



International
Labour
Organization



Enterprise
Formalization

CASE STUDY
3/2021

► Certification and access to markets as an incentive to formalize

Experiences of **Georgian** dairy producers and farmers

This document is part of a series of case studies by the Enterprises Department of the ILO. Each case study presents one or several approaches that contribute to enterprise formalization across the world. The case studies provide a snapshot on a particular initiative and may not be exhaustive.

Certification is a key element to making formality more rewarding and sustaining formalization once enterprises have been registered. When a certification procedure is established and entrepreneurs are aware of its value, they can register to apply for certification and start producing and selling to new buyers or customers in the formal economy, thereby creating opportunities to make their business more sustainable and afford the cost of compliance year-on-year. In the case of the Alliance Caucasus Programme (ALCP) in Georgia, certification provided dairy producers with access not only to domestic but also to international markets.



1. What was the initial situation?

Before the programme started, in 2008, small dairy farmers in Southern regions of Georgia used the milk they produced to make cheese, which they marketed themselves or sold through informal intermediaries. Sales were often insecure and frequently resulted in high transaction costs. A minority sold raw milk to milk collection points from where it went to two large formal factories (which had a history of non-payment to farmers for uncompliant milk and large debts accrued in villages), or to small informal dairy enterprises.

The programme was implemented in a context of increased and more effective regulation, with the EU-Georgia Association Agreement coming into effect in 2015, opening up the European market for dairy producers in Georgia. The agreement included stipulations on alignment of food safety and hygiene standards as well as product labelling. This meant that both the farmers and dairy enterprises had to comply with the quality standards Hazard Analysis and Critical Control Points (HACCP) and food safety and hygiene regulations. On the domestic side, supermarkets and other formal retailers increasingly required HACCP compliant and labelled cheese due to increased demand from urban consumers that preferred compliant and labelled cheese. In

order to obtain the HACCP certification, the dairy enterprises needed to be registered in the Public Registry and with the National Food Agency. They also had to issue formal documents when selling to these supermarkets, and be visible with the National Revenue Service.

► Issues that existed before the intervention

- Inadequate food safety and hygiene practices of farmers and dairy enterprises
- Low profitability due to low-quality inputs, high transaction costs and uncertain sales
- Irregular production of milk and high failure rate of dairy enterprises
- Most dairy enterprises were not complying with business registration and taxation requirements
- Business relations between retailers and dairy enterprises was not based on written contractual agreements
- Absence of adequate support services to address issues regarding non-compliance
- Challenging working conditions to produce non-compliant cheese



2. What were the solutions?

The ALCP facilitated a wide range of interventions with various private and public sector partners, based on a Markets Systems Development (MSD) approach. The interventions targeted actors in the value chain itself, **farmers** and **dairy enterprises** foremost, **supporting functions** (improving or developing new services provided to actors in the value chain), and to some extent the **regulatory environment**.

How did ALCP respond to the existing challenges?

A) Interventions directly addressed at farmers and dairy enterprises in the value chain:

As an intermediary actor, ALCP intervened on many fronts leading to a systemic change of the dairy market and effectuating better compliance with regulatory standards. In addition, more farmers and enterprises decided to formalize. A number of initiatives and interventions contributed to this change.

- Firstly, dairy enterprises that participated in the programme were supported through consulting services, training and advice, for example on quality assurance and more effective distribution channels. This raised awareness about fundamental areas of business operations and assured that businesses developed the capacity to adapt their economic activity and comply with the newly introduced regulations over the long-term.



- ▶ Secondly, dairy enterprises received tailor-made co-investments (e.g. machinery financing) for their business operations. Subsequently, beneficiaries – which had to be formally registered, own a bank account and maintain formal records – gained better access to formal finance. Obtaining finance was therefore used as an effective instrument to incentivize formalization.

- ▶ Thirdly, the ALCP intervention yielded at improving the business operations of farmers through very practical means. This enabled better and continuous compliance with regulatory standards for actors along the value chain. As for example, support to improve inputs and breeds used by the enterprises as well as access to vet pharmacies and other veterinarian services such as free vaccination complemented the range of support.

B) Interventions that create, change or strengthen services and supporting functions:

These interventions consist of initiatives aimed at capacitating actors who provide important services that strengthen operations in the value chain. Moreover, they also include ALCP interventions that improve or implement relevant services directly.

- ▶ Support to service providers in the value chain was focused on **capacity development** on:

- a) Food Safety & Hygiene
- b) HACCP-related management and procedures
- c) Business development services (e.g. business plan development, assistance with loan and grant applications)
- d) Conducting environmental impact assessments

- ▶ Support to strengthen **direct service provision** included, for example:

- a) Introduction of the quality assurance mark *Georgian Milk Mark (GMM)* which guarantees that cheese is HACCP compliant
- b) Information campaigns through mass media on better farming practices and awareness raising about existing services and standards
- c) Facilitation of improved veterinary pharmacies and services
- d) Access to agricultural machinery
- e) Access to targeted and affordable finance

C) Interventions changing the regulatory environment and rules

By addressing rules and the regulatory environment, the interventions further impacted the legal framework and interaction between various actors in the market. This amplified systemic change towards higher compliance and formalization in the dairy market and signified more inclusiveness for certain group of actors. Some of the following alterations were introduced by ALCP:

- a) Continuous advocacy for regulatory change through its mandate in sectoral Advisory Committees
- b) Co-investment (with the Government) in and strengthening of animal disease regulation and control
- c) Support to the establishment of *Women's Rooms* which help rural women to participate in local decision making processes, accessing public services and business-related support

3. What were the results?

ALCP has contributed to a fundamental shift in the dairy market system in its project areas.

On the level of dairy enterprises and farmers:

Dairy enterprises started working with milk collectors and farmers to shift the activities of farmers from producing cheese to focussing solely on providing milk that complies with standards.

In addition, dairy enterprises have formalized their operations, complied with HACCP standards (at least 50 per cent of enterprises) that improved quality, unlocked access to formal domestic retailers and international markets and improved working conditions. Access to formal markets has enabled dairy enterprises triple their income from USD 1.98 to 6.42 in 2019, 40 per cent of which can be attributed to the ALCP. Furthermore, all 39 dairy enterprises have registered at the Revenue Service to pay sales and profit tax.

Farmers shifted from producing cheese to supplying dairy enterprises with HACCP-compliant milk, a milk which is of a higher quality and more hygienic. This saved them time and costs and responded to the increased demand for quality milk products in more formal markets. Within the value chain, an estimated 70 per cent (23,528) of farming households in the ALCP regions made this shift. Farmers have also expanded their cattle numbers and are increasing milk yields per cow through the use of quality inputs and better husbandry.

The increased demand and stability across the value chain has **helped foster lasting relationships between farmers, milk collectors and dairy enterprises**. While verbal agreements are still widely used in the bottom-end of the value chain, dairy enterprises use written contracts with distributors and with some of the formal buyers such as supermarkets and restaurants and keep records of all transactions. Moreover, working conditions and the application of standardized practices have been improved.

On the level of support services:

Needed **support services** that were not available prior to the intervention **have now been integrated into the activities of various service providers, are fee-based, profitable and experience growing access and demand**. Hence, relevant support functions have been strengthened by ALCP and service providers are capacitated in a sustainable manner, which means the continuous provision of crucial assistance to dairy enterprises and farmers.

On the level of rules and the regulatory environment:

The interventions addressing the rules and regulatory framework have also introduced an encompassing change. Over the years of the programme, **requirements to register the business activity, labour legislation so as food safety and hygiene standards became better known and were applied by an increasing number of enterprises** in the value chain.

Overall, the facilitation of ALCP and the implemented interventions supported farmers and dairy enterprises to adapt and comply with the progressing regulatory framework. This dynamic, in turn, strongly encouraged formalization in order to be able to continue and even grow business operations. Asked about the importance of the ALCP support for their businesses, most dairy entrepreneurs responded that they would have not been able to meet the new requirements without it.

4. Lessons learned/key take aways

Changes in the market system provided incentives for businesses to formalize. This contributed to farmers and enterprises adopting some aspects of formalization that enabled them to make use of new opportunities and so increase sales and profits, which resulted in higher incomes, more employment and better working conditions. During the Covid-19 pandemic, dairy enterprises with a greater degree of formalization were in a better position to weather the crisis. They were able to apply for permits for distribution during the lockdown, continue to access formal markets when informal markets were shut down and switch to producing more economic cheese types. This case study shows how formalization can be a means to reduce poverty, safeguard and expand sources of income and achieve systemic change in a market system.

5. Resources

 [Better cheese, better work](#). ILO, 2020



 More case studies on enterprise formalization can be found [here](#)

*This document was developed by
Amélie Duval, Kareem Bayo and Judith van Doorn.*



International
Labour
Organization

