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تمكين السكان الريفيين الفقراء
من التغلب على الفقر

تقرير رئيس الصندوق

بشأن قرض ومنحة مقترح تقديمهما إلى

جورجيا من أجل

مشروع دعم الزراعة

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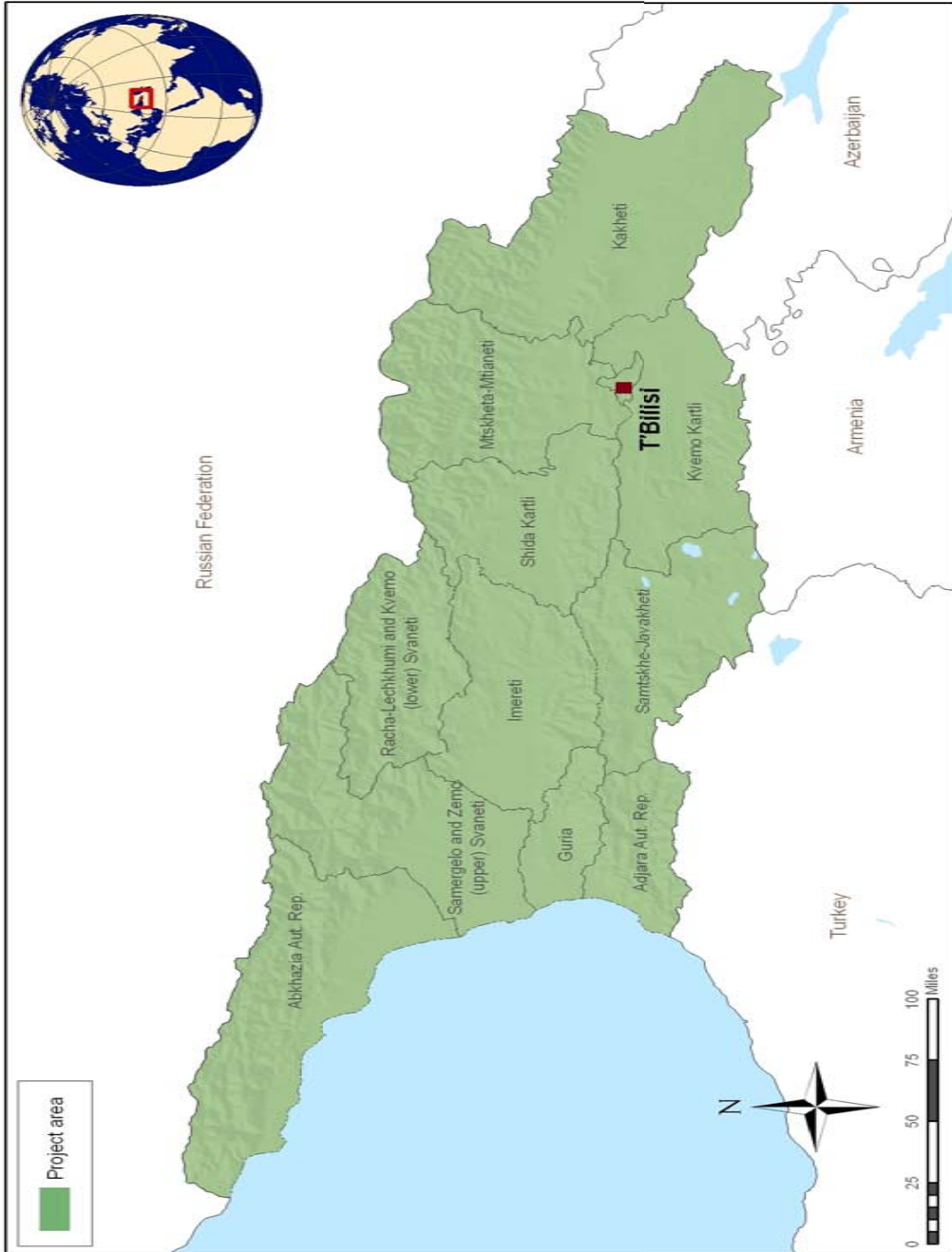
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(5 350 000)

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Negotiated financing agreement: "Agricultural Support Project"

(Negotiations concluded on 20 November 2009)

Loan Number:

Grant Number:

Project Title: Agricultural Support Project (the "Project")

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and

Georgia (the "Borrower")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

WHEREAS the Fund has agreed to provide financing to support the Agricultural Support Project in Georgia;

NOW THEREFORE, the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide a Loan and a Grant to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

- 1 A. The amount of the Loan is 5 350 000 SDR.
- B. The amount of the Grant is 130 000 SDR.

2 The Loan is granted on intermediate terms.

3. The Loan Service Payment Currency shall be the currency of the United States of America.

4. The first day of the applicable Fiscal Year shall be 1 January.

5. Payments of principal and interest shall be payable on each 15 February and 15 August.

6. There shall be a Project Account for Project operations in the Treasury Service of the Ministry of Finance of the Borrower.

7. The Borrower shall provide counterpart financing for the Project in the amount of USD 169 000 in cash contribution, and USD 1 900 000 to cover taxes.

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture (MOA) through its public legal entity which is the Agricultural Development Projects Coordination Centre (ADPCC).

2. The following are designated as additional Project Parties:
 - (a) the Ministry of Finance (MOF); and
 - (b) Leasing Companies and Microfinance Institutions (MFIs).
3. The Project Completion Date shall be the fourth anniversary of the date of entry into force of this Agreement.

Section D

The Loan will be administered and the Project supervised by the Fund.

Section E

1. (a) The following are designated as additional general conditions precedent to withdrawal:
 - (i) The Project Account designated to receive IFAD advance resources has been opened by the Treasury Service of the Ministry of Finance; and
 - (ii) The Project Manager shall have been duly appointed on terms and conditions satisfactory to the Fund.
- (b) The following are designated as specific conditions precedent to disbursement under Category III:
 - (i) Due diligence and evaluation shall have been carried out on those Leasing Companies and MFIs who have expressed interest in the proposed project for agricultural micro-leasing, by an international expert in leasing operations, and a report, satisfactory to the Fund, has been provided on the findings of such evaluation;
 - (ii) The Rural Leasing Manual, subject to the no-objection of the Fund, shall have been finalized and adopted by the Borrower, and submitted to the Fund by the Lead Project Agency; and
 - (iii) Subsidiary Loan Agreements have been finalized with individual Leasing Companies and MFIs subject to prior no-objection by the Fund.
2. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

The President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

For the Recipient:

Minister for Finance
Ministry of Finance
16, Vakhtang Gorgasali Street
00117, Tbilisi, Georgia

This agreement, dated _____, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

For the Fund

For the Borrower

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall benefit agriculture-related producers and processors among poor rural women and men.

2. *Goal.* The overall goal of the Project is to increase income among rural people in Georgia engaged in agriculture activities.

3. *Objectives.* The Project's objectives are: (i) to increase assets and incomes among actually and potentially economically active poor rural women and men willing to move towards commercially viable agricultural and associated rural enterprises; and (ii) to remove infrastructure bottlenecks which inhibit increasing participation of economically active rural poor in enhanced commercialization of the rural economy.

4. *Components.* The Project shall have two components, as well as the required support for Project Management and Implementation as follows:

4.1. *Component 1: Support for Leasing Operations in Rural Areas.* (a) The Project shall support and target rural leasing support to key participants of supply chains of the Georgian rural markets and focus investments in commodity chains with the strongest linkages to the target group, the rural poor. The leasing operations shall be carried out through a mix of Leasing Companies and MFIs thus making it possible to reach the smallholders and rural small and medium enterprises in a sustainable manner. The support to rural leasing operations will operate as a refinancing facility for pre-qualified Leasing Companies and MFIs. Pre-qualification for applicant Leasing Companies and MFIs shall consist of a due diligence evaluation and the criteria to be used in this process (General Standards, Financial Prudential Standards, and Corporate Governance and Managerial Standards) shall be acceptable to the Fund. All Leasing Companies and MFIs participating in the Project are subject to no objection from the Fund.

(b) The relationship between the ADPCC (b) and the Leasing Companies and MFIs shall be governed by Subsidiary Loan Agreements acceptable to the Fund. Such agreements shall inter alia stipulate the agreed share of each Leasing Company and MFI financing for leasing contracts; the duration leasing contracts; and the interest rate for the outstanding leasing capital provided by the Project. These agreements shall be signed by the ADPCC and the Leasing Companies and MFIs. Within this framework, the Leasing Companies and MFIs shall negotiate with their clients the terms of their leasing contracts, including lease and grace periods and repayment schedules. Each Subsidiary Loan Agreement with a Leasing Company and MFI shall cover the whole Project allocation for the refinancing of leasing operations in rural Georgia to promote competition between the Leasing Companies and MFIs. In the first year of Project implementation, minimum and maximum ceilings for client financing shall be agreed upon between the ADPCC and the Leasing Companies and MFIs subject to no objection from the Fund. Such ceilings shall be revised from time to time in view of implementation experience.

4.2. *Component 2: Small Scale Rural Infrastructure.* The Project shall award competitive contributory grants for investments in public supportive infrastructure to enable and enhance rural population investments and activities in on- and off-farm related business. All cases will have to demonstrate the commercial viability of the proposed venture, of which the infrastructure investment is a necessary part. In seeking contributory grants, applicants shall demonstrate their commitment to enhanced rural commercial activities, not least by showing their linkage with profitable and local poverty-reducing value chains and by making a contribution in cash of at least 5% of the investment cost of the proposed infrastructure. Eligible investments might include but are not limited to: (i) irrigation schemes; (ii) secondary rural roads leading to pastures and connecting farms; (iii) community water supply; and (iv) community natural gas supply. Infrastructure investment shall, to the extent possible, be clustered to achieve economics of scale ease of supervision.

5. *Project Management.* The Project shall be managed by the ADPCC, who shall carry its implementation responsibilities as outlined in the section below.

II. Implementation Arrangements

A. General

6. The Project shall be implemented over a period of four years throughout rural Georgia with special emphasis on regions with high incidences of poor rural people combined with potentially agriculturally productive areas.

7. The Ministry of Agriculture shall have the overall responsibility for the Project. Staff responsibilities shall be discharged by the Director of the ADPCC and shall include, but are not limited to, the following functions: Project Management, Financial Management, Accounting, Procurement, Engineering, Rural Finance Coordination, Monitoring and Evaluation, Legal and Administrative Assistance. The ADPCC Director shall, as part of his/her overall managerial duties, have specific responsibility for assuring gender mainstreaming and gender sensitivity in all aspects of Project planning, implementation, monitoring, reporting and evaluation. Staff positions are subject to the no objection of the Fund and shall be revised from time to time in consultation with the Fund.

8. ADPCC shall prepare the draft Annual Work Plans and Budgets (AWPBs) for each Project year. The draft AWPBs shall include, a procurement plan, a detailed description of planned Project activities during the coming Project year, and the sources and uses of funds therefore. The draft AWPBs shall be submitted to IFAD for no objection no later than sixty days before the beginning of the relevant Project year. ADPCC shall submit progress reports in English to IFAD and the Ministries of Agriculture (MOA) and Finance (MOF) to provide essential information on the physical and financial progress of Project activities and regular assessment of Project impact.

9. The Project will be directly supervised by IFAD. The first three leasing contracts from each MFI will be closely reviewed by IFAD. After one year of Project implementation, IFAD along with the ADPCC will assess the performance of each MFI to determine if they should continue to participate in the program. A set of eligibility criteria for leasing activities to be funded by IFAD will be introduced and incorporated in the manual for Rural Leasing Operations. In addition, initially the ADPCC will review and clear each leasing contract before finalization and IFAD will review and clear the first three contracts extended by each leasing company as well as all leasing contracts above USD 100 000. Finally, at the end of the first year of operation, IFAD will review the level of leasing contracts being provided to farmers' groups with a view to determine whether Project support to group formation is required. In the course of the first year of Project implementation, a strategic good governance framework shall be developed by IFAD in collaboration with the ADPCC.

10. The ADPCC shall prepare or finalise implementation manuals for Rural Leasing Operations, Agriculturally Related Infrastructure, Procurement, and Financial Management in the first year of Project implementation subject to the no objection of the Fund. These manuals combined shall comprise the Project Implementation Manual.

11. A Mid-Term Review shall be carried out towards the end of the Project's second year. The Review will cover, among other things: (i) physical and financial progress as measured against Project Annual Work Plans and Budgets (AWPBs); (ii) performance and financial management of contracted implementing partners; and (iii) an assessment of the efficacy of technical assistance and training programmes.

B. Component Management

12. Management of Component 1 "Support for Leasing Operations in Rural Areas" shall rest with the ADPCC. The main tasks shall include: (i) informing in a proactive manner the potential participating institutions identified for the leasing scheme about the various services provided under the Project and call for their expressions of interest to take part in the scheme; (ii) organising, with international technical support, the due diligence; (iii) facilitating the signing of relevant Subsidiary Loan Agreements between the Leasing Companies and MFIs and the Government; (v) reviewing the applications for leasing capital from the Leasing Companies and MFIs and approving/rejecting the

applications based on the agreed eligibility criteria of the scheme; (vi) managing in an efficient and timely manner the financial transactions related to leasing capital disbursements and revolving fund operations; (vii) monitoring the effective utilisation of the Project leasing capital through: (a) reports from Leasing Companies and MFIs on the outstanding credit balances and on the balances of the revolving bank accounts; and (b) periodical field visits to Project-financed investment sub-projects.

13. Management of Component 2 "Small Scale Rural Infrastructure" shall be done by the ADPCC. This shall include: (i) publicize the availability of the competitive grants for infrastructure rehabilitation; (ii) assistance to possible applicants to prepare requests; (iii) review and evaluate grant applications in accordance with the guidelines and mechanisms agreed upon; (iv) develop Terms of References for design works for selected infrastructure rehabilitation and subsequently monitor them; (v) carry out procurement of goods, works and services; (vi) monitor and carry out supervision of civil works implementation of investment sub-projects by contractors; and (vii) assess the impact of the component.

Schedule 2*Allocation Table*

1. *Allocation of Loan and Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the Grant and the allocation of the amounts of the Loan and the Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	Percentage of eligible expenditures to be Financed
I. Civil Works			
(a) Civil Works	1 920 000		100% net of taxes, net of co-financing and net of beneficiary contribution
(b) Feasibility, Studies, Design/Supervision	220 000		100% net of taxes
II. Equipment, Goods and Vehicles	30 000		100% net of taxes
III. Investment			
(a) Capital Investment	2 380 000		100% net of Leasing Companies', MFIs' and beneficiary contribution
(b) Interest Cost Rebate Scheme	70 000		100%
IV. Technical Assistance		90 000	100% net of taxes
V. Training, Workshops, Surveys and Studies		40 000	100%
VI. Recurrent Costs	420 000		100% net of taxes and net of counterpart financing
Unallocated	310 000		
TOTAL	5 350 000	130 000	

- (b) The terms used in the Table above are defined as follows:
- (i) "Technical Assistance" includes resources for the International Rural Leasing Operations Expert whose costs shall be financed as of PY2; and
 - (ii) "Recurrent Costs" means salaries, operations and maintenance, and other operating costs, whose costs in PY1 shall be financed at the level of 20%.

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account and the Grant Account if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

1. **Gender.** The Borrower shall ensure that Project benefits are delivered to poor rural women in the Project Area. Among other things, poor rural women will be expected: (i) to be represented as entrepreneurs or employees in Leasing Companies and MFIs leasing portfolios; (ii) to be representatives among Project/Small Scale Rural Infrastructure applicants; and (iii) to be participants in Project Annual Stakeholder Review and Planning Workshops. Project Annual Work Plans and Budgets (AWPBs) will be gender-sensitive as well as employment patterns and levels of remuneration in Project-supported companies and the choice and implementation of Project-supported infrastructure. Project monitoring and reporting data will be disaggregated by gender.

2. **Taxes.** The Borrower shall, to the fullest extent possible, exempt the proceeds of the Loan from all taxes. Any taxes which the Project is nonetheless obliged to pay shall be promptly reimbursed by the Borrower and the amount so reimbursed shall be credited against the counterpart financing obligation set forth in paragraph B 7 hereof.

Key reference documents

IFAD reference documents

Administrative Procedures on Environmental Assessment

COSOP 2004

IFAD Strategic Framework 2007-2010

Project design document (PDD) and key files

Private-Sector Development Partnerships and Strategy

Logical framework

Narrative Summary	Impact/Result Indicators	Means of Verification	Assumptions/Risks
Goal The Project goal is to reduce rural poverty in Georgia.	Impact Indicators <ul style="list-style-type: none"> Reduction in % of rural people living on USD 2/day. Increase in rural household capital assets. Reduction in chronic malnutrition among children below 5 years of age. 	DS and LSMS data. Ministry of Health, WHO and World Vision malnutrition surveys. Project M&E database. Mid-term and Completion Assessments.	Political Stability. Macro-economic environment remains conducive to investment, private sector development, and trade. Corruption is contained and its impact on commerce reduced.
Purpose/Objective The Project's objectives are: (i) to increase assets and incomes among actually and potentially economically active poor rural women and men willing to move towards commercially viable agricultural and associated rural enterprises; and (ii) to remove infrastructure bottlenecks which inhibit increasing participation of economically active rural poor in enhanced commercialization of the rural economy.	Result Indicators <ul style="list-style-type: none"> Value of incremental revenue of primary producers. Increase in incomes of agro-related employees. Number of on and off farm new jobs created per USD 1 000 investment through leasing contracts and improved infrastructure. Increase in public and private commercial investments. Increase in volume, value, quality and diversity of agro-related trading. 	Mid-term and Completion Assessments. Beneficiaries Assessments. Ad hoc Case Studies. ADPCC and PFI records. Other Government agriculture/trade Data.	Absence of large external economic shocks. No deterioration in internal trade regulations and procedures. Government commitment and understanding of the project. Development and diversification of domestic and international markets.
Outputs from Components Support for Rural Leasing The recapitalisation and consequent modernisation of Georgian agriculture, specifically among poor smallholders and small and medium agro-related enterprises as a result of the introduction and expansion of rural leasing as a flexible and affordable financial instrument.	Result Indicators <ul style="list-style-type: none"> Type, number and value of leasing contracts. Number and type of PFIs. Production/productivity gains among lessees. Income and capital asset gains among lessees. 	Mid-term and Completion Assessments. Ad hoc Case Studies. ADPCC and PFI records. Export/import Statistics.	No major adverse developments in financial sector stability in Georgia. External markets for Georgian agro-products diversified or reopened after the 2008 conflict and import substitution policies in place.
Outputs from Components Small-scale Rural Infrastructure (SSRI)	2nd level Result Indicators <ul style="list-style-type: none"> Area of rehabilitated or established irrigated land. Water delivered compared to water requested. Km of rural roads rehabilitated. Number and type of other ASP-supported infrastructure. Number of functioning infrastructures after 3 years. Number and type of created or expanded businesses as a result of developed infrastructure. Incremental annual value of revenue of farmers/ enterprises served by infrastructure at establishment and after 3 years. Value of villagers contribution in support to infrastructure projects. Number of beneficiaries by type of rehabilitated/ developed infrastructure. 	Contractors reports. Mid-term and completion assessment. Case studies. PIU/ADPCC field visits and records. Business plans and subsequent records. Beneficiary focus group discussions.	Transparent criteria applied for awarding of contracts. Interest of Government and potential contracted processors to participate in the project.
Project Implementation Project effectively and efficiently managed.	<ul style="list-style-type: none"> Project physical and financial progress against Final Design and AWPB targets. Timely progress and financial reports submitted. Acceptable audits, procurement & financial reports. 	ADPCC Reports. AWPB. Supervision missions. IFAD follow-up missions.	Efficient staff in ADPCC. Procurement undertaken in a transparent and competent way.

