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Enabling poor rural people
to overcome poverty

President's memorandum

Proposed supplementary financing to Georgia for the

Agricultural Support Project

Note to Executive Board representatives

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For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed supplementary financing to Georgia for the Agricultural Support Project, as contained in paragraph 13 and the modifications to the financing agreement, as contained in paragraph 10.

President's memorandum

Proposed supplementary financing to Georgia for the Agricultural Support Project

I. Background

1. This memorandum seeks approval for supplementary financing in the form of a loan of US\$5 million to fill the financing gap for the Agricultural Support Project approved by the Executive Board in December 2009 (EB 2009/98/R.41/Rev.1).
2. Total project costs were originally budgeted at US\$17.2 million, of which US\$8.5 million was to be financed by the IFAD loan; US\$2.07 million by the Government; US\$0.47 million by participating financial institutions (PFIs); US\$0.89 million by project clients for the cofinancing of enterprise investments and small-scale infrastructure investments; and US\$5.0 million by a cofinancier, to fund the small-scale rural infrastructure component. In addition, an IFAD grant of US\$0.2 million and a grant of US\$0.08 million from the Rural Development Project supported by IFAD and the World Bank were approved for technical assistance and training under components 1 and 2.
3. This supplementary financing is sought to bridge the gap resulting from the fact that the envisaged cofinancing for rural infrastructure of US\$5.0 million did not materialize. IFAD and the Government of Georgia have agreed that the remaining resources under the 2010-2012 cycle of the performance-based allocation system (PBAS) should be used to bridge this financing gap so as to allow the project objectives, as originally designed, to be fully realized.

II. Justification and rationale

4. The overall goal of the Agricultural Support Project is to reduce rural poverty in Georgia.
5. 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 that inhibit increasing participation of economically active rural poor in enhanced commercialization of the rural economy. Besides project management, the project has two components: (i) support for leasing operations in rural areas; and (ii) small-scale rural infrastructure.
6. The planned cofinancing of US\$5.0 million was earmarked to fund in part (45 per cent) the small-scale rural infrastructure component, which has a total cost of US\$11 million. The shortfall is already impeding decisions on potential investments, significantly reducing the scope and volume of activities foreseen under this component and, as a result, the impact and overall benefits for the target group. Failure to address this shortfall poses a risk to current investments: the full impact and objectives cannot be realized without the

cofinancing because the original design had factored in these funds in preparing a holistic investment package.

7. The implementation rate of the project has steadily gained momentum since start-up. Withdrawing the envisaged funds would likely lead to early closure, thereby denying the project a real opportunity to fully achieve its objectives. Given the project completion date of 2014 and the nature of the investments foreseen, the supplementary financing would need to be approved now to enable the project to use the funds to meet its objectives.
8. The proposed supplementary financing, together with resources mobilized by the Government, would play a catalytic role in leveraging additional funds from other donors and development partners to invest in crucially important rural economic infrastructure, an area as yet underdeveloped in Georgia.

III. Project costs

9. The total cost remains unchanged at US\$17.2 million over four years. The sources of financing are: (i) IFAD, with an original loan of approximately US\$8.5 million (49 per cent), a supplementary loan of US\$5 million (29 per cent) and a grant of approximately US\$0.2 million (1.2 per cent); (ii) participating financial institutions, with a contribution of approximately US\$0.47 million (3 per cent); (iii) the Government, with a contribution of approximately US\$2.3 million (13 per cent); (iv) beneficiaries, approximately US\$0.73 million (4.3 per cent); and an IFAD/World Bank-financed grant of US\$0.08 million (0.5 per cent).

Suggested schedule II of the supplementary loan agreement for the Agricultural Support Project (in United States dollars)

<i>Category</i>	<i>Amount of the loan allocated</i>	<i>% of expenditures to be financed (net of taxes)</i>
1. Civil works		
(a) Civil works	4 511 300	100
(b) Feasibility studies, design and supervision	488 700	100
TOTAL	5 000 000	

IV. Proposed modifications to the financing agreement

10. Upon approval of the Executive Board, the financing agreement will be amended to reflect the IFAD supplementary financing for the Agricultural Support Project. The provision of the supplementary financing will not require any modifications to the original project design.
11. Georgia is empowered under its laws to receive financing from IFAD.
12. I am satisfied that the proposed supplementary financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

V. Recommendation

13. I recommend that the Executive Board approve the proposed supplementary financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a supplementary loan on hardened terms to Georgia in an amount equivalent to three million two hundred and fifty thousand special drawing rights (SDR 3,250,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President