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President's Report

Proposed Loan to Georgia for the Dairy Modernization and Market Access Project (DIMMA)

Note to Executive Board representatives

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Contents

Map of the project area	iii
Financing summary	iv
Recommendation for approval	1
I. Strategic context and rationale	1
A. Country and rural development and poverty context	1
B. Rationale and alignment with government priorities and RB-COSOP	1
II. Project description	2
A. Project area and target group	2
B. Project development objective	3
C. Components/outcomes	3
III. Project implementation	4
A. Approach	4
B. Organizational framework	4
C. Financial management, procurement and governance	5
D. Supervision	6
IV. Project costs, financing and benefits	6
A. Project costs	6
B. Project financing	7
C. Summary of benefits and economic analysis	8
D. Sustainability	8
E. Risk identification and mitigation	9
V. Corporate considerations	9
A. Compliance with IFAD policies	9
B. Alignment and harmonization	9
C. Innovations and scaling up	9
D. Policy engagement	10
VI. Legal instruments and authority	10
VII. Recommendation	10

Appendices

- I. Negotiated financing agreement
- II. Logical framework

Abbreviations and acronyms

4P	public-private-producer partnerships
CBSP	capacity-building service provider
COSOP	country strategic opportunities programme
EU	European Union
LCO	local coordination office
LME	liquid milk equivalent
M&E	monitoring and evaluation
M4P	Making Markets Work for the Poor
PBAS	performance-based allocation system
PMU	project management unit
PUA	pasture users' association
RO	regional office

Map of the project area Georgia Dairy Modernization and Market Access Programme (DIMMA)



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.

Map compiled by IFAD | 08-05-2018

Georgia

Dairy Modernization and Market Access Project (DiMMA)

Financing summary

Initiating institution:	IFAD
Borrower:	Georgia
Executing agency:	Ministry of Agriculture of Georgia
Total project cost:	EUR 46.9 million
Amount of IFAD loan:	EUR 16 million
Terms of IFAD loan:	Ordinary: Maturity period of 15-18 years, including a grace period of three years, with an interest rate per annum equal to 100 per cent of the IFAD reference interest rate
Financing gap:	EUR 5.47 million
Adaptation Fund:	EUR 3.7 million (to be confirmed)
International non-governmental organization cofinancing:	EUR 2.14 million (to be confirmed)
Contribution of borrower:	EUR 9.63 million
Contribution of beneficiaries:	EUR 9.96 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to Georgia for the Dairy Modernization and Market Access Project, as contained in paragraph 45.

Proposed Loan to Georgia for the Dairy Modernization and Market Access Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Georgia has a population of about 3.7 million people, of which 1.7 million (46.2 per cent) live in rural areas. The poverty level is estimated at 32 per cent. It is classified as a lower-middle-income country by the World Bank, with a gross national income per capita of US\$3,810. Recently, the long-term decline of the agriculture sector has started to reverse, with the output of the sector increasing by 19 per cent between 2010 and 2016 and the state budget for agriculture increasing from 1.3 per cent in 2010 to 3.8 per cent in 2018.
2. There are approximately 550,000 rural households (GeoStat, 2014). Land privatization following the fall of the Soviet Union has resulted in smallholdings (75 per cent of households with less than 1 hectare of land). Until recently, neglect of the agricultural sector has contributed to the predominance of subsistence farming. Social transfers constitute a major factor for poverty reduction. Agriculture accounts for 45 per cent of rural household income, with a further 28 per cent coming from social payments and pensions and only 27 per cent from waged work. Almost 30 per cent of young people (15-29 years of age) are unemployed, resulting in economic emigration. However, agriculture is increasingly seen as a viable livelihood opportunity, where migrants abroad can bring back valuable skills, contacts and capital for agricultural investments.
3. There are approximately 1 million head of cattle in Georgia, of which 50 per cent are dairy cows. The total domestic demand for dairy products is around 680 million LME (liquid milk equivalent), but the local milk supply is of only 530 million LME. The shortfall of around 150 million LME is currently being met through imports by dairy-processing enterprises of dairy products (mainly skimmed milk powder), valued at around US\$50 million in 2016. Around 85 per cent of local milk production is transformed by dairy producers into home-made dairy products and sold on the local markets, constituting a major source of household income.

B. Rationale and alignment with government priorities and RB-COSOP

4. Georgia and the European Union (EU) signed an Association Agreement in 2014 that introduces the Deep and Comprehensive Free Trade Area. By 2029, all Georgian sanitary and phytosanitary regulations must be aligned with those of the EU. By 2020, regulations related to a basic package of food hygiene measures will enter into force and all milk-processing facilities will have to comply with the new regulations. This has resulted in a high risk of market exclusion for semi-subsistence dairy producers who, at present, use rudimentary facilities to produce dairy products that do not meet basic hygiene and food safety requirements. The impending enforcement of food safety standards will no longer allow them to sell their home-made dairy products to intermediaries, shops or supermarkets, unless they comply with the full set of regulatory requirements.

5. Now more than ever, there is a need to leverage IFAD's competencies to overcome the challenges and to modernize Georgia's dairy industry to become more resilient and competitive. IFAD's added value is the experience, innovative solutions, knowledge and learning dimensions it can bring to Georgia in dealing with poor rural smallholders. The Dairy Modernization and Market Access Project (DiMMA) will equip smallholder producers at risk of losing their markets with the know-how and technologies to upgrade their milk production systems, adopt food safety standards and comply with the food hygiene regulations. It will contribute to import substitution by increasing the local supply of high-grade milk to dairy-processing enterprises, thus reducing their dependence on imported ingredients. It will also improve the productivity of dairy animals, through better nutrition, veterinary care and breed improvement activities. In addition, DiMMA will reduce the vulnerability of pastures to the effects of climate change by supporting improved management practices and climate change mitigation/adaptation measures, and will strengthen dairy cooperatives through capacity-building measures and by involving them in dairy business development activities. The project will also develop and strengthen dairy stakeholder platforms and farmers' organizations that will support stakeholder consultations and policy dialogue.
6. The development hypothesis on which DiMMA is based is that given the significant shortfall in supply of superior quality raw milk, dairy aggregