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**IFAD**

**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**

**Executive Board – Eighty-Third Session**

Rome, 1-2 December 2004

**GEORGIA**

**COUNTRY STRATEGIC OPPORTUNITIES PAPER**

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**CURRENCY EQUIVALENTS**

Currency Unit	=	Lari (GEL)
USD 1.00	=	2.2 GEL
GEL 1.00	=	USD 0.49

**WEIGHTS AND MEASURES**

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m <sup>2</sup> )	=	10.76 square feet (ft <sup>2</sup> )
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

**ABBREVIATIONS AND ACRONYMS**

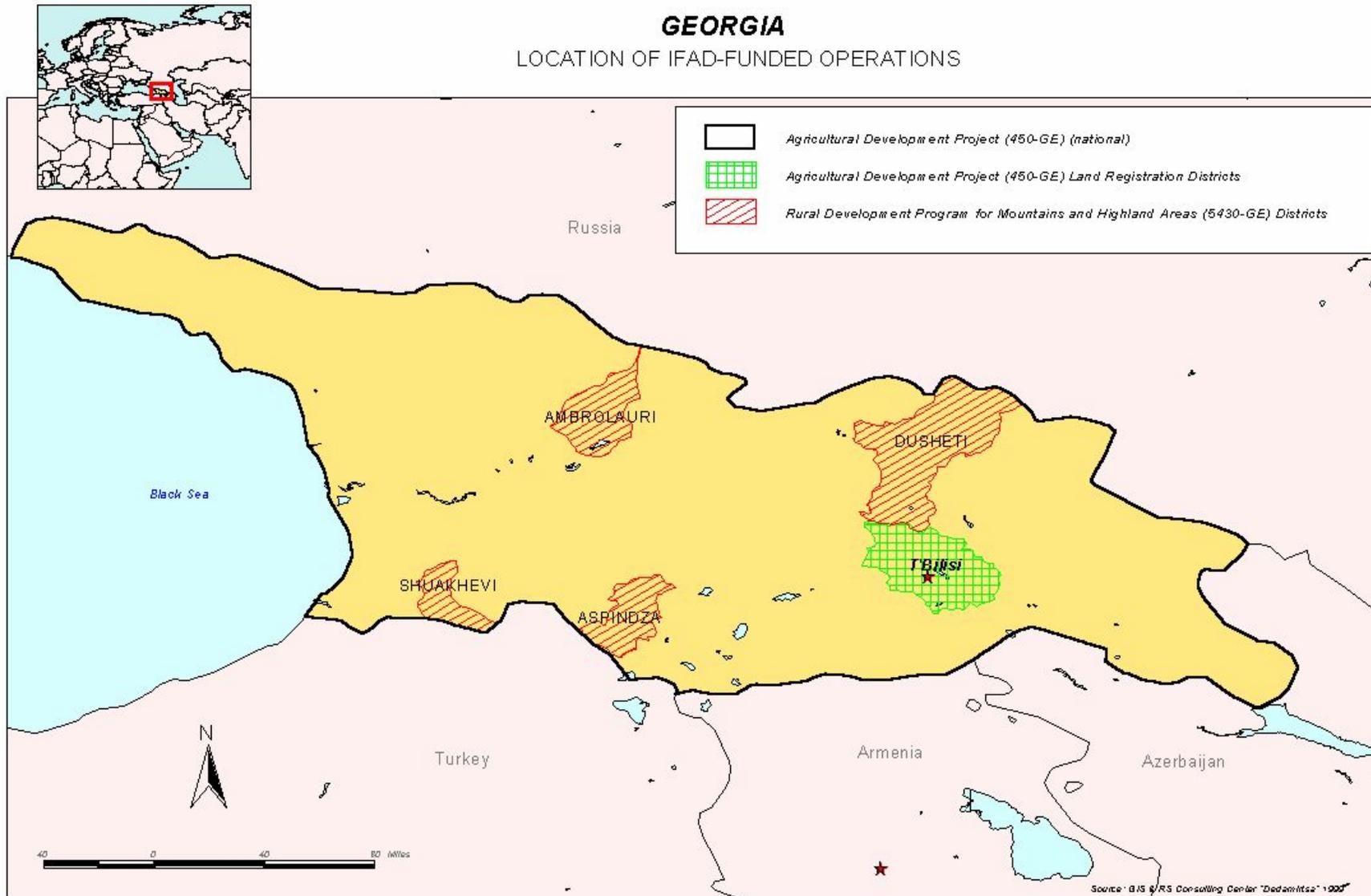
ADP	Agricultural Development Project
CBO	Community-Based Organization
CEN	Central and Eastern European and the Newly Independent States
COSOP	Country Strategic Opportunities Paper
EDPRP	Economic Development and Poverty Reduction Programme
NGO	Non-Governmental Organization
RDPMHA	Rural Development Programme for Mountainous and Highland Areas
SUSOP	Subregional Strategic Opportunities Paper
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

**GOVERNMENT OF GEORGIA  
Fiscal Year**

1 January – 31 December

## GEORGIA

### LOCATION OF IFAD-FUNDED OPERATIONS



*The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.*

## IFAD PORTFOLIO OVERVIEW

**Region: Near East and North Africa**

**Country: Georgia**

Project Id	Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Executive Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of Approved Amount)
1035	Agricultural Development Project	World Bank: IDA*	World Bank: IDA	HC**	30 Apr 97	13 Aug 97	31 Dec 05	G - I - 30 - GE	USD	72 000	0.999
1035	Agricultural Development Project	World Bank: IDA	World Bank: IDA	HC	30 Apr 97	13 Aug 97	31 Dec 05	L - I - 450 - GE	SDR	4 700 000	0.721
1147	Rural Development Programme for Mountainous and Highland Areas	IFAD	UNOPS	HC	13 Sep 00	04 Sep 01	31 Mar 09	G - I - 102 - AZ	USD	80 000	0.869
1147	Rural Development Programme for Mountainous and Highland Areas	IFAD	UNOPS	HC	13 Sep 00	04 Sep 01	31 Mar 09	L - I - 543 - GE	SDR	6 100 000	0.152

\*\*HC: Highly concessional

\*IDA: International Development Association

## EXECUTIVE SUMMARY

1. IFAD commenced its operations in Georgia in 1997 with the cofinancing of the Agricultural Development Project, initiated by the International Development Association of the World Bank. In 1999, IFAD, citing similarities in the natural agricultural resource base and the commonalities of the problems and market constraints that resulted from the break-up of the former Soviet Union, formulated a joint subregional strategic opportunities paper for Azerbaijan and Georgia. The paper calls for providing assistance with the transition from a centrally planned to a market-oriented system while establishing pro-poor policies and institutional frameworks. In 2002, IFAD decided to review its operational strategies in Azerbaijan and Georgia, and to develop a country strategic opportunities paper (COSOP) for each country.

2. The Government of Georgia's poverty reduction strategy is expressed in the Economic Development and Poverty Reduction Programme (EDPRP) issued in June 2003. The EDPRP places great emphasis on economic growth as the main engine for increased job opportunity and a subsequent future decrease in poverty levels. It sets specific targets for economic growth (at gross domestic product growth of 5-8% a year) and a reduction by 2015 of extreme poverty (from 14% to 4-5%) and of overall poverty (from 52% to 20-25%). To achieve these objectives, the EDPRP focuses on programmes to improve governance, create a stable macroeconomic environment, improve the business climate, foster human development, reduce the vulnerability of the poor through better-targeted safety nets, and develop priority sectors of the economy, energy, transport, communications and agriculture while protecting the natural environment.

3. **Main thrusts for IFAD support.** The proposed COSOP (2004-2009) builds on and supports Georgia's poverty reduction strategy as expressed in the EDPRP. The COSOP aims at improving the productive capacity of the rural poor, enhancing their access to product markets and increasing their share of the market value of produce, empowering rural women and mainstreaming gender in all project activities, and promoting the conservation of natural resources. It addresses IFAD's strategic objectives of strengthening the capacity of the rural poor and improving their equitable access to productive natural resources, financial assets and markets. The COSOP also has profound linkages with the thrusts of the regional strategy for countries in Central and Eastern Europe and the Newly Independent States subregion.

4. The main policy thrusts of the new COSOP are the revitalization and commercialization of farming through the development of *market linkages*, connecting small farmers to markets. The COSOP will also support efforts aimed at the development of appropriate institutional arrangements (small and medium-sized packaging/grading industry, processing industry and farmer producer organizations) that facilitate the establishment of more efficient, transparent and remunerative marketing arrangements for smallholders to dispose of their production. Partnerships in this regard with more market-oriented donors and the private sector will be essential in tackling the daunting task of restructuring, rehabilitating and injecting new capital into agro-processing and marketing endeavours.

5. IFAD will also continue to support selected investments in *improved on-farm productivity*. Access to improved seeds, veterinary services and extension advice is still needed to support the small and disadvantaged farmers. IFAD investments will focus not only on primary agriculture production but also on other areas of the rural economy and support for the *non-farm rural economy* such as small and medium-scale agro-processors, agricultural service providers and other types of rural businesses; this offers some of the best opportunities to stimulate growth and build the new markets needed for poverty reduction. IFAD will target these enterprises through provisions for appropriate financial services and technical assistance. It will also continue to give high priority to the development of *rural financial services* as a fundamental precondition for sustainable economic growth. While the break-up of the large state and cooperative farms has largely been completed, the creation of *farmer associations* that can group small farmers together is essential for agricultural

development and rural poverty reduction. Such grouping will facilitate the management of farm resources by realizing economies of scale, reducing transaction costs, providing rural credit and wielding bargaining power in the marketplace. The formation and promotion of community-based organizations as vehicles of change is essential to the Fund's strategy of targeting the rural poor, in particular the landless, small farmers and women. Therefore, *community development* activities to organize, strengthen and empower farmers, the rural poor and women will be an integral part of the strategy.

6. **Main opportunities for project interventions.** For the next five years, IFAD will continue to focus on rural poverty in Georgia. This choice is consistent with and builds on the accumulated experience of IFAD in the transformation of the agricultural sector from its inception after the collapse of the former Soviet Union. In the case of the mountainous and highland areas, both IFAD and the Government are committed to a long-term programme that incorporates up to three consecutive projects over a period of 12-15 years. In the lowlands, the Agricultural Development Project has provided a widely appreciated contribution to land privatization and registration, and enhanced the prospects for land market development. It has also helped introduce rural credit concepts and operations, and supported preliminary attempts at community organization, participation and development. These interventions urgently need to be consolidated and further developed to their fruitful conclusion.

7. **Areas for policy dialogue.** The transformation of a centrally planned economy to a market economy requires major policy decisions and consequent changes in the legal framework. These policy decisions and their legal manifestations have direct and significant impacts on the distribution of ownership rights (for instance, of land), the incentive structure for production and investment, the social behaviour of individuals and communities, and poverty reduction objectives. With experience gained from project implementation and as the political and socio-economic situation unravels, policies and laws need to be revisited and adjusted. IFAD will join with other donors in pursuing a constructive policy dialogue agenda using projects as entry points for policy dialogue concerning access to financial and other markets (particularly product markets) and land privatization issues. IFAD and other donors are involved in serious attempts to introduce the concept of credit to farmers, create collateral through land privatization and markets, establish modalities for rural financing, solicit the support and participation of civil society (user associations, credit unions and associations and non-governmental organizations) and encourage investments for improving the competitiveness and marketability of agricultural produce.

8. **Tentative lending framework.** IFAD's programme in Georgia will continue to focus on the two main livelihood systems of the mountainous areas of the Greater and Lesser Caucasus and the lowlands lying between. IFAD will seek to maintain a maximum of two ongoing operations at any time, with at most one operation in each of the two livelihood systems. On the basis of current projections of the performance-based allocation system, Georgia will qualify for a base lending scenario of USD 8-10 million every six years, enough for one project loan. With improvements in the overall policy and institutional framework, sector policy framework and portfolio performance, a higher case scenario of USD 8-10 million every four years becomes possible.

9. The ongoing Rural Development Programme for Mountainous and Highland Areas calls for the preparation of a second-phase programme starting with a mid-term evaluation scheduled for the fourth year of the current first-phase programme (2006). This timetable will be closely monitored to look for an opportunity to expedite the preparation process depending on implementation pace, impact, sustainability and users' demand for programme investments and services. For the irrigated rainfed lowland areas, the COSOP envisages the preparation of a project that will aim at enhancing farmers' role as private farmers, increasing agricultural productivity and improving effective demand, produce prices and the farmers' share of those prices, building on the experiences of the Agricultural Development Project, which is scheduled for completion by the end of 2005.

## GEORGIA COUNTRY STRATEGIC OPPORTUNITIES PAPER

### I. INTRODUCTION<sup>1</sup>

1. IFAD commenced its operations in Georgia in 1997 with the cofinancing of the Agricultural Development Project (ADP), which had been initiated by the International Development Association of the World Bank. The project's strategic objective was to increase agricultural productivity in Georgia by supporting the transformation of the centrally planned agricultural sector into one based on principles of market economy and by providing farmers with access to rural financial markets.

2. In 1999, IFAD, citing similarities in the natural agricultural resource base and the commonalities of the problems and market constraints that resulted from the break-up of the former Soviet Union, formulated a joint subregional strategic opportunities paper (SUSOP) for Azerbaijan and Georgia. The paper calls for providing assistance with the transition from a centrally planned to a market-oriented system while establishing pro-poor policies and institutional frameworks. Its main thrusts are enhancing the competitiveness of the agricultural sector, diversifying income sources through off-farm income-generation, building participatory village and community-based organizations (CBOs), and improving access to rural finance. The SUSOP emphasizes the catalytic role of IFAD in initiating, piloting and supporting actions and activities necessary for effective and efficient production and marketing systems.

3. Within the framework of the SUSOP, IFAD processed its second intervention in Georgia, the Rural Development Programme for Mountainous and Highland Areas (RDPMHA). This long-term programme focuses on the agriculturally poorly endowed and environmentally fragile mountainous and highland areas. Its overall goal is to assist the population in these areas in raising their standards of living while protecting the natural resource base and the environment.

4. In 2002, IFAD decided to review its operational strategies in Azerbaijan and Georgia and develop a country strategic opportunities paper (COSOP) for each country. The formulation of the Georgia COSOP was based on an interactive and iterative consultation process. A COSOP workshop was held in Tbilisi on 14 November 2002 to explain the conceptual framework and thrust of the proposed country strategy, consult and interact with major stakeholders and partners for feedback, enhance participation and local ownership of the proposed strategy, and validate the conceptual framework, its relevance and implementability.

5. Senior government representatives including the Deputy Minister for Agriculture attended the workshop. Another 50 participants representing the various government agencies, the poor and their organizations, women's groups, donors, non-governmental organizations (NGOs) and other CBOs also were present. Workshop discussions started with a review of IFAD's *Rural Poverty Report 2001*, the new *Strategic Framework for IFAD 2002-2006* and the regional strategy for Central and Eastern Europe and the Newly Independent States (CEN). That was followed by presentations on Georgia's Economic Development and Poverty Reduction Programme and the strategic priorities of the agricultural sector, and on the lessons learned from IFAD-supported operations in Georgia. Those presentations provided the background for the discussion of the proposed IFAD country strategy for Georgia. There was general consensus on the main elements of the country strategy and on the policy dialogue agenda. The commitment of IFAD to provide support to Georgia in its fight against rural poverty was much appreciated.

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<sup>1</sup> See Appendix I for additional information.

## II. ECONOMIC, SECTORAL AND RURAL POVERTY CONTEXT

### A. Country Economic Background

6. Georgia is located in Eastern Europe and covers an area of 69 700 km<sup>2</sup>. It borders the Russian Federation, Azerbaijan, Armenia and Turkey. The Black Sea forms its western boundary. The population was estimated at 5.22 million in 2001, and registered a negative average annual growth rate of -0.4% in 1995-2001. The rate of urbanization is high, about 55% in 2000, with 1.5 million people, or 27% of the population, living in the capital, Tbilisi. Life expectancy is 73 years. The education level in Georgia is high, and as much as 17.5% of the population have a post-secondary education.

7. Georgia gained its independence in April 1991 in the aftermath of the break-up of the former Soviet Union. Far from being a smooth process, the disintegration was followed by political turmoil, civil war, de facto secession of some regions and deterioration in incomes and social protection. Real net material product declined by about 77% from 1980 to 1993. Urban unemployment increased to over 20%. As a result of the war in Abkhazia, a large group of internally displaced persons was created, requiring humanitarian support beyond the country's capacity. By 1994, inflation had increased to over 50% a month; by 1995, agricultural output was half of its 1990 level, and Georgia needed to import 80% of its grain requirements. Nevertheless, during these difficult times, agriculture acted as a buffer against negative employment possibilities in other sectors of the economy. The agro-processing industry, developed to serve the highly integrated Soviet markets, was cost-inefficient, had obsolete technologies and suffered from the lack of investments and replacements and from the cut-off of trade routes. The result was that business came to a standstill and social services collapsed.

8. Georgia ranked 81<sup>st</sup> worldwide in terms of the Human Development Index of the United Nations Development Programme (UNDP) in 2001. Its economy initially contracted by 77% from 1990 levels, but has recovered partially to about 60% of the pre-1990 level. Gross domestic product (GDP) per capita in 2001 stood at USD 590, or about USD 2 660 in purchasing power parity dollars. Nearly 45% of the population live below the poverty line. However, a large informal economy exists and is estimated at 30%. Indeed, household surveys have shown that household expenditures indicate much higher disposable income than was disclosed by respondents for their earnings. About 25% of workers hold a second job.

9. Lately, the economy has registered robust growth. The growth rate was 1.7% in 1998, but improved to 3.7% in 2000 and 4.8% in 2001. In 1993, a new currency, the Lari (GEL), replaced the rouble at a rate of GEL 1.0/USD 1.0. In 1995, a stabilization programme aiming at price stability, liberalization of markets and adjustment of the exchange rate was successfully implemented. The currency has since been in a managed float. In November 1996, the exchange rate was GEL 1.27/USD 1.0 and in June 2001 it settled to GEL 2.2/USD 1.0. Inflation rates have continued to drop, reaching an annual average of about 4.6% (2001).

10. The growth of the economy depended to a large extent on joint ventures for the processing of agricultural products (particularly wine production), trade and tourism. For a number of years in the 1990s, scrap metal was Georgia's main export, an indication of the dismantling of the vast industrial complexes that existed during the Soviet era. Future growth will be affected by foreign direct investments in oil transport and the transit fees that will result from oil passage from Azerbaijan to the Black Sea. In particular, the oil pipeline is expected to have an important impact on the growth of the economy and on the increase of employment opportunities among the highly trained population.

## B. Agricultural Sector

11. Georgia is a country of immense natural diversity with favourable conditions for producing a wide variety of annual and perennial crops and livestock. The agriculture sector presently accounts for about 20% of GDP and provides employment for more than 50% of the total population. Agriculture is Georgia's most important export sector and generated around USD 91.2 million (GEL 196.1 million) in foreign revenue in 2001, or about 28% of total exports. Because of the relative size and importance of agriculture in employment generation, developments in this sector have a major bearing on Georgia's overall growth and prosperity. As in other CEN countries, agriculture and agriculture-related businesses are typically the only sources of income for rural residents, making growth in the farm sector one of the few options at present for rural poverty reduction.

12. When Georgia was part of the Soviet Union, its economy was transformed from one based on subsistence agriculture to one that relied on heavy industries, massive state subsidies, and protected markets for specialty agriculture products including tea, citrus, early potatoes, wine, mineral water, cognac, canned fruit and fresh vegetables. In return, Georgia imported more than 50% of its grain, 60% of its dairy products and 33% of its meat. At the end of the Soviet era, Georgia contributed more than 10% of all inter-republic trade in food and agriculture, and the value of agricultural exports was 1.7 times greater than the value of food imports. All agriculture production was by large state and cooperative farms (the *sovkhoses* and *kolkhozes*) based on specific climatic advantages rather than cost and efficiency. Irrigation water was provided by massive pumping stations, and livestock production was organized in large centrally managed units.

13. Since the collapse of this command system, Georgia has effectively reverted to subsistence agriculture. Recent surveys suggest that 83% of the rural population depend entirely on their own farms for subsistence and that a typical household consumes 73% of what it produces. Total production has fallen by more than half compared with the period before independence, and some crop sectors (notably citrus and temperate fruits) have declined by more than 85%. Only basic grains and potatoes are grown in similar quantities as before, and Georgia is now a net agricultural importer with a large sector trade deficit, equal to about USD 54.2 million (GEL 116.5 million) in 2001. The country continues to rely on imported grain, dairy, and meat products to satisfy more than 50% of its total food demand.

14. Georgia embarked on a land reform programme early in 1992, with the allocation of individual plots to private farmers in 1992 followed by a government land-leasing programme introduced in 1996. The combined effect of these programmes has been to provide land ownership or lease rights to private entities for most of the arable land in the country, with about 57% in private ownership and 27% leased. The balance, including most pastures and other types of agricultural land, remains under direct government control.

15. As in other CEN countries, land allocation to individual owners resulted in extremely small and fragmented plots. Current law limits private ownership to 1.5 hectares (ha) and, depending on location, the average landholding in Georgia is just 0.75 to 1.25 ha per family, usually split in two to four plots that are sometimes several kilometres apart. In some areas, particularly the tea-growing areas of western Georgia, very little land has been distributed to private owners beyond the garden plots granted during the Soviet period. Many new landowners are former industrial workers who migrated from the cities following the industrial collapse and have no prior experience with farm production. Given the small plot sizes and the high cost and poor quality of fertilizer and agrochemicals, most landowners now produce at a very low level, mainly for home consumption.

16. Georgia's land-lease programme provides a formal channel for private farmers to supplement the plots they received from the initial distribution. As a result, around 40 000 individuals are now leasing some 240 000 ha of state land, equal to an average of 6 ha per person. These farmers have

mostly taken on the additional land in order to produce a market surplus and, as such, tend to make more intensive and better use of purchased inputs than subsistence-oriented smallholders. Even further along the management spectrum, an additional 540 000 ha of state land are being leased by privately owned and joint stock companies, including wine makers, tea processors, and other large-scale investors growing cereals for domestic consumption. The average lease size of these legal entities is 100 ha, although some units are far larger and may exceed 500 ha. Due to better opportunities for effective economies of scale, these large units tend to be fully mechanized (albeit with old Soviet machinery) and use at least some fertilizer and agrichemicals.

