that some farmers and small entrepreneurs engaged in agriculture do not try to get involved in the insurance program. Out of approximately 500 thousand farmers in Georgia, more than 150,000 insurance policies have been issued under the state agricultural insurance program in 2014-2022, which is a very low rate and their volume in the risk portfolio of insurance companies is small and unbalanced. Agro insurance program has not yet proved to be profitable for the insurance business either. The existing problems are caused by the low purchasing power of the population, low insurance culture, certain mistrust towards insurance companies and the lack of desirable insurance risks to be insured in the agroinsurance risk portfolio.

Keywords: agroinsurance agribusiness agro sector insurance risk insurance protection state program
Introduction

Humanity has been developing for centuries, and in the process of this development, risks appeared that hindered the further development of society. It became necessary to create new mechanisms and levers to ensure protection against these risks, which would be adjusted to the lifestyle, income level and type of activity of the population. One of such big risks for the country's economy was and still is a large-scale challenge of natural events and various types of insurance cases, which caused serious damage to the country's economy and primarily to the subjects engaged in agribusiness, therefore, taking care of the country's agrarian sector is an important priority for many states.

One of the solid foundations of the prosperity of the population of Georgia and the development of the country's economy is the development of the agricultural sector and the protection of subjects engaged in agribusiness. In the last few years, the state has taken serious steps in the direction of agriculture protection. With the support and financing of the state, the state agroinsurance program was launched in 2014 and is being successfully implemented. The aim of the project is to promote agricultural activities and to compensate for the losses caused by insurance cases caused by natural disasters. But the most important issues remain a problem:

- How acceptable is the state program of agroinsurance for different groups engaged in agribusiness?
- Does the state agro-insurance program take into account all the risks that seriously harm the agro sector?
- To what extent is the population of Georgia informed about the state program of agroinsurance and why is the said program not attractive for all subjects engaged in agribusiness?
- To what extent is the insurance culture of the population and the implementation of the state program of agroinsurance in accordance with the current socio-economic background of the rural population?

After the restoration of Georgia's independence, the agriculture of Georgia faced big problems in the first stage, which was mainly caused by the difficult socio-economic and
political situation of the country. A complex approach to agriculture was not used, the objectives of the establishment of farms were incorrectly identified, there was no established legal framework, no attention was paid to the development of technologies and the introduction of new technologies. Because of this, Georgian agriculture was characterized by low efficiency, which remains an actual problem to this day.

In recent years, relatively more attention has been paid to the country's agro sector, which has led to a whole chain of positive factors, and one of them has become the state agroinsurance program.

From September 01, 2014, the pilot program of agricultural insurance was launched, the implementation of which was entrusted to the Agricultural Project Management Agency at the initiative of the Ministry of Environment Protection and Agriculture. In parallel with the agro-insurance pilot project, in 2014 the German Credit Bank for Reconstruction and Development (KFW) allocated 200,000 euros to the Georgian government as a grant for a 3-month study, the results of which became the basis for the creation of the agroinsurance concept. [1]

Methodology

The main goal of the paper is to study and investigate the problems in the agricultural sector of Georgia, the ways of overcoming them and the perspective, the relevance of the current agro-insurance project with the support of the state and its impact on the development of the country's agrarian sector.

The research uses both quantitative and qualitative approaches to determine the current reality. It is based on statistical materials, data received from various governmental organizations, non-governmental agencies and international organizations. Verbal interviews with representatives of international organizations were used. The conclusion and recommendations are based on the quantitative and qualitative analysis of existing and received data on the current situation and international experience.

Statistical data and results

The budget of the pilot project of agroinsurance launched at the initiative of the Ministry of Environmental Protection
and Agriculture of Georgia was set at 5 million GEL, and in the first stage it covered: losses caused by hail, excessive precipitation, storm and autumn frost. Under the program, only land assets for which a cadastral code, survey plan or GPS coordinates were submitted were accepted for insurance. The maximum amount of insurance premium co-financing to be paid by the agency to one policyholder was determined at 30,000 GEL, and in the case of agricultural cooperatives - at 50,000 GEL. In order to stimulate agricultural insurance within the program, the state financed a large part of the insurance premium from 70% to 90% and offered a subsidy of 70 to 95% of the crop. At the first stage, 5 insurance companies were involved in the state program of agro insurance and in 2014 more than 21 thousand insurance policies were issued and 34 different crops worth more than 153 million GEL were insured on an area of 19 thousand hectares of land.

According to the decision of the state, in 2015 the program was relaunched with minor changes. The budget of the Agroinsurance pilot program was set at 10 million GEL, but the results have deteriorated in all directions. In 2015, more than 7,000 insurance policies were issued within the framework of the agroinsurance program, and various crops worth more than 40 million GEL were insured on an area of 5,000 hectares of land. It should be noted that in 2015, the number of insurance policies issued by insurers, as well as the insured agricultural crops and the area of the insured land, has been significantly reduced. It should be noted that within the framework of the 2015 program, in order to stimulate agroinsurance, the state financed 70% to 90% of the insurance premium.

In the following years, the agroinsurance program developed a lot. In 2016, more than 18,000 insurance policies were issued under the agroinsurance program, and various crops worth more than 133 million GEL were insured on an area of 15,000 hectares of land. In 2017, more than 21,000 insurance policies were issued within the framework of the agroinsurance program, various crops worth up to 139 million GEL were insured on an area of 20,000 hectares of land. [2]

As of today, the results of the Agro insurance program for 2014-2022 look like this: [3]
According to statistical data, it is clear that certain progress and results are seen both in the number of insured objects, in terms of mobilized insurance premiums and in the direction of compensated losses. Also, the volume of insured land areas is increasing slightly, but over the years. But steady growth is still not observed according to all parameters. According to the data of 2023, the volume of insured areas in Georgia has increased by 14% compared to the same period last year, and according to today's data, more than 17,300 hectares of area are insured. The growing data means that farmers have become more active, which also depends on factors such as the increase in co-financing of insurance premiums from the government, as co-financing for certain crops has increased from 50% to 70%.

