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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Eighty-Fourth Session

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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON PROPOSED FINANCIAL ASSISTANCE TO

GEORGIA

FOR THE

RURAL DEVELOPMENT PROJECT

TABLE OF CONTENTS

CURRENCY EQUIVALENTS	iii
WEIGHTS AND MEASURES	iii
ACRONYMS	iii
MAP OF THE PROJECT AREA	iv
FINANCING SUMMARY	v
PROJECT BRIEF	vi
PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY	1
A. The Economy and Agricultural Sector	1
B. Lessons Learned from Previous IFAD Experience	2
C. IFAD's Strategy for Collaboration with Georgia	2
PART II - THE PROJECT	3
A. Project Area and Target Group	3
B. Objectives and Scope	3
C. Components	4
D. Costs and Financing	6
E. Procurement, Disbursement, Accounts and Audit	9
F. Organization and Management	9
G. Economic Justification	10
H. Risks	10
I. Environmental Impact	11
J. Innovative Features	11
PART III - LEGAL INSTRUMENTS AND AUTHORITY	12
PART IV - RECOMMENDATION	12
ANNEX	
SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED FINANCING AGREEMENT	13

APPENDIXES

I. COUNTRY DATA	1
II. PREVIOUS IFAD FINANCING IN GEORGIA	2
III. LOGICAL FRAMEWORK	3
IV. ORGANIGRAMME	5

CURRENCY EQUIVALENTS

Currency unit	=	Georgian lari (GEL)
USD 1.00	=	GE 1.75 (August 2004)
GEL 1.00	=	USD 0.57

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 ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ACRONYMS

CEN	Central and Eastern Europe and the Newly Independent States
CERMA	Center for Enterprise Restructuring and Management Assistance
COSOP	country strategic opportunities paper
EDPRP	Economic Development and Poverty Reduction Programme
IDA	International Development Association
MOA	Ministry of Agriculture
NBFI	non-bank financial institution
PCC	project coordination centre
PFI	participating financial institution
PHRD	policy and human resources development
RDP	Rural Development Project
USAID	United States Agency for International Development

GOVERNMENT OF GEORGIA**FISCAL YEAR**

1 January - 31 December

MAP OF THE PROJECT AREA



Map No. 3780 Rev. 2 UNITED NATIONS
January 1996

Department of Public Information
Cartographic Section

Source: United Nations, January 1996

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.

GEORGIA
RURAL DEVELOPMENT PROJECT
FINANCING SUMMARY

INITIATING INSTITUTION:	International Development Association of the World Bank
RECIPIENT:	Georgia
EXECUTING AGENCY:	Ministry of Agriculture, through the project coordination centre
TOTAL PROJECT COST:	USD 34.70 million
AMOUNT OF IFAD FINANCING:	Loan: SDR 6.05 million (equivalent to approximately USD 9.2 million) Grant: SDR 550 000 (equivalent to approximately USD 800 000)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	International Development Association Government of Japan: Japan Policy and Human Resources Development Fund Participating financial institutions
AMOUNT OF COFINANCING:	International Development Association: USD 10.0 million Grant from the Japan Policy and Human Resources Development Fund: USD 4.5 million Participating Financial Institutions: USD 2.90 million
TERMS OF COFINANCING:	Highly concessional
CONTRIBUTION OF RECIPIENT:	USD 2.47 million equivalent
CONTRIBUTION OF BENEFICIARIES:	USD 4.83 million equivalent
APPRAISING INSTITUTIONS:	International Development Association and IFAD
COOPERATING INSTITUTION:	International Development Association

PROJECT BRIEF

Who are the beneficiaries? The project will initially target around 300 community groups of small farmers and rural poor people in eastern, central and western Georgia. The target group will include: (i) small farmers (men and women) with limited or no access to rural finance and extension support; and (ii) landless men and women with insecure income and little or no access to rural finance and market information for agricultural production activities. The project will adopt a two-level, inclusive approach targeting: (i) areas with articulated demand from rural people, especially with respect to the provision of financial services; and (ii) selected areas where opportunities are arising for commercial agriculture and related businesses in the agricultural supply chain.

Why are they poor? The incidence of poverty in rural areas of Georgia is high with almost the entire rural population (44% of the country's total population) being poor. Although 52% of the employed national workforce is engaged in agriculture, the sector only produces 20.6% of GDP, indicating the low productivity, underemployment, unemployment and low incomes deriving from the sector. About 83% of the rural population depend entirely on their own farms for subsistence, with a typical household consuming 73% of what it produces. Poverty is largely due to limited access to essential inputs and technologies, barriers to land consolidation, poor access to markets, scarcity of rural credit and limited off-farm opportunities.

How will the target group benefit? To address the above livelihood constraints, the project will seek to: (i) build farmer communities' capacities to develop equitable and profitable commercial relationships with commodity supply chains; (ii) promote pro-poor, medium- and long-term financing for farmers by encouraging a savings culture and appropriate rural savings facilities; (iii) bring about institutional modernization through legal reforms benefiting the rural poor (e.g. land, microcredit).

How will the beneficiaries participate in the project? As concluded in a recent IFAD study, there are numerous opportunities for revenue and profit growth in small- and medium-scale agriculture and agriculturally related businesses in Georgia through improvements in the application of technology in almost all types of production and processing. A sector-based approach with the development of new private partnerships is needed to cater for any increases in productivity and output. Moreover, moving from subsistence to commercial agriculture requires substantial capital investment. These conclusions call for continued targeted assistance to small farmers and underemployed rural people, suggesting that the project's investment be directed towards: (i) improving the efficiency and profitability of the market economy by facilitating farmers' engagement with supply and value chains; (ii) creating jobs in agro-based enterprises; and (iii) assisting in developing a legal and regulatory framework that will induce spontaneous private investment in agro-based enterprises.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON PROPOSED FINANCIAL ASSISTANCE TO
GEORGIA
FOR THE
RURAL DEVELOPMENT PROJECT**

I submit the following report and recommendation on proposed financial assistance to Georgia comprising a loan of SDR 6.05 million (equivalent to approximately USD 9.2 million) on highly concessional terms and a grant of SDR 550 000 (equivalent to approximately USD 800 000) to help finance the Rural Development Project. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one percent (0.75%) per annum. It will be administered by the International Development Association of the World Bank as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. Georgia has an estimated population of about 5.18 million. The population is highly literate (99%) and enjoys a high life expectancy (73.3 years). The rate of urbanization is high (56%). Georgia's economic decline in the 1990s was severe. The economy contracted by 77% and the poverty rate reached 80% (1994). Although growth has rebounded lately, the economy's overall size is about 40% of its pre-independence size. In 2003, 52% of the population lived below the poverty line. The majority of people in rural Georgia are poor and highly vulnerable to droughts as they rely on low input, rainfed agriculture. Poverty in rural areas has become structural as most farm holdings are very small and fragmented. And while only 6% of rural people are classified as "unemployed", compared with a national average of 17%, this masks a great deal of underemployment.

2. **Agriculturally based enterprise development.** Since the collapse of the command economy of the former Soviet Union, Georgia has effectively reverted to subsistence agriculture. About 83% of the rural population now depend entirely on their own farms for subsistence, and a typical household consumes 73% of what it produces. With present agricultural production about half pre-independence levels, Georgia relies on imports to satisfy some 70% of its food needs. Inputs supply markets are slowly improving, but they remain poor in most respects. Agricultural and agro-industry machinery and equipment are typically obsolete and technically inefficient. However, businesses engaged in agro-processing are becoming more common in many rural areas but often operate at low capacity.

3. **Financial sector.** Trust in the banking system is low due to bank failures in the immediate post-Soviet era. The supply of credit to agriculture is meagre, partly due to the small size of the financial sector, depriving the sector of investment and working capital. Commercial banks perceive agriculture as highly risky, and avoid small farmers particularly. Microcredit organizations and the newly introduced commercial bank microcredit programmes have thus far focused on urban clients.

¹ See Appendix I for additional information.

B. Lessons Learned from Previous IFAD Experience

4. IFAD has financed two projects in Georgia (Appendix II). The International Development Association (IDA) of the World Bank has financed four agricultural sector projects, one of which was the Agricultural Development Project cofinanced with IFAD. Lessons learned from these projects are: (i) project design should be kept as flexible as possible to allow for adjustments during project implementation; (ii) creating trust and ownership among all stakeholders is imperative; and (iii) building the capacity of local leaders is a key to achieving significant community engagement.

5. Experience from the Agricultural Development Project shows that improved access to credit significantly helps agricultural investment, output and rural livelihoods, and can be achieved without distorting financial markets. Success or failure of credit initiatives is highly correlated with the intensity and quality of supervision and management. The performance of financial institutions depends on their ability to appraise loan proposals, assess market prospects for the commodities to be produced, and develop repayment schedules consistent with income streams. Financial institutions need strong support in the form of training and supervision to become viable financial organizations. Small village-based credit unions often lack the critical mass required to reach financial viability, and to consolidate themselves, become savings-driven with a focus on rural towns, and diversify their loan portfolio and loan products.

C. IFAD's Strategy for Collaboration with Georgia

6. **IFAD's strategy in Georgia.** The country strategic opportunities paper (COSOP) approved by the Executive Board in 2004 calls for: improving the productive capacity of the rural poor (comprising over half of the rural population), enhancing their access to product and factor markets and increasing their share of the market value of produce; empowering rural women and mainstreaming gender activities; and promoting the conservation of natural resources. The COSOP has strong linkages with the thrusts of the IFAD regional strategy for the countries of Central and Eastern Europe and the Newly Independent States (CEN), which advocates building community and user organizations as recipient and delivery mechanisms at various stages of the agribusiness production chain. The Fund's support will also focus on capacity-building of community and user organizations, enhancing their ownership of resources and of project investments, ensuring their participation and empowering their members through training and extension.

7. **Georgia's policy for poverty eradication.** The Government's approach to poverty reduction in the period to 2015 is articulated in its Economic Development and Poverty Reduction Programme (EDPRP) of 2003. The EDPRP highlights several important policies specific to the agricultural sector: (i) completion of land reform, including privatization and establishment of a land market, which is seen as a means to facilitate the introduction of credit and insurance systems in rural areas; (ii) development of infrastructure in rural areas; (iii) facilitation of export output and import substitution; (iv) introduction of an efficient system of long- and short-term rural credit including experimenting with microfinance schemes; and (v) facilitating cooperation between farmers and entrepreneurs in input distribution and sales, and developing the capacity of agro-processing agribusinesses. The Government continues to introduce explicitly pro-poor policies and to establish legal and regulatory frameworks that enhance prospects for economic growth and employment creation. With the main policies now in place, further adjustments in the legal and regulatory instruments are required to facilitate their effective implementation.

8. **The poverty eradication activities of other major donors.** IDA is currently financing four operations in Georgia: the Irrigation and Drainage Community Development Project, Agricultural Research Extension and Training Project, Enterprise Rehabilitation Project, and in collaboration with IFAD, the Agricultural Development Project. The Department for International Development (United Kingdom) is funding the Sustainable Livelihoods in Adigeni and Adjacent Rayons Programme aimed

at improving rural livelihoods and reducing poverty by increasing the access of farmers, rural businesses and community groups to resources and markets. AgVANTAGE, a project financed by the United States Agency for International Development (USAID), aims at increasing the productivity and income of Georgian agriculture through a supply-chain approach. 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 NGOs) and encourage investments for improving the competitiveness and marketability of agricultural produce.

9. **Project rationale.** The findings of the IFAD thematic study on comparative advantage and agricultural marketing in Georgia (2004) justify providing targeted assistance through the Rural Development Project to small farmers and underemployed rural people in order to increase their income-earning potential. This can be done by: (i) improving the efficiency and profitability of the market economy by facilitating farmers' engagement with supply and value chains; (ii) creating jobs in agro-based enterprises; and (iii) assisting in developing a legal and regulatory framework to induce spontaneous private investment in agro-based enterprises. The project's orientation is also consistent with the Fund's strategic framework and the CEN subregional strategy. Small and medium enterprises and farmers need to position themselves to modernize their operations, focusing on generating profits through increasingly productive and cost-efficient businesses geared to satisfying identified market demand. Appropriate financial products are an essential prerequisite for this process. The unavailability of appropriate funding sources, absence of lending skills and lack of financial products suitable for agriculture and agribusiness are major constraints deterring commercial banks and non-bank financial institutions (NBFIs) from engaging effectively with rural and agriculturally based clients, and it is those constraints that the project will seek to mitigate.

PART II - THE PROJECT

A. Project Area and Target Group

10. The project will be implemented throughout the rural areas of Georgia. Activities will in general constitute a response to an articulated demand from rural people, especially with respect to the provision of financial services. Project activities will be concentrated in areas producing commodities that have identified opportunities for commercial agriculture and related businesses in the agricultural supply chain in which small and medium-scale farmers are heavily engaged (livestock, grains, vines, potatoes, vegetables, temperate fruits, citrus and hazelnuts). Georgia's land lease programme allows small farmers who received small plots of land (average 0.75 ha) from the initial distribution of state and collective farms to lease land that had remained government property. Currently some 40 000 such farmers lease some 240 000 ha (average 6 ha per household) and constitute medium-scale farmers. The project target group will consist of small and medium-scale farmers and those individuals, farmer groups, trader associations and firms involved in the marketing chain (trade, collection, packaging, transport and processing). Nearly 300 community groups of small farmers and rural poor men and women throughout Georgia will receive direct project support to build their technical and institutional capacity to interact with marketing chains.

B. Objectives and Scope

11. The project concept reflects aspects of both the Government's EDPRP and the previously agreed development emphases embodied in IFAD's new strategy for investment in Georgia as expressed in the COSOP. The project's overall goal is sustained rural income growth and poverty reduction. This will be achieved by facilitating the access of Georgia's mainly small and medium-scale farmers to commodity supply chains, improving the competitiveness of agribusinesses and the associated supply chains, and strengthening the capacity of selected agricultural and financial

institutions serving private-sector agricultural market activity. Project activities are expected to increase incomes and employment and reduce poverty in rural areas.

C. Components

12. The project has four components to be implemented over a four-year period.

Agricultural Supply Chain Development

13. The objective of this component is to develop agricultural supply chains that add value and provide a competitive advantage for their participants for commodities that have a demonstrated market potential, with a view to expanding profitable domestic and export market opportunities. The component will have three subcomponents.

14. **Supply chain analysis and development.** Using existing analysis of marketing chains by AgVANTAGE and the Center for Enterprise Restructuring and Management Assistance (CERMA) in Georgia (including but not limited to livestock, grains, vines, vegetables, apples, citrus and hazelnuts), the subcomponent will aim to develop a holistic strategy for the expansion of profitable sales in domestic and export markets. This will involve providing assistance in determining consumer demand; identifying technical, regulatory, institutional, contractual and financial constraints, and developing a collaborative strategy for their redress; and analysing sources of supply. The supply chain analysis will attempt to determine where commodity associations and other groups could productively reinforce linkages among actors along a commodity chain both formally and informally. Where found to be feasible, commodity associations will be encouraged for the promotion and advancement of their subsector or industry. At full development, these associations could eventually, in partnership with the Government, contribute to the regulation of their own industry, thus demonstrating effective partnership between the private and public sectors in stimulating rural economic growth.

15. **Linkages to farm communities.** The project will assist farmers and communities in engaging equitably and profitably with commodity supply chains. Support will be provided through farmer-community linkage teams, established as a 15-month pilot exercise in east, central and western Georgia. Contracted NGOs will provide the phased introduction of teams with the objective of working with farmer groups to raise the quality and quantity of their produce in response to specific market signals. If proved successful, the farm communities' programme would then be expanded to other areas. The farmer groups themselves will largely be derived from existing informal groups where there is trust and familiarity. Over the whole project, assistance will be extended to up to 300 community groups, forming a strong basis for rapid improvement in farmers' ability to identify and participate in more lucrative markets. The teams will provide training in formation and operation of common interest groups and associations, and empower farmers through support for farmer-initiated field days, community meetings and regional study tours. Leadership training will be emphasized, especially for younger members of rural communities. In the medium term, some of these farmer groups are expected to grow into substantially larger self-sufficient farmer associations.

16. **Technology transfer.** Crop yields and productivity levels of livestock in Georgia are among the lowest in the region and are far below what can be achieved with existing knowledge and technology. Increasing crop and livestock productivity can enhance farm incomes and release more land from subsistence to commercial production. The project will therefore support small-scale farmers and farmer groups engaged in potentially profitable agricultural supply chains to develop appropriate, modern farm technology, crop and livestock management practices, and post-harvest technology and demonstration programmes through access to an agricultural supply chain development fund (ASCDF) to be coordinated by an NGO and an industry-led on-farm technology

testing and development committee. Farmers' access to support will be facilitated by an NGO team operating in each region.

Rural Financial Services

17. The objective of this component is to provide viable medium- and long-term financing to rural commercial entities, including farmers, and to support the development of a savings culture and appropriate rural savings facilities. Activities under this component can be grouped under three subcomponents.

18. **Commercial bank credit line.** This credit line will be made available to eligible commercial banks to increase their capacity to make medium- and long-term investment loans to eligible farmers, and to processors and agribusiness enterprises that provide market outlets for the production of small and medium-scale farmers. Loans to commercial banks will be in either United States dollars or Georgian lari, with a grace period of four years and a repayment period of up to ten years.

19. **Microcredit line.** This credit line will be made to eligible non-bank financial institutions to increase their capacity to make small investment and working capital loans to eligible farmers, processors and agribusiness enterprises. Loans to NBFIs will be in either United States dollars or Georgian lari, with a grace period of two years and a repayment period of up to ten years.

20. **Rural credit capacity-building.** This subcomponent will strengthen the capacity of participating financial institutions (PFIs) to appraise and manage loans for production, agroprocessing and agribusinesses; develop and promote appropriate loan products and collateral instruments; provide matching grants to selected NBFIs for the establishment of new rural branches; and develop sustainable rural credit unions. It will provide support for training of bank and NBFI personnel, and technical assistance to design, test and adopt more appropriate loan products, collateral instruments and financial services. It will also make matching grants of up to USD 10 000 to cover the costs that qualifying NBFIs sustain to establish new rural branches. In addition, it will support well-managed credit unions so that they can expand and become financially sustainable. This will be achieved by focusing on a more savings-driven approach to credit union growth and extensive capacity-building across the national credit union movement in savings mobilization, credit administration, financial management and overall governance. A facilitating factor will be the establishment of a national association of credit unions that will progressively assume responsibility for the administration of the credit union network. Project inputs will include national and international technical assistance, and training and support for the establishment of an apex association of credit unions.

21. The existing revolving fund established from repayments of loans funded by IFAD under the Agricultural Development Project will continue to be used to provide loan funds to capitalize credit unions (the fund currently has USD 1.0 million).

Legal, Regulatory and Institutional Development

22. This component will focus on key legal and institutional reforms that impact directly on the competitiveness of Georgian agriculture and the marketability and safety of its products, and that enable Georgia to meet its international sanitary and phytosanitary and trade obligations. Project interventions will be strategically focused on the following aspects:

- (i) **Public registry development.** The newly created National Agency of the Public Registry will be responsible for land and land improvement registration and cadastre (previously handled by the State Department for Land Management), and for registration of the secured interests on moveable assets (which will be important for improving the poor's access to rural finance as it will enable them to use assets as collateral for loans).

To support the transition, ensuring that it is smooth and that the original objectives are maintained, the project will, over a two-year period, provide training, equipment, information technology and technical assistance.

- (ii) **Institutional and legal reform.** The project will assist government departments in reviewing Georgia's outdated food, seed and plant variety protection, and veterinary laws and institutional framework with the objective of modernizing them to be compatible with World Trade Organization commitments, European Union directives and commercial agriculture needs. The project will make technical experts available to help revise these laws and draft pertinent legislation. It will provide training for seed department staff in seed testing and certification, and introduce seed certification procedures recommended by the International Seed Testing Association. It will also assist the Government in establishing a functional food safety and risk assessment system.
- (iii) **Support for food quality and standards.** Based on the needs and proposals coming out of commodity supply chain analysis, the project will provide support for the development of product certification, quality testing and labelling standards.

Project Implementation

23. The Ministry of Agriculture will have overall responsibility for project implementation, which will be managed under the umbrella of the existing World Bank project coordination centre (PCC) within the Ministry of Agriculture. The PCC will be responsible for all aspects of project administration, including project oversight, technical assistance, goods and materials procurement, and financial control. Day-to-day project management will be the responsibility of a technical project implementation unit. A project steering committee, including representatives from government, the private sector and donor agencies, will provide project oversight and ensure national programme integration.

D. Costs and Financing

24. The costs of the four-year project have been estimated at USD 34.70 million (Table 1). The project will be financed by an IFAD loan of USD 9.2 million and an IFAD grant of USD 800 000, an IDA credit of USD 10 million, and a Japan Policy and Human Resources Development (PHRD) Fund grant of USD 4.5 million. The Government will contribute USD 2.47 million equivalent, and participating financial institutions and beneficiaries will contribute USD 2.90 million and USD 4.83 million equivalent respectively.

25. IFAD grant proceeds will be used exclusively to support institutional capacity-building among rural finance providers to improve their abilities to serve poor clients. IFAD loan proceeds will be used exclusively to link communities to marketing chains, expand credit availability through the credit unions and PFIs, and improve the performance of the land registry; these are activities that mainly support the project's poorer target groups, usually located on the lower rungs of the marketing chain. IDA credit and the PHRD Fund grant will be used to support other elements in the marketing chain (see Table 2).

TABLE 1: SUMMARY OF PROJECT COSTS^a
(USD)

Component	Local	Foreign	Total	% of Foreign Exchange	% of Total Base Costs
Agricultural supply chain development					
Supply chain analysis and development	336 586.7	408 413.3	745 000.0	55	2
Linkages to farm communities	1 257 720.5	338 829.7	1 596 550.2	21	5
Technology transfer	1 020 400.0	597 600.0	1 618 000.0	37	5
Subtotal	2 614 707.2	1 344 843.0	3 959 550.2	34	12
Rural financial services					
Commercial bank credit line	16 100 000.0	-	16 100 000.0	-	48
Microcredit line	7 250 000.0	-	7 250 000.0	-	21
Rural credit capacity-building	1 208 193.9	1 072 873.7	2 281 067.5	47	7
Subtotal	24 558 193.9	1 072 873.7	25 631 067.5	4	76
Legal, regulatory and institutional development					
Public registry development	529 355.4	466 844.6	996 200.0	47	3
Institutional and legal reform	702 412.9	1 012 187.1	1 714 600.0	59	5
Support for food quality and standards	93 000.0	57 000.0	150 000.0	38	-
Subtotal	1 324 768.3	1 536 031.7	2 860 800.0	54	8
Project implementation	1 126 300.0	202 200.0	1 328 500.0	15	4
Total base costs	29 623 969.4	4 155 948.3	33 779 917.7	12	100
Physical contingencies	214 145.8	121 651.0	335 796.8	36	1
Price contingencies	492 408.3	96 467.4	588 875.8	16	2
Total project costs	30 330 523.5	4 374 066.7	34 704 590.2	13	103

^a Discrepancies in totals due to rounding.

TABLE 2: FINANCING PLAN^a
(USD '000)

Component	Participating Financial Institutions		World Bank		IFAD Loan		IFAD Grant		Japanese Govt. PHRD Fund		Beneficiaries		Government		Total		Foreign Exchange	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
Agricultural supply chain development																			
Supply chain analysis and development	-	-	-	-	-	-	-	-	585.8	71.5	-	-	233.4	28.5	819.2	2.4	431.3	197.6	190.3
Linkages to farm communities	-	-	-	-	113.6	6.2	206.6	11.3	1 109.0	60.8	-	-	395.3	21.7	1 824.5	5.3	365.6	1 263.2	195.7
Technology transfer	-	-	578.3	35.5	-	-	-	-	476.4	29.2	289.1	17.7	286.4	17.6	1 630.1	4.7	598.9	854.5	176.7
Subtotal	-	-	578.3	13.5	113.6	2.7	206.6	4.8	2 171.2	50.8	289.1	6.8	915.0	21.4	4 273.8	12.3	1 395.8	2 315.3	562.7
Rural financial services																			
Commercial bank credit line	2 700.0	16.8	7 200.0	44.7	3 200.0	19.9	-	-	-	-	3 000.0	18.6	0.0	-	16 100.0	46.4	-	16 100.0	0.0
Microcredit line	-	-	1 000.0	13.8	4 800.0	66.2	-	-	-	-	1 450.0	20.0	-0.0	-0.0	7 250.0	20.9	-	7 250.0	0.0
Rural credit capacity-building	200.0	8.3	-	-	23.6	1.0	463.1	19.3	1 162.5	48.3	45.0	1.9	511.0	21.2	2 405.3	6.9	1 101.3	977.1	326.8
Subtotal	2 900.0	11.3	8 200.0	31.8	8 023.6	31.2	463.1	1.8	1 162.5	4.5	4 495.0	17.5	511.0	2.0	25 755.3	74.2	1 101.3	24 327.1	326.8
Legal, regulatory and institutional development																			
Public registry development	-	-	-	-	517.9	46.8	129.9	11.7	212.6	19.2	-	-	246.3	22.3	1 106.7	3.2	507.5	384.2	215.0
Institutional and legal reform	-	-	676.6	35.5	-	-	-	-	741.2	38.9	13.4	0.7	473.5	24.9	1 904.8	5.5	1 088.0	504.5	312.3
Support for food quality and standards	-	-	-	-	-	-	-	-	92.4	61.6	39.6	26.4	18.0	12.0	150.0	0.4	57.0	75.0	18.0
Subtotal	-	-	676.6	21.4	517.9	16.4	129.9	4.1	1 046.2	33.1	53.0	1.7	737.8	23.3	3 161.5	9.1	1 652.5	963.6	545.3
Project implementation	-	-	545.0	36.0	545.0	36.0	-	-	120.0	7.9	-	-	304.1	20.1	1 514.0	4.4	224.4	1 055.3	234.4
Total project costs	2 900.0	8.4	9 999.9	28.8	9 200.1	26.5	799.6	2.3	4 500.0	13.0	4 837.1	13.9	2 467.9	7.1	34 704.6	100.0	4 374.1	28 661.3	1 669.3

^a Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

26. The proposed IFAD loan of approximately USD 9.2 million will be disbursed over a four-year period. The project will have a special account maintained in United States dollars with an initial allocation of USD 500 000 opened in a bank acceptable to IFAD and operated as authorized by the Ministry of Finance. The special account will be used to make eligible payments under all IFAD disbursement categories. Replenishment of the special account from the loan account at IFAD will be by way of withdrawal applications, supported by appropriate documentation or certified statements of expenditure appropriately endorsed and submitted to IFAD's cooperating institution. IFAD will continue to accept withdrawal applications for reimbursement, direct payments and special commitments. Project credit funds intended for onlending to project beneficiaries under the rural financial services component will be made available by the appropriate government agency (Ministry of Finance) to participating commercial banks and NBFIs through subsidiary loan agreements negotiated with the project on mutually acceptable terms and conditions. There will also be a project account in Georgian lari into which the Ministry of Finance will transfer the Government's contribution in advance. From this account, funds will flow to cover the Government's share of project expenditure.

27. Procurement of goods and services financed from the loan will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits", dated May 2004, and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers", dated May 2004, and with the provisions stipulated in the IDA Development Credit Agreement and the IFAD Project Financing Agreement. For each contract to be financed by the loan, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the borrower and the cooperating institution (World Bank) and shown in a procurement plan, which will be updated as required, and at least annually, to reflect actual project implementation needs and improvements in institutional capacity.

28. Project auditing arrangements will follow the standard procedures adopted by the World Bank for European and Central Asia, which stipulate that audits should be conducted by independent private auditors acceptable to the Bank and on terms of reference acceptable to the Bank. The annual audited project financial statements will be provided to the Bank and IFAD within six months of the end of each fiscal year and at loan closing.

F. Organization and Management

29. The project will be implemented under the overall responsibility of the Ministry of Agriculture. The ministry will form a project steering committee, to be chaired by the Minister for Agriculture, to provide overall policy guidance and coordination functions for the project. The project will be managed by the PCC, a legal entity already established by the Ministry of Agriculture and the Ministry of Finance to have overall management and supervision responsibility for World Bank/IDA-financed projects. The PCC is supported by a core service team that provides centralized procurement and disbursement services to all projects. Like all other projects under the PCC, the Rural Development Project will have its own project implementation unit, which will be responsible for day-to-day management of all project components including work programming and financial management, project procurement planning, progress and financial reporting, staff appointment and management, and project monitoring and evaluation.

G. Economic Justification

30. Financial and economic analysis was carried out for the key potential crops and livestock products in the project area. The analysis was based on the assumption that, with technology development, improved organization, better market information and strengthened linkages under the project, farmers would expand their farming activities. The analysis modelled the investment decisions of individual borrowers based on realistic estimates of investment and operating costs to arrive at net income before and after financing. It was assumed that farmers would borrow at most 80% of total investment at the prevailing commercial interest rate (20% in November 2004), and would have grace periods of 1-2 years and repayment periods of 1-4 years depending on the investment. Farmers would contribute 20% of total cost, typically to cover operating costs. The opportunity cost of capital was set at 12%. For each production system, net annual income after loan repayment, the internal rate of return and net present value were calculated, and the results are summarized in Table 3. From this analysis, it is apparent that there are very significant opportunities for farmers to improve their incomes if they apply improved technological packages, combined with better marketing knowledge and practices.

TABLE 3: FINANCIAL RETURNS TO VARIOUS FAMILY-FARM INVESTMENTS

Loan Category	Net Annual Income after Loan Repayment (Lari)	Net Present Value (Lari)	Percentage Internal Rate of Return
Vineyards (Saperavi red grape)	24 140/ha	4 790/ha	20%
Apple orchards	6 302/ha	5 904/ha	26%
Hazelnut orchards	2 287/ha	814/ha	15%
Greenhouse vegetables	16 068/0.2 ha	34 954/0.2 ha	46%
Dairy cows – natural pasture base	3 201/3 cows	1 157/3 cows	12%

31. At the non-farm level, the establishment or expansion of non-agricultural rural enterprises is expected to feature prominently in the portfolios of PFIs, creating not only income and employment for owners of small-scale enterprises and their households but also further employment opportunities in the form of wage labour. Such off-farm investment will contribute to reducing underemployment and unemployment levels. Benefits of this nature will have a multiplier effect, adding to the overall robustness of rural economic growth and poverty reduction. The expansion of investment opportunity and the overall level of economic activity engendered by the project will contribute to the further evolution of decentralized financial, technical and business services.

H. Risks

32. Commercial risks will be mitigated by the provision of targeted assistance at the farm level through linkages to the farm communities component to enable farmers to link with supply chains on better terms, with improved knowledge of requirements and the skill to produce effectively for the market. The project will expend considerable efforts in improving the skills and capacities of PFIs to engage with small farmers and their commercial institutions. Since PFIs will take the financial risks, they will also receive project support to acquire the skills needed to make accurate assessments of lending risks before lending and to monitor the development of risks on a continuous basis. Financial risk is also reduced by holistic support for complete supply and marketing chains. A further risk is that the Government may not actually enact the supporting legislation required, particularly with respect to the regulation of microfinance institutions. This factor will be a topic for negotiation, and will be closely monitored during project supervision. There remains a risk that counterpart funds will be delayed or not available, thus holding back project implementation. The project will mitigate this

risk by carrying out proper planning for each implementation year. In addition, project financing makes minimal incremental demands on government revenue.

I. Environmental Impact

33. Based on current IFAD guidelines, the project has been classified as Category B; thus there is no potential for significant negative impact. As IFAD is cofinancing this project with IDA, the World Bank will act as the cooperating institution. Its procedures for environmental impact assessment of the subprojects funded from project loan funds are fully consistent with the environmental safety standards of IFAD.

J. Innovative Features

34. The initial design of this IDA-initiated project envisaged a focus on providing investment finance through commercial banks to agro-processing businesses that would eventually link with medium-scale commercial farmers for the supply of their raw material needs. When IFAD became a project cofinancier, it worked to reorient project design so that the poorer sections of rural society could participate in and benefit from project activities. This will be achieved through the agricultural supply chain development component, which addresses their information, skill and organization gaps and allows them to profitably plug into supply and value chains, and through the provision of continued support to the credit unions that serve their needs.

35. Project design maintains a consistent focus on the use of enhanced private-sector activity and commercial opportunity as the drivers of sustained poverty reduction. It maximizes the channelling of financial resources to small producers and linked rural business enterprises allowing them to make direct investments in their businesses. Activities eligible for support through the project are all commercially derived and have a demonstrably positive and sustainable financial impact on the client group. This is an important innovation in the context of Georgia.

36. The project will aim to develop further the positive results of the Agricultural Development Project, IFAD's first intervention in Georgia, launched in 1997. It will do so by supporting farmers in becoming efficient producers and decision-makers at the farm level, and by developing appropriate institutional arrangements for farmers to sell their production at remunerative prices, thus bringing small farmers closer to markets. It will link farmers to markets through an integrated and holistic commodity approach that addresses bottlenecks along all the links in the marketing chain, from producers to processors and consumers. The innovation is in the Fund's involvement in supply chain development while still retaining its specificity. This is achieved by concentrating IFAD support on its target groups of small farmers located on the lower rungs of the chain while other partners are used to support other elements in the marketing chain that do not qualify for IFAD support.

37. This project also combines the concurrent use of loan and grant resources to ensure that institutions supported under the project acquire the capacities and skills that will enable them to serve the poor. To that effect, IFAD grant resources will be used for stimulating innovation among financial service providers in order to: (i) improve financial service outreach by commercial banks and NBFIs through expanded branch networks where appropriate; (ii) broaden eligibility of access to financial services among small farmers and the landless through an invigorated credit union network; and (iii) widen the range of pro-poor procedures (collateralization of moveable assets) and financial products (machinery and equipment leasing services) provided to the target group by PFIs.

38. The project builds synergies and promotes complementarity with the initiatives of a number of donors while avoiding overlap and duplication. Its agricultural supply chain development component draws on experience and information gathered by the USAID-funded AgVANTAGE in its extensive analysis of various supply chains of relevant commodities. The project will draw on lessons learned

by the IDA-funded CERMA to strengthen institutional arrangements with the authorities, develop trust among partners, select procedures for assisted companies, and promote cost-sharing between the project and beneficiaries. It will also build on previous IFAD support, complementing existing institutional structures (such as land registries and credit unions) where feasible.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

39. A financing agreement between Georgia and IFAD constitutes the legal instrument for extending the proposed financial assistance to the recipient. A summary of the important supplementary assurances included in the negotiated financing agreement is attached as an annex.

40. Georgia is empowered under its laws to borrow from IFAD.

41. I am satisfied that the proposed financial assistance will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

42. I recommend that the Executive Board approve the proposed financial assistance in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to Georgia in various currencies in an amount equivalent to six million and fifty thousand special drawing rights (SDR 6 050 000) to mature on or prior to 15 February 2045 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

RESOLVED FURTHER: that the Fund shall provide a grant to Georgia in various currencies in an amount equivalent to five hundred and fifty thousand special drawing rights (SDR 550 000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President

**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES
INCLUDED IN THE NEGOTIATED FINANCING AGREEMENT**

(Negotiations concluded on 1 April 2005)

1. **Project account.** As soon as practicable after the date of the financing agreement but in no event later than the effective date, the PCC will open and thereafter maintain – in a bank proposed by the Government and accepted by IFAD – an account denominated in local currency to receive loan and grant proceeds for project operations (the project account). The project account will be funded and replenished, from time to time and upon request, from the resources of the special account in accordance with the annual work plan and budget (AWP/B). The PCC director will be fully authorized to operate the project account.
2. **Counterpart funds.** The Government will make available to the PCC counterpart funds from its own resources in an aggregate amount equivalent to USD 2 450 000, in accordance with the AWP/B and with its customary national procedures for development assistance. For such purpose, the Government will deposit counterpart funds in an initial amount equivalent to USD 50 000 into the project account to cover the first six months of project implementation, and will thereafter replenish the project account each year and in advance by depositing the counterpart funds called for in the AWP/B for the relevant project year.
3. **Channelling of project resources.** To carry out the project, the Government will make the proceeds of the financing available to the project parties in accordance with the AWP/B, with the PFI subsidiary loan agreements and with its customary national procedures for development assistance. Available funds and other resources called for in the AWP/Bs will be channelled in accordance with the financing agreement and the PFI subsidiary loan agreements to carry out the project.
4. **Progress report.** The Government will submit to IFAD quarterly progress reports on project implementation, as required under the Fund's General Conditions for Agricultural Development Financing (hereafter General Conditions), no later than 45 days after each subsequent calendar quarter, and will cover such calendar quarter during the project implementation period.
5. **Rural credit operations guidelines (RCOGs).** The Government will carry out the rural financial services component in accordance with the RCOGs and the IDA environmental guidelines for rural credit operations agreed upon with IFAD. The Government will not amend such guidelines without the prior written consent of IFAD. The Government will: (a) require all PFIs to provide subloans in accordance with the RCOGs; and (b) allow PFIs to set loan conditions based on best commercial practice.
6. **Eligibility criteria for PFIs.** The Government will carry out the rural financial services component through PFIs selected in accordance with the RCOGs for participation in the project. The participation of PFIs in the rural financial services component is defined in the RCOGs. PFIs are responsible for identifying sub-borrowers and for following the eligibility criteria for subloan beneficiaries described in the PFI subsidiary loan agreements and the RCOGs. The PFIs will assume the full credit risk on all subloans financed under the project.
 - (a) In carrying out the rural financial services component, the Government will:
 - (i) select participating commercial banks (PCBs) in accordance with the eligibility criteria set forth in the RCOGs; and

(ii) on-lend the amount of the credit allocated to the PCB subloans category to PCBs under subsidiary loan agreements to be entered into between the Government and each PCB, under terms and conditions approved by IFAD.

(b) In carrying out the rural financial services component, the Government will on-lend the amount of the credit allocated to the NBFIs subloans category to the NBFIs under subsidiary loan agreements to be entered into between the Government and each of the NBFIs under terms and conditions approved by IFAD.

7. **PFI subsidiary agreement.** The Government and each approved PFI will enter into an agreement (the “PFI subsidiary loan agreement”) satisfactory to IFAD, which will provide, among other things, that:

(a) the Government will make available to the PFI, through the project implementation unit, funds to on-lend on terms and conditions acceptable to IFAD and in accordance with the IDA development credit agreement; and

(b) the PFI will declare its commitment to the objectives and purposes of the project and, in furtherance of such objectives and purposes, it will undertake to carry out the activities under the rural financial services component in accordance with the financing agreement.

8. **Subloan agreements.** PFIs will undertake to provide subloans to eligible beneficiaries in accordance with the financing agreement and the RCOGs, and all subloan agreements between the PFI and any eligible beneficiary under the project will be approved by IFAD prior to signature. The terms and conditions applicable to subloan agreements will be acceptable to IFAD and in accordance with the IDA development credit agreement.

9. **Revolving fund.** The Government will establish and maintain a revolving fund into which all repayments of principal from credits extended to PFIs will be deposited. The Government will ensure that the revolving fund is used to provide credit on an ongoing basis in the project area in accordance with the financing agreement, at least until all loan service payments have been made in full.

10. **Suspension.** In addition to the events set forth in the General Conditions that may cause IFAD to suspend the right of the Government to request withdrawals from the loan account, IFAD may suspend the loan, after notification to the Government, in whole or in part, upon the occurrence of any of the following events:

(a) Any of the PFI subsidiary loan agreements and the RCOGs have been violated or have been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such violation or waiver, suspension, termination, amendment or other modification has had, or is likely to have, a material adverse effect on any portion of the project.

(b) The right of the Government to withdraw the proceeds of the IDA credit has been suspended, cancelled or terminated in whole or in part or the credit has become due and payable prior to the agreed maturity thereof.

(c) IFAD has determined that the material benefits of the project are not adequately reaching the target group, or are benefiting persons outside the target group to the detriment of target group members.

- (d) In consultation with the Government, a repeal, invalidation, suspension, amendment or other change to any national law may result in detriment to any of the terms and conditions of the financing agreement.
 - (e) Procurement has not been carried out in accordance with the financing agreement.
11. **Recruitment of project personnel.** The Government will ensure that, everything being equal, preference will be given to women candidates for positions in the project implementation unit.
12. **Pest management practices.** As part of maintaining sound environmental practices as required by the General Conditions, the project parties will maintain appropriate pest management practices under the project and, to that end, the Government will ensure that pesticides procured under the project do not include any pesticide either proscribed by the International Code of Conduct on the Distribution and Use of Pesticides of the Food and Agriculture Organization of the United Nations (FAO), as amended from time to time, or listed in Tables 1 (Extremely Hazardous) and 2 (Highly Hazardous) of the WHO Recommended Classification of Pesticides by Hazard and Classification 1996-1997, as amended from time to time. All such pesticides will be approved by the competent authorities of the Government prior to their use.
13. **Tax exemption.** The Government will exempt from taxes the importation, procurement and supply of all goods, civil works and services financed by the project loan. The value of such exemptions will be credited against the obligation of the Government to provide counterpart funds for the project.
14. **Monitoring.** The Government will:
- (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to IFAD, the carrying out of the project and the achievement of its objectives;
 - (b) prepare, under terms of reference satisfactory to IFAD, and furnish to IFAD within the two years following the effective date a report integrating the results of the monitoring and evaluation activities performed, on the progress achieved in the carrying out of the project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the project and the achievement of its objectives during the period following such date; and
 - (c) review the report with IFAD within the two and a half years following the effective date, or such later date as IFAD may request, and, thereafter, take all measures required to ensure the efficient completion of the project and the achievement of its objectives based on the report's conclusions and recommendations and IFAD's views on the matter.
15. **Gender focus.** Throughout the project implementation period, the Government will: (a) promote the active participation of women in economic and social development; (b) expand women's access to and control over fundamental assets such as capital, land, knowledge and technologies; (c) encourage women to take an active role in all project activities; and (d) raise awareness of gender equality issues among project staff.
16. **Staffing.** The Government will ensure that project staff at all levels are recruited and retained on the basis of satisfactory employment contracts.
17. **Vehicles.** All vehicles procured under the project will be used exclusively for project activities.

18. **Environmental safeguards.** The PFI will ensure that subloan activities comply with applicable national legislation.

19. **Credit union revolving funds.** The Government will ensure that the existing credit union revolving funds are maintained and will continue to provide financing to the established credit unions.

20. **Conditions precedent to disbursement.** The conditions precedent to disbursement are as follows: no withdrawals will be made in respect of expenditures under the PCB subloans and NBFIs subloans categories until: (a) a PFI subsidiary loan agreement has been approved by IFAD in draft; a copy of such PFI subsidiary loan agreement, as signed by the Ministry of Finance and the PFI, substantially in the form so approved and certified as true and complete by an authorized and competent officer of the Ministry, has been delivered to IFAD; the signature and performance thereof by the Ministry and the PFI have been duly authorized or ratified by all necessary corporate, administrative and governmental action; and all conditions precedent to the effectiveness thereof have been fulfilled; and (b) the RCOGs have been drafted and approved by IFAD.

21. **Conditions of effectiveness.** The following are specified as conditions precedent to the effectiveness of the financing agreement:

- (a) all conditions precedent to effectiveness of the IDA development credit agreement have been fulfilled;
- (b) the project steering committee has been duly established;
- (c) the project implementation unit has been duly established in accordance with the relevant procedures of the Government;
- (d) the PCC director has been duly appointed by the Government;
- (e) a special account, a grant account and a project account have been opened by the Government;
- (f) the Government has made the initial deposit of counterpart funds equivalent to USD 50 000 into the project account;
- (g) the financing agreement has been duly signed, and the signature and performance thereof by the Government has been duly authorized and ratified by all necessary administrative and governmental action; and
- (h) a legal opinion, issued by the Ministry of Justice or other legal counsel approved by IFAD and in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

APPENDIX I

COUNTRY DATA
GEORGIA

Land area (km² thousand) 2002 1/	69	GNI per capita (USD) 2002 1/	650
Total population (million) 2002 1/	5.18	GDP per capita growth (annual %) 2002 1/	6.6
Population density (people per km²) 2002 1/	75	Inflation, consumer prices (annual %) 2002 1/	5.6
Local currency	Lari (GEL)	Exchange rate: USD 1 =	GEL
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1996-2002 1/	-0.5	GDP (USD million) 2002 1/	3 396
Crude birth rate (per thousand people) 2002 1/	8	Average annual rate of growth of GDP 1/ 1982-1992	-6.2
Crude death rate (per thousand people) 2002 1/	10	1992-2002	2.1
Infant mortality rate (per thousand live births) 2002 1/	24	Sectoral distribution of GDP 2002 1/	
Life expectancy at birth (years) 2002 1/	73	% agriculture	21
Number of rural poor (million) (approximate) 1/	n/a	% industry	23
Poor as % of total rural population 1/	n/a	% manufacturing	n/a
Total labour force (million) 2002 1/	2.57	% services	56
Female labour force as % of total 2002 1/	47	Consumption 2002 1/	
Education		General government final consumption expenditure (as % of GDP)	10
School enrolment, primary (% gross) 2002 1/	92 a/	Household final consumption expenditure, etc. (as % of GDP)	81
Adult illiteracy rate (% age 15 and above) 2002 1/	n/a	Gross domestic savings (as % of GDP)	9
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita	n/a	Merchandise exports 2002 1/	326
Malnutrition prevalence, height for age (% of children under 5) 2002 3/	12 a/	Merchandise imports 2002 1/	725
Malnutrition prevalence, weight for age (% of children under 5) 2002 3/	3 a/	Balance of merchandise trade	-399
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2002 1/	4 a/	before official transfers 2002 1/	-434
Physicians (per thousand people) 2002 1/	4	after official transfers 2002 1/	-230
Population using improved water sources (%) 2002 3/	79 a/	Foreign direct investment, net 2002 1/	165
Population with access to essential drugs (%) 1999 3/	0-49	Government Finance	
Population using adequate sanitation facilities (%) 2002 3/	100 a/	Overall budget balance (including grants) (as % of GDP) 2002 1/	-0.1
Agriculture and Food		Total expenditure (% of GDP) 2002 1/	12
Food imports (% of merchandise imports) 2002 1/	19 a/	Total external debt (USD million) 2002 1/	1 838
Fertilizer consumption (hundreds of grams per ha of arable land) 2002 1/	528 a/	Present value of debt (as % of GNI) 2002 1/	40
Food production index (1989-91=100) 2002 1/	75	Total debt service (% of exports of goods and services) 2002 1/	11
Cereal yield (kg per ha) 2002 1/	1 941	Lending interest rate (%) 2002 1/	32
Land Use		Deposit interest rate (%) 2002 1/	10
Arable land as % of land area 2002 1/	11 a/		
Forest area as % of total land area 2002 1/	43 a/		
Irrigated land as % of cropland 2002 1/	44 /a		

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

1/ World Bank, *World Development Indicators* database CD ROM 2004

2/ UNDP, *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2004

PREVIOUS IFAD FINANCING IN GEORGIA

Project Id	Project Name	Initiating Institution	Cooperating Institution	Lending Terms	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	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	L - I - 543 - GE	SDR	6 100 000	0.152

LOGICAL FRAMEWORK

Narrative Summary	Impact/Result Indicators	Means of Verification	Assumptions/Risks
Goal			
Sustained rural income growth and poverty reduction	<ul style="list-style-type: none"> • Reduction in % of rural people living on USD 2/day • Increase in household asset ownership • Reduction in the prevalence of under-height for age children (below 5 years old) 	National Statistical Service Benchmark, mid term and completion assessment Ministry of Health records	Political Stability is maintained Macro-economic environment remains conducive to investment, private sector development, and trade Corruption is contained and its impact on commerce reduced
Purpose/Objective			
Sustained growth of private commercial agriculture and related agribusiness, with strong participation by small farmers and rural unemployed	<ul style="list-style-type: none"> • # of enterprises operating after three years • revenue growth of enterprises • # of jobs generated by SMEs, disaggregated by gender • # of applications received/accepted by PFIs, for loans • # farmer groups engaged with private sector businesses • Volume and value of incremental farm production 	PFI records Case studies by <i>rayon</i> Benchmark and completion assessment RDP monitoring system	Absence of large external economic shocks No deterioration in external trade routes
Outputs from Components			
<p>1. Agricultural Supply Chain Development Agricultural supply chains which add value and provide a competitive advantage for their participants developed.</p> <p>Large numbers of farmer groups and associations lining formally with other supply chain actors and providing channels for small farmers to access the market (Grant)</p>	<ul style="list-style-type: none"> • # of detailed supply chain studies completed • # of matching grants provided. • # of technology transfer trials/demonstrations financed <ul style="list-style-type: none"> • # of farm groups & associations assisted by NGOs • # of men and women participating in groups • # of farm communities engaged by NGOs • # of farm communities engaged with new markets 	<p>AgVANTAGE & CERMA Reports PIU records and reports NGO records and reports ASCDF/FAC records</p> <p>Service provider records and reports PIU records and reports Farmer groups and association records and reports</p>	Complementary support provided by other development programmes
<p>2. Rural Financial Services Viable medium and long-term financing and efficient savings instruments made available to rural commercial entities, including farmers, in a competitive environment.</p> <p>Credit Unions developing to become a viable and sustainable rural finance institutions (Grant)</p>	<ul style="list-style-type: none"> • Amount of funds on-lent to PFIs • # loans using non real-estate collateral, by gender • # and value of loans made to enterprises/farmers, disaggregated by gender • repayment records of rural borrowers, by gender • Amount & proportion of saving generated through PFIs • # and type of financial products • # and value (increase) of seasonal loans, by type <ul style="list-style-type: none"> • # of NBFi and CUs operating viably 	<p>PFI records showing loan instruments used PFI transaction audits PIU Records and Reports NBG Records Case Studies</p>	<p>Absence of political interference in operation of the loan facility Demand for medium, long-term loans from small, medium entrepreneurs Continued reforms in financial sector (policy and regulatory framework) NBFIs enabled to operate and receive deposits</p>

Narrative Summary	Impact/Result Indicators	Means of Verification	Assumptions/Risks
<p>3. Legal & Institutional Framework Legal and institutional reforms enacted, enabling competitive trade in agricultural products and more efficient application of loan collateral</p> <p>The land registry operating with extended outreach and providing registration for small holders land titles and secondary transaction thus enabling the use of land as collateral (Grant)</p>	<ul style="list-style-type: none"> Internationally acceptable seed, sanitary and phyto-sanitary, and food safety laws enacted MAF capacity building and investment plans for institutional reform completed Program of ad hoc testing and certification of agricultural products operational <p>NAPR established, functional and self-financing</p> <ul style="list-style-type: none"> % of bank loans for which land is used as collateral 	<p>PIU Reports and Records Parliamentary Records MAF Records</p> <p>NAPR activity records Bank records</p>	<p>Parliament supportive of reforms Effective implementation of regulations and standards.</p>
<p>4. Project Management Project effectively and efficiently managed</p>	<ul style="list-style-type: none"> Disbursement percentage against appraisal targets M&E/MIS set up and used for decision-making Project physical progress against appraisal targets Timely progress and financial reports are submitted Acceptable audits, procurement & financial reports Leadership of PIU acknowledged. 	<p>Periodic PIU Reports AWP&B Supervision missions IFAD follow-up missions</p>	

4

Inputs (USD '000)	Financing USD	Timing
Civil works 150	IFAD loan 9.20 million	<ul style="list-style-type: none"> IFAD loan negotiations April 2005 IFAD Executive Board presentation Apr 2005
Equipment, Materials & Services 1 077	IFAD Grant 0.80 million	
Credit 21 500	World Bank Credit 10.00 million	
Competitive Grants 2 200	Japanese PHRD Grant 4.50 million	
Technical Assistance 3 000	PFI 2.95 million	
Studies, w/shops & training 1 576	Beneficiaries 4.76 million	
Community Investments 3 000	Government <u>2.52 million</u>	
Vehicles 374	Total 34.74 million	
Recurrent costs 1 093		
Contingencies <u>763</u>		
Total 34 740		

All results/impact measures to be disaggregated by *rayon* and gender

ORGANIGRAMME