17. Regular market days are now held in most rural areas and are attended by local residents, small farmers, urban traders, and assemblers of agricultural produce on behalf of the few remaining processing industries. Competition in these markets, however, can be thin where most buyers (especially traders and assemblers) offer the same prices with little differentiation according to quality. There are also reports that some markets may be controlled by criminal elements and so exist specifically to discourage competition and prevent transparent price discovery. Small amounts of agricultural produce are sold on a pre-negotiated 'contract' basis (especially grapes, vegetables and seed potatoes), but these agreements are usually informal and do not include provision for input supply. Most other farm products are either traded by the roadside or swapped on barter terms among neighbours.

18. The main agriculture-related exports from Georgia are wine, citrus fruits, nuts, tea, mineral water, fruit juice and other beverages. Wheat and wheat flour together with tobacco are the leading agricultural imports. Apart from some notable exceptions in the areas of mineral water, hazelnut production and, to a limited extent, wine and fruit juice, very few companies have expanded exports beyond the traditional markets of the former Soviet Union. Russia and neighbouring Turkey are Georgia's most important trade partners overall, with Armenia, Azerbaijan, Russia and Ukraine the most important in agriculture.

19. As Georgia looks to develop new export markets, a primary constraint facing the agriculture sector today is a lack of demand for the current range of farm products, and the failure of Georgian agribusiness companies to adjust their production and marketing to new demand. The Russian financial crisis at the end of the 1990s demonstrated the problem of overdependence on a single market. In addition, markets that were closed in Soviet times are now open to competition from Western countries, and consumers in these markets increasingly demand high-quality products. Clearly, the concentration of exports on a limited number of unstable markets is not a good strategy for Georgian exporters. Without a significant change in their quality and marketing, Georgian export products will soon be unable to compete even in the traditional markets of the former Soviet Union.

20. In July 2000, Georgia became the fourth former Soviet republic to join the World Trade Organization. While this will help increase Georgia's access to new export markets, primary constraints related to low quality standards, unreliability of supply, and closed and insecure transport links will continue to restrict the opportunities for international trade and new market development.

21. In recent years, a number of changes have occurred that are helping to create a better enabling environment for agriculture growth. These include the freeing of domestic prices for agricultural products, a relatively liberal trade regime, and almost complete withdrawal of input and production subsidies. There are no major anomalies in the tax regime for agriculture that will lead to distortions in farm production. Direct subsidies have also been low in the past, and mainly limited to small loan programmes for grape and tea producers at subsidized interest rates. Land tax and land rents, however, are major sources of local revenue and could influence production decisions in the future if raised beyond current levels.

22. While generally positive civil codes have been passed that cover commercial practices, enforcement and judicial agencies responsible for implementing these laws are not adequately funded and are widely perceived by the business community as corrupt. The strengthening of local institutions and rule of law are obvious preconditions for sustainable market development. A new government came to power in Georgia in late 2003 vowing to make the fight against corruption a priority.

### C. Rural Poverty<sup>2</sup>

23. The scale of the economic collapse after 1990 was huge. In per capita terms, GDP declined from USD 1 967 in 1990 to USD 590 in 2001. An important consequence of the economic collapse was a sharp decline in the demand for labour that led to a marked increase in unemployment. Public-sector employment declined (the jobs guaranteed by the state simply ceased to exist), and a highly unregulated and informal private market for labour emerged, which did not, however, create enough new private-sector jobs.

24. The UNDP's National Human Development Report (2001/2002) provides the latest data on poverty. According to that document, the poverty headcount (i.e. the number of households that fall below the poverty line) for Georgia in 2001/2002 was 45%. Seasonal variations were significant however, with 51% of the population poor in winter and 41% in summer. There were about 3% more rural than urban poor in winter and 4.5% more rural than urban poor in summer; but among the extremely poor, the urban headcount was larger than the rural in summer, with 4% more urban than rural extremely poor. Seasonality was very important with respect to the urban poverty headcount (56% in winter and 36% in summer). Extreme poverty affected 13% of the population in winter, dropping to 8% in summer.

25. Unsurprisingly, distribution of expenditure for the poorer shows higher food expenses in summer than in winter, indicating that households redirect expenses towards priority non-food items in winter, such as heating. Availability of electricity is a major constraint in all rural areas, and particularly for the poorest in winter. Rural areas have on average only one to two hours of electricity a day in winter. The greatest level of electricity availability is, unsurprisingly, in Tbilisi, but even in the capital there were only six hours of electricity per day in winter in 2001. Although the poverty headcount is higher in rural areas, inequality is greater in urban areas.

26. Poverty levels differ significantly according to household composition. The group with the highest percentage of poor are pensioners with children (75%) and those with the lowest are couples without children (40%). Some 59% of woman-headed households with children are poor, as are 54% of single working-age adults. Thus, overall the number of income-receiving/generating adults in the household appears to determine the level of poverty, with households with a single income receiver and dependants poorer than others.

27. An interesting finding of the 2001 state household survey relates to people's concerns and perceptions of the causes of poverty. Their main concerns were unemployment (24%), corruption (19%), poverty (16%), political instability (12%) and low income (10%). Ethnic problems, crime, environment and pollution, high prices, health care and education were considered priorities by 5% or fewer of those interviewed. These perceptions indicate the importance that unemployment, poverty and income have taken in people's concerns. The high level of concern with corruption reveals the relationship between good governance and employment.

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<sup>2</sup> This analysis was based on the Interim Poverty Reduction Strategy Paper (I-PRSP) issued by the Government in December 2000 and the UNDP National Human Development Report (2001/2002). The final PRSP, now called the Economic Development and Poverty Reduction Programme, was issued in August 2003.

#### D. Constraints on and Opportunities for Rural Poverty Reduction

28. The main causes of pervasive rural poverty in recent years have been the closure of processing industries and the collapse of product markets coupled with the failure to maintain land productivity, abandonment of crop rotations and loss of the improved stock of seeds for arable crops and for fruit trees, especially grapes and citrus fruits. In addition, farmers lack the opportunity to apply appropriate technical packages and to use land as collateral to obtain credit to finance farm investments. The breakdown of the input supply system and the poor farm management capacity of former farm workers turned farmers have also contributed to the speedy decline of commercial production.

29. **Gender differentiation.** The extensive socio-economic transformation of Georgia since the break-up of the former Soviet Union has affected the structure of the economy, living standards and the prevailing gender balance. Against this backdrop, there is concern that the gender gains of the pre-transition era may have been eroded and that the transition may have affected men and women differently. While women have equality under the law, in practice Georgian families are strongly patriarchal, with women still considered homemakers. Women are equally involved in decision-making within the household, but their participation in the public domain is minimal. The contraction of the system of family support (such as nurseries for babies of working women) has reduced women's ability to work and to contribute to family income. The reduction of child and women support services in the context of high labour force participation has increased both women's time pressure and their stress level. Furthermore, it is also evident that women are not taking full advantage of the process of privatization and economic liberalization.

30. Gender differences in poverty are noticeable in employment, with men having greater access than women do to well-paid positions. Whereas 35% of women earn between GEL 31 and 60/month, only 23% of men are in that category; by contrast, 1% of women earn more than GEL 600/month, whereas 4% of men are in that category. Regional gender differences also exist: in Adjara, more men than women are extremely poor, while the situation is the opposite in Mtskheta-Mtianet and Kakheti; in the latter areas, women are four times more likely than men to be extremely poor.

31. Rural women devote most of the day to household activities, including childcare and caring for the elderly. Women are actively involved in cultivation, weeding, harvesting and collecting crops, particularly vegetables. Rural women also tend livestock and traditionally process agricultural produce and dairy products. This latter task has become increasingly important for household subsistence as cash income has declined and the relative prices of foodstuff have increased. The current perception is that women's household workload is on the rise because of the breakdown in social services such as energy, electricity, gas and water supply.

32. The number of de facto woman-headed households is rising as male family members seek employment elsewhere, with the majority migrating to the Russian Federation and Europe. For rural women, lack of access to rural credit and insufficient knowledge about farm production practices represent major constraints.

33. The main opportunity for poverty reduction in Georgia lies in completing the transformation of the economy from state control to a market economy. A critical element to deal with poverty in rural areas is to expedite the process of transforming new recipients of farmland from farm workers to decision-making farmers. Technical aspects necessary for transformation will include improvement of access to appropriate technical packages (including improved seeds and parent stock for perennials), rural credit and input and product markets. A critical element for stimulation of supply response will be the rebuilding and restructuring of the agro-processing plants.

### E. National Strategy for Rural Poverty Reduction

34. The Economic Development and Poverty Reduction Programme, issued in June 2003, describes the consultation processes leading to the programme's adoption, provides a diagnosis of poverty in Georgia and presents the Government's objectives and programme of measures for reducing poverty. It places great emphasis on economic growth as the main engine for increased job opportunity and the subsequent future decrease in poverty levels. It also sets specific targets for economic growth (at GDP growth of 5-8% a year) and a reduction by 2015 of extreme poverty (from 14% to 4-5%) and of overall poverty (from 52% to 20-25%). To achieve these objectives, the EDPRP focuses on programmes to improve governance, create a stable macroeconomic environment, improve the business climate, foster human development, reduce the vulnerability of the poor through better-targeted safety nets and develop priority sectors of the economy, energy, transport, communications and agriculture while protecting the natural environment. It also requires improvement in the delivery of government social services, such as health, education, water and gas supply, and the adoption of policies that will bring transparency to the shadow economy and effectively reduce corruption.

35. In the rural sector, the EDPRP proposes the development of an agriculture and food subsector. The strategic priorities set for the Ministry of Agriculture and Food include:

- protect the rights of consumers and producers by ensuring products are genuine and of good quality;
- rehabilitate infrastructure;
- improve access to financial services;
- create an agricultural extension system and upgrade farmers' technical and management skills;
- strengthen the processing industry and expand non-farm employment in rural areas;
- improve access to markets;
- complete agricultural land reform, establish a national cadastral system and develop the land market; and
- improve access to quality inputs and equipment.

36. The proposed IFAD strategy in Georgia, with its emphasis on improved market access to small farmers, improved on-farm productivity, diversification into the non-farm economy, better access to rural financial services and support to grass-roots institutional development, fits well with and supports the EDPRP.

### III. LESSONS FROM IFAD'S EXPERIENCE IN THE COUNTRY

37. IFAD participated in financing two projects in Georgia; the Agricultural Development Project, cofinanced with the International Development Association of the World Bank, and the Rural Development Programme for Mountainous and Highland Areas. ADP implementation started in 1997, and its completion date is now 31 December 2005. The implementation of the RDPMHA started in 2002.

38. The main lessons learned are: (i) flexible project design is essential in Georgia's volatile economic environment in order to allow for adjustments during project implementation; (ii) it is important to create trust among all stakeholders before the project can enter the main implementation phase; and (iii) capacity-building in all institutions dealing with the project is essential to implementation success, together with a step-by-step approach so as not to overwhelm local authorities and institutions.

39. The ADP experience provides ample evidence of the resilience of the farm sector as supplier of subsistence requirements for rural households during times of hardship. When people accustomed to wage employment suddenly found themselves with no employment and no wages, they returned to the farm and to subsistence farming to escape poverty. However, the potential for earning a decent income from farming was undermined by constrained marketing possibilities due to sluggish effective demand in local markets and poor links to international markets. But subsistence farming limits the scope for commercialization of agriculture, complicates funding for needed farm investments and can lead to indebtedness.

40. **Land registration.** The registration of titles in land and the issue of title documents have given farmers security of tenure and confidence that they will reap the benefits of any work they perform or resources they use to improve their land. They have also facilitated the emergence of an active private land market with significant numbers of secondary transactions (17 000 among 180 000 plots). Farmers are beginning to use land as collateral, but few lending institutions as yet are willing to accept land due to valuation and foreclosure problems. Registration of moveable assets may be a logical expansion of the title registration process and may facilitate meeting lenders' collateral requirements.

41. **Rural finance.** Experience from the ADP shows that improved access to credit does make a difference to agricultural investment, output and rural livelihoods, and that the success or failure of financial services interventions is highly correlated with the intensity and quality of project supervision and management. The performance of partner financial institutions depends on the ability of their staffs to appraise loan proposals, particularly the ability to assess market prospects for the commodities to be produced, and to develop repayment schedules consistent with income streams.

42. Demand is strong in rural villages for locally based credit facilities (such as credit unions), but these institutions need to be cautiously and slowly developed and given substantial and sustained support in the form of training and supervision if they are to evolve into viable financial institutions. There are indications that small village-based credit cooperatives are not an appropriate mechanism for large-scale credit delivery. Certain advantages have been found in having credit unions and other savings cooperatives town-based so that they can become savings-driven and be encouraged to lend for all purposes, rather than focusing only on farm lending. This would enable them to expand to a wider membership base, have a more diversified loan portfolio and increase members' commitment to the organization – all of which would improve sustainability.

#### IV. STRATEGIC FRAMEWORK FOR IFAD

##### A. IFAD's Strategic Niche and Proposed Thrusts

43. For the next five years, IFAD will continue to focus on rural poverty in Georgia. This choice is consistent with and builds on the accumulated experience of IFAD in the transformation of the agricultural sector from its inception after the collapse of the former Soviet Union. In the case of the mountainous and highland areas, both IFAD and the Government are committed to a long-term programme that incorporates up to three consecutive projects over a period of 12-15 years. In the lowlands, the ADP has provided a widely appreciated contribution to land privatization and registration, and improved prospects for land market development. It has also helped introduce rural credit concepts and operation, and supported preliminary attempts at community organization, participation and development. These interventions urgently need to be consolidated and further developed to fruitful conclusion.

44. The collapse of the Soviet marketing system, the lack of effective local demand in independent Georgia coupled with the slow development of other market outlets have meant that small farm producers cannot even sell what little they have produced and are thus driven more and more into subsistence production. The revitalization and commercialization of farming and ultimately poverty reduction depend to a large extent on **market linkages**, i.e. finding markets for agricultural products and connecting small farmers to these markets. IFAD's strategy in Georgia will aim at improving the competitiveness of agricultural products by supporting farmers (through rural credit, delivery of appropriate technical packages and training) to become efficient producers/decision-makers at farm level. It will also support efforts aimed at the development of appropriate institutional arrangements (small and medium-sized packaging/grading industry, processing industry and farmer producer organizations) that facilitate the establishment of more efficient, transparent and remunerative marketing arrangements for farmers to dispose of their production. Partnerships in this regard with more market-oriented donors and the private sector will be essential for tackling the daunting task of restructuring, rehabilitating, and injecting new capital into agro-processing and marketing endeavours.

45. As a precondition for economic growth and market participation, IFAD will also continue to support selected investments in **improved on-farm productivity**. Access to improved seeds, veterinary services and extension advice is still needed to support the small and disadvantaged farmers. IFAD investments will focus not only on primary agriculture production but also on other areas of the rural economy. This emphasis is justified by the large number of rural people who depend on activities other than farming for their main source of livelihood. Indeed, support for the **non-farm rural economy**, such as small and medium-scale agro-processors, agricultural service providers and other types of rural businesses, offers some of the best opportunities to stimulate growth and build the new markets needed for poverty reduction. IFAD will target these enterprises through provisions for appropriate financial services and technical assistance to develop business plans and identify new market opportunities. Partnerships with local and international NGOs capable of providing these services will also be an important practical element of this strategy.

46. IFAD will continue to give high priority to the development of **rural financial services** as a fundamental precondition for sustainable economic growth. IFAD acquired considerable experience in Georgia with credit unions but may also use other approaches to rural credit delivery mechanisms to target specific beneficiary groups. These may include village credit associations that are aimed at new rural producers and help ensure repayment through joint liability and group pressure, or other more formal arrangements that target small and medium enterprises, and support new market linkages and growth in relevant areas of the non-farm rural economy. Within this context, IFAD will emphasize new channels of credit distribution targeting individual family farmers as well as commodity traders, agricultural service providers, agro-processors and other rural entrepreneurs.

47. While the break-up of the large state and cooperative farms has largely been completed, the creation of **farmer associations** that can group small farmers together is essential for agricultural development and rural poverty reduction. Such grouping will facilitate the management of farm resources by realizing economies of scale, reducing transaction costs, providing rural credit and wielding bargaining power in the marketplace.

48. The formation and promotion of CBOs as vehicles of change is critical to IFAD's strategy of targeting the rural poor, in particular the landless, small farmers and women. The collapse of the community's political, social and economic institutions left behind a vacuum that needs to be filled by alternative and competent institutions. Therefore, **community development** activities to organize and strengthen and empower farmers, the rural poor and women will be an integral part of the strategy. This process will be helped by Georgia's universally literate population, which constitutes an important social asset and springboard for an active programme of community organization and development.

## **B. Main Opportunities for Innovation and Project Interventions**

49. In 2002, IFAD initiated a thematic study on the comparative advantages of selected commodities and agricultural marketing by the rural poor in the CEN subregion in order to address the need to promote market-led agricultural growth and facilitate the transition from subsistence agriculture to market-based production. The study's main objective was therefore to provide recommendations to enhance the competitiveness and marketing of key commodities produced by the rural poor in selected countries. Albania, Georgia and Moldova were selected as pilot countries.

50. The study was conducted in two phases. The first phase analysed the comparative advantages and the competitiveness, both economically and financially, of selected key commodities. The second phase focused on a marketing chain analysis to identify the bottlenecks to market access for small farmers. A workshop to share the results of the study with the various interested stakeholders in Georgia was held in May 2004.

51. The study's main conclusions are: (i) Annual grains and oilseeds are the most widely grown field crops in Georgia. While these crops provide little profit, they also require few cash outlays and can be afforded by the poor. (ii) Irrigated crops are far more profitable than dry-farmed staples, but are expensive to grow. Furthermore, irrigation system rehabilitation and improved access to finance are often prerequisites. (iii) Fresh vegetable production can be a lucrative business for farmers with good market access. (iv) Perennial crops, including fruit trees and grapevines, offer some of the best opportunities for high income and market participation by the rural poor. Per hectare cash requirements for these enterprises are generally high, but the estimated net profits per hectare are often greater than gross national income per capita even on family plots of half a hectare or less. High start-up costs can be a significant barrier to poor farmers, while well-functioning and -regulated markets are critical for success. (v) With respect to livestock, increased herd size is likely to be a better strategy for poverty reduction than improved management. This is particularly true for cattle where an unimproved three-cow system costs about the same as an intensive one-cow system but provides several times more net profit. While the higher cash requirements for a three-cow unit may be difficult for many farmers to afford, regular income from dairy sales help offset this financial burden.

52. The study indicates specific areas for intervention in the farming sector, including improved access to short-term working capital and medium-term investment finance; modern production technologies and farm management practices; irrigation rehabilitation and better access to inputs, mechanization, planting materials and seeds. In respect of marketing, the study indicates that the small-scale, flexible trading system based on many independent operators that has developed in recent years is well suited to cope with current conditions. However, more stable outlets that reward quality and consistency of supply are clearly needed for continued recovery from the disruption caused by transition. These can be brought about by better contract law enforcement; support to the development of outgrower programmes with farmer groups; investment in appropriately sized processing, collection, grading, packaging and storage facilities; and quality certification.

## **C. Outreach and Partnership Possibilities with NGOs and the Private Sector**

53. The ADP has provided a major opportunity for building partnerships with bilateral agencies and international financial institutions due to the great interest in land privatization and registration issues shown by various parties, including the Swedish International Development Cooperation Agency, the Dutch Government, the German Credit Institution for Reconstruction (KfW) and the United States Agency for International Development (USAID). The ADP has also established an effective institutional set-up for credit distribution that will be used for the implementation of the credit component under the RDPMHA. In addition, the latter has embarked on establishing partnerships with local and international NGOs operational in Georgia.

#### D. Opportunities for Linkages with Other Donors and Institutions

54. IFAD is cofinancing the ADP with the World Bank and will seek to further harmonize and strengthen this partnership through a proposed new project dealing mainly with improving market linkages and access to rural financial services. This project will promote opportunities for new partnerships with USAID-funded projects and the European Union-financed Food Security Programme.

55. Within the framework of the RDPMHA, preliminary efforts in exploring linkages with the World Food Programme's Georgia country programme are being undertaken to support communities in the highland areas.

#### E. Areas for Policy Dialogue

56. The transformation of a centrally planned economy to a market economy requires major policy decisions and consequent changes in the legal framework. These policy decisions and their legal manifestations are likely to result in significant changes in the distribution of ownership rights (for instance, of land), the incentive structure for production and investment, the social behaviour of individuals and communities, and the poverty reduction objectives. IFAD will use both loan and grant resources to support a policy dialogue agenda that aims at influencing the adoption of pro-poor policies. It will establish partnerships with other like-minded collaborators in order to pursue a constructive policy dialogue agenda using projects, supplemented by grants, as entry points for policy dialogue on two important issues influencing the success of its country strategy:

- **Access to financial markets** is extremely limited because of the historical association with the central planning mechanism of the former Soviet Union. IFAD and other donors are involved in serious attempts to introduce the concept of credit to farmers, create collateral through land privatization and markets, establish modalities for rural financing and solicit the support and participation of CBOs, user associations, credit unions and associations, and NGOs.
- **Access to markets**, especially product markets, constitutes at present the most important aspect of government policy. These are critical investments for improving competitiveness and marketability. IFAD is undertaking a study to establish the comparative advantage of main crops (grapes, citrus, tea and vegetables) and to identify the best means for improving value added and for capturing a larger share of the market in a number of CEN countries including Georgia. Study findings will constitute a framework for dialogue with the Government regarding future policy and investment initiatives in the sector.

#### F. Action Areas for Improving Portfolio Management

57. Projects in Georgia are increasingly using service provider NGOs to deliver technical services. However, in the past the recruitment of such service providers proved very time-consuming. Few service providers were attracted to bid because of the requirement under Georgian law that they provide at least a contribution of 20% of the contract price. Payment to service providers was based on inputs and outputs rather than outcome. Currently, service provider recruitment is being streamlined, with less emphasis given to financial contributions and more to managerial and technical capacity and experience. With support from IFAD and its cooperating institution, service provider contracts are becoming more focused on deliverables in terms of result and impact and achievement of objectives.

58. All projects in the portfolio are engaging project stakeholders in the clarification of project objectives, targets and result and impact indicators related to the achievement of project goals. They are also developing specific action plans to operationalize an impact-oriented monitoring and evaluation system.

59. Over the past decade, IFAD operations in the CEN subregion have pioneered a number of successful innovations in land titling and registration, village-based rural finance systems, participatory irrigation management, market linkages and off-farm income-generation. IFAD recognizes the benefits to project implementation of sharing gained knowledge and experience among managers and technical experts in these countries. A financial management workshop for the region was held in Georgia in 2002 and a sustainable livelihood approaches workshop in 2003. Exchange visits among the projects in Georgia and Azerbaijan are regularly undertaken.

60. **Gender mainstreaming.** IFAD, with support from Germany, is also implementing a technical assistance grant (TAG) for gender mainstreaming in the CEN subregion, including Georgia. Under this TAG, IFAD projects in Georgia are developing proposals for pilot or complementary activities that strengthen the equal access of women and men beneficiaries to development opportunities, services and resources.

### **G. Tentative Lending Framework and Rolling Programme of Work**

61. The EDPRP of the Government of Georgia, finalized in 2003, provides the overall framework for government and donor action aimed at reducing poverty and laying the basis for sustained economic growth. It demonstrates the Government's commitment to poverty reduction, and gives a policy framework and a list of strategic priorities. IFAD will support the programme, concentrating on initiatives targeted at rural areas and thrusts that emphasize the dominant role of agriculture in the rural economy.

62. IFAD's programme in Georgia will continue to focus on the two main livelihood systems of the mountainous areas and the lowlands lying between the Greater and Lesser Caucasus. IFAD will seek to maintain a maximum of two ongoing operations at any time, with at most one operation in each of the two livelihood systems.

63. On the basis of current projections of the performance-based allocation system, Georgia will qualify for a base lending scenario of USD 8-10 million every six years, enough for one project loan. With improvements in the overall policy and institutional framework, sector policy framework and/or portfolio performance, a higher case scenario of USD 8-10 million every four years becomes possible.

64. The ongoing RDPMHA calls for the preparation of a second-phase programme starting with a mid-term evaluation scheduled for the fourth year of the current first-phase programme (2006). This timetable will be closely monitored to look for an opportunity to expedite the preparation process depending on the pace of implementation, impact, sustainability and users' demand for programme investments and services.

65. For the irrigated rainfed lowland areas, the COSOP envisages the preparation of a project that will aim at enhancing the farmers' role as private farmers, increasing agricultural productivity and improving effective demand, produce prices and the farmers' share of those prices. The project would build on the experiences of the ADP, which is scheduled for completion by end-2005.

APPENDIX I

COUNTRY DATA

GEORGIA

<b>Land area (km<sup>2</sup> thousand) 2001 1/</b>	69	<b>GNI per capita (USD) 2001 1/</b>	590
<b>Total population (million) 2001 1/</b>	5.22	<b>GDP per capita growth (annual %) 2001 1/</b>	6.2
<b>Population density (people per km<sup>2</sup>) 2001 1/</b>	76	<b>Inflation, consumer prices (annual %) 2001 1/</b>	4.6
<b>Local currency</b>	Lari (GEL)	<b>Exchange rate: USD 1 =</b>	GEL
<b>Social Indicators</b>		<b>Economic Indicators</b>	
Population (average annual population growth rate) 1995-2001 1/	-0.4	GDP (USD million) 2001 1/	3 138
Crude birth rate (per thousand people) 2001 1/	8	Average annual rate of growth of GDP 1/ 1981-1991	-1.9
Crude death rate (per thousand people) 2001 1/	10	1991-2001	-2.5
Infant mortality rate (per thousand live births) 2001 1/	24	Sectoral distribution of GDP 2001 1/	
Life expectancy at birth (years) 2001 1/	73	% agriculture	21
Number of rural poor (million) (approximate) 1/	2.5	% industry	23
Poor as % of total rural population 1/	45	% manufacturing	n/a
Total labour force (million) 2001 1/	2.68 a/	% services	56
Female labour force as % of total 2001 1/	47	Consumption 2001 1/	
<b>Education</b>		General government final consumption expenditure (as % of GDP)	8
School enrolment, primary (% gross) 2001 1/	96	Household final consumption expenditure, etc. (as % of GDP)	89
Adult illiteracy rate (% age 15 and above) 2001 1/	n/a	Gross domestic savings (as % of GDP)	3
<b>Nutrition</b>		<b>Balance of Payments (USD million)</b>	
Daily calorie supply per capita, 1997 2/	2 768	Merchandise exports 2001 1/	345
Malnutrition prevalence, height for age (% of children under 5) 2001 3/	12 a/	Merchandise imports 2001 1/	685
Malnutrition prevalence, weight for age (% of children under 5) 2001 3/	3 a/	Balance of merchandise trade	-340
<b>Health</b>		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2001 1/	7 a/	before official transfers 2001 1/	-432
Physicians (per thousand people) 2001 1/	4 a/	after official transfers 2001 1/	-269
Population using improved water sources (%) 2000 3/	79	Foreign direct investment, net 2001 1/	132
Population with access to essential drugs (%) 1999 3/	0-49	<b>Government Finance</b>	
Population using adequate sanitation facilities (%) 2000 3/	100	Overall budget balance (including grants) (as % of GDP) 2001 1/	0.1
<b>Agriculture and Food</b>		Total expenditure (% of GDP) 2001 1/	11
Food imports (% of merchandise imports) 2001 1/	n/a	Total external debt (USD million) 2001 1/	1 714
Fertilizer consumption (hundreds of grams per ha of arable land) 2000 1/	504	Present value of debt (as % of GNI) 2001 1/	34
Food production index (1989-91=100) 2001 1/	79	Total debt service (% of exports of goods and services) 2001 1/	9
Cereal yield (kg per ha) 2001 1/	1 676	Lending interest rate (%) 2001 1/	27
<b>Land Use</b>		Deposit interest rate (%) 2001 1/	8
Arable land as % of land area 2000 1/	11		
Forest area as % of total land area 2000 1/	43		
Irrigated land as % of cropland 2000 1/	44		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database CD ROM 2003

2/ UNDP, *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2003

**LOGICAL FRAMEWORK**

Strategic Goal	Objective	Outputs	Instruments	Main Indicators
<ul style="list-style-type: none"> <li>• Empower the rural poor to overcome their own poverty.</li> <li>• Expand gainful economic opportunities for rural populations</li> </ul>	<ul style="list-style-type: none"> <li>• Develop coherent and supportive national policies and a conducive institutional framework for smallholder development</li> <li>• Provide critical investments to provide support to rural households and entrepreneurs, individuals and groups to enhance productivity and improve incomes</li> </ul>	<p><b>Empowerment of the rural poor through:</b></p> <ul style="list-style-type: none"> <li>• Strengthened beneficiary capacity to organize themselves for participating in the market economy and managing the natural resource base sustainably</li> </ul> <p><b>Development of smallholder, market-oriented agriculture and small and medium enterprises:</b></p> <ul style="list-style-type: none"> <li>• Improved production technology and knowledge;</li> <li>• Improved marketing linkages; and</li> <li>• Improved access to finance.</li> </ul> <p><b>Close attention paid to cross-cutting issues:</b></p> <ul style="list-style-type: none"> <li>• Gender balance/equity;</li> <li>• Participation;</li> <li>• Environmental sensitivity</li> </ul>	<p><b>Programme Support</b></p> <p>Focus lending operations on initiatives that improve rural living conditions, empower rural people, increase agricultural productivity, enhance local value adding and increase rural income</p> <p><b>Policy Dialogue</b></p> <p>Pro-poor institutional and policy framework for:</p> <ul style="list-style-type: none"> <li>• Land rights and markets;</li> <li>• Rural finance;</li> <li>• Access to markets</li> </ul> <p><b>Partnership Development and Knowledge Management</b></p> <p>Linking with strategic partners for knowledge sharing and policy dialogue</p>	<ul style="list-style-type: none"> <li>• Participation and representation of the rural poor in policy and political processes</li> <li>• Proliferation of rural institutions such as farmer organizations, producer associations and credit unions</li> <li>• Increased income of smallholders</li> <li>• Increase in number and expansion of outreach of rural finance providers; increase in number and average size of financial transactions coupled with high credit repayment rates</li> <li>• Increase in volume of marketed output and expansion in value adding to local produce, increase in farmers' share of final consumer price</li> </ul>

### STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS

Institution	Strengths	Weaknesses	Opportunities/threats	Remarks
Ministry of Agriculture and Food Industry (MAFI)	<ul style="list-style-type: none"> <li>• Since 1995, MAFI became the major government organization dealing with food and agriculture.</li> <li>• Skilled personnel (agronomists, livestock experts, etc.) with knowledge of the rural situation and technical potential for the different agricultural zones.</li> </ul>	<ul style="list-style-type: none"> <li>• Centralized and bureaucratic approach.</li> <li>• Unwillingness of staff to relocate to rural areas.</li> <li>• Limited operating budget.</li> <li>• Limited management capacity.</li> </ul>	<ul style="list-style-type: none"> <li>• Changing circumstances require changing mission consistent with the operation of a market-oriented economy and the increased role of private-sector institutions.</li> <li>• Restructure MAFI to strengthen capacity in main areas of responsibility: policy analysis, monitoring and enforcement of plant and animal health regulations, market information and stewardship of natural resources; train personnel and enhance capacity to fulfil new responsibilities; reallocate resources to reflect new roles.</li> </ul>	
Research and extension system (Georgian Academy of Agricultural Sciences (GAAS))	<ul style="list-style-type: none"> <li>• 27 major research institutions under GAAS.</li> <li>• Large pool of qualified research staff.</li> </ul>	<ul style="list-style-type: none"> <li>• System isolated and out of touch with the evolving needs of domestic farmers.</li> <li>• Younger professionals outmigrate; older professionals have difficulty adjusting to changing times.</li> <li>• Centralized approach, focus on maximization of production rather than profits, lack of extension messages for small farmers and lack of commitment to participatory approaches.</li> <li>• Far more research institutes, colleges, and employees than warranted by size and diversity of agriculture, and more than can be supported by state budgets.</li> <li>• Currently lack of extension services and limited ability of farmers to pay for private extension services.</li> </ul>	<ul style="list-style-type: none"> <li>• Duties and responsibilities not consistent with the operation of a market-oriented economy and the increased role of private-sector institutions.</li> <li>• New strategy focuses on economic potential and constraints.</li> <li>• Enhance institutional and human resource capacity and increase interaction with farmers through emphasis on adaptive research and demonstrations on farmer fields.</li> </ul>	

**STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS – CONTINUED**

<b>Institution</b>	<b>Strengths</b>	<b>Weaknesses</b>	<b>Opportunities/threats</b>	<b>Remarks</b>
Agriculture cooperatives	<ul style="list-style-type: none"> <li>• Good branch network.</li> <li>• Experience with small farmers.</li> </ul>	<ul style="list-style-type: none"> <li>• Lost public confidence. Services offered not consistent with the operation of a market-oriented economy and the increased role of private-sector institutions.</li> <li>• Collapse of state and cooperative marketing institutions.</li> <li>• Overstaffed.</li> </ul>	<ul style="list-style-type: none"> <li>• Re-establish and restructure agriculture cooperatives and, where appropriate, support their development into private agribusiness enterprises.</li> <li>• Promote the establishment of modern cooperative producer associations as a vehicle for linking producers to marketing outlets and increasing marketed surplus.</li> </ul>	
Non-governmental organizations	<ul style="list-style-type: none"> <li>• Strong NGO network.</li> <li>• Solid previous history.</li> <li>• Hands-on experience.</li> <li>• Good social solidarity.</li> </ul>	<ul style="list-style-type: none"> <li>• Weak resource base.</li> <li>• Very few NGOs have achieved financial sustainability.</li> </ul>	<ul style="list-style-type: none"> <li>• Develop partnerships for mobilizing and empowering rural communities and women in particular.</li> <li>• Provide sustainable link between private sector and rural poor in terms of inputs and marketing opportunities for agricultural and agriculturally related output; and facilitate use of modern technologies to supply technical support and extension, with a view to optimizing costs and promoting sustainability of such services.</li> </ul>	

**IFAD'S CORPORATE THRUSTS AS RELATED TO THE PROPOSED COUNTRY PROGRAMME**

IFAD's strategic objectives are to strengthen the capacity of the rural poor and improve their equitable access to productive natural resources (in this case agricultural land), financial assets and markets. The proposed COSOP has profound linkages with the thrust of IFAD's regional strategy for Near East and North Africa. It will specifically aim at improving the productive capacity of the rural poor, enhancing their access to product markets, increasing their share of the market value of produce, empowering rural women and mainstreaming gender activities, and conserving natural resources.

IFAD has so far played a catalytic role in the transformation of the agricultural sector. For the duration of this COSOP, IFAD will concentrate its efforts on enhancing marketing opportunities, developing market linkages throughout the marketing chain from producers to consumers, and expanding the provision of rural financial services to rural inhabitants. The COSOP advocates support to the building of community and user organizations as recipient and delivery mechanisms at various stages of the agribusiness production chain (from production inputs to marketing of produce). IFAD's support will also focus on capacity-building of community and user organizations, enhancing their ownership of resources (particularly land) and of project investments, ensuring their participation and empowering small farmers and rural entrepreneurs through training and extension.

**ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT – ONGOING AND PLANNED**

<b>Donor/agency</b>	<b>Nature of project/programme</b>	<b>Project/programme coverage</b>	<b>Status</b>	<b>Complementarities/synergy potential</b>
World Bank	Agriculture Development Project, cofinanced with IFAD.	National	Ongoing	Address major constraints on increasing agricultural productivity. Develop an agricultural credit system. Facilitate increased liquidity in land markets. Support land reform through the establishment of an institutional framework for land registration and the issue of land titles.
Dutch Government	Imports of quality seeds.	National	Ongoing	
Japan	The Increase of Food Production (2KR) Project.	National	Ongoing	Provided funds for agricultural machines (such as tractors and grain combines, and for triple super phosphate fertilizers).
KfW (German bilateral programme)	Technical assistance in agriculture. Imports of quality seeds for potato and vegetables. Drafting seed legislation.		Ongoing	Provision of a cadastre system. Development of a land registration system.
European Union Technical Assistance to CIS Countries (TACIS) projects	Crop protection legislation.	National	Ongoing	Law on pesticides and agrochemicals; law on protecting crops from harmful organisms; law on agricultural quarantine; law on administrative rights.
United States-based Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI/VOCA), USAID (through various NGOs such as CARE, etc.)	Seed Enterprise Enhancement and Development Project.	National	Ongoing	Create, test and institutionalize a functioning seed production system for high-yielding maize, wheat, potato and sunflower.