Despite the steps taken by the state, which are manifested both in financing, as well as information and other technical works, the intended result has not yet been achieved at this stage, which requires even more important and systematic work to be carried out in the future.
Discussion and International Experience

In agriculture, all projects implemented with the help of the state and international donor organizations aim and serve the development of the country's agro sector, which in turn is directly proportional to the increase in financial income of the country and the entities engaged in agribusiness, however, during the implementation of the agro-insurance project, which has been gradually improved over the years, differences of opinion and problems have become quite evident. There is a heated discussion among representatives of governmental, non-governmental and agro-sector farms about the suitability and problems of the agro-insurance project.

One of the relevant issues is how accessible and acceptable the state program of agro-insurance is for different levels of agriculture, how informed is the population of Georgia about the state program of agro-insurance, and why is the said program not attractive for all subjects engaged in agribusiness? The problem was the lack of information about the details of the mentioned project. The state has taken some steps in the matter of providing information on agro-insurance, and this has yielded results, although there is still a lot of work to be done in this direction.

An important problem lies in the methods by which the loss is assessed and whether it is done on the same principle by all insurers involved in the state agroinsurance program? The fact that the loss assessment is not done by all insurance companies using a common method, and the insurance companies involved in the project compensate the people affected by the insurance accident with different percentages, is often a cause of misunderstanding and dissatisfaction. Therefore, on this issue, the state and the insurers are in common. A specific and systematic approach is needed.

The existing problems are compounded by such important factors as: low financial status of the population, again low insurance culture and certain mistrust of the population towards insurance companies. Also, it is particularly noteworthy that the number of insurable insurance risks in the portfolio of agroinsurance risks does not increase significantly. There are insurable risks such as frost and drought that cause serious damage to the agro sector, but
these risks have not yet been included in the state agroinsurance program.

Although at this stage it is impossible to develop agroinsurance without subsidies from the state, it is necessary to gradually move agroinsurance to completely commercial foundations. The state should not spend money on the agroinsurance program, and for the insurance companies this field should be made attractive and profitable, and the farmers should use the agro-insurance product wisely. The solution is to gradually reduce the direct subsidy.

Eliza Sánchez Elizio, a Spanish agroinsurance expert, was in Georgia at the invitation of USAID's 'Economic Upswing Initiative Project', who made the following assessment: "Agroinsurance in Georgia cannot develop without state subsidies, the participation of the private insurance system of Georgia in the insurance of the agro sector is small, there is a private insurance system in Georgia that covers agro risks It insures without subsidies, however, there is a lack of insurance culture in the country, as well as a lack of legislation and control mechanism"

According to Spanish expert Eliza Sánchez Elizio, "the volume of the agricultural insurance market in the country should increase, the area of risk factors should increase, and new areas should be covered at the expense of the participation of insurance companies." The state should adopt a law on agro-insurance and have an obligation to insure the risk of farmers and subsidize insurance companies." [5]

According to the Spanish expert, the United States of America is the world leader in terms of the portfolio of agricultural insurance premiums. According to statistical data, the United States of America pays 11,650 million dollars in premiums in agricultural insurance. Japan is in second place with 3,900 million US dollars, and Spain is in third place with 920 million US dollars. Then Brazil with 640 million USD, Mexico with 500 million USD, Argentina with 280 million USD and Turkey with 245 million USD.

Subsidy in Spain and other European countries also plays a major role in the development of the agro sector and agroinsurance. Clear examples of this are Austria, where 50% of the insurance premium is paid by the farmer and 50% by the
state. In Austria, 75% of all fields, 60% of vineyards, 90% of vegetables, 80% of orchards and 30% of cattle are insured. Poland, where since 2009 the state participates in agroinsurance and finances 40% of crop insurance and 50% of commodity insurance. However, it should be noted that only 3% of Polish farmers insure their crops.

Conclusion and recommendations

The development of the agro sector and the protection of subjects engaged in agribusiness are one of the solid foundations and guarantees for the growth of the economic potential of Georgia, the provision of a stable environment for the population of Georgia, the growth of the country's financial income and the further sustainable development of the country's economy.

Although it is premature to talk about the global insurance protection of the country's agro sector, the state has taken a serious step in the direction of agricultural protection, which was manifested by the introduction of the state program of agro-insurance, the main purpose of which is to promote agricultural activities and to provide insurance for insurance cases caused by the risks of natural events for those engaged in this activity.

The development of the country's agro sector is one of the important issues, however, it is necessary to find the golden middle, when the steps taken by the state will be in full harmony with the challenges of the country's agro sector, the interests of subjects engaged in agribusiness and the current socio-economic background of the rural population.

It is vitally important to develop a specific and systematic strategy that will ensure the protection of the agro sector and agribusiness entities during the implementation of the state agro-insurance program. In the end, this will be a big step taken for the economic development of both agriculture and the country and the growth of financial income. It is clear that at this stage, it is impossible to develop agro-insurance without subsidies from the state, however, it is necessary to gradually move agroinsurance to completely commercial foundations in order to make this field as attractive and profitable as possible for insurance companies.
BUSINESS ECONOMICS

References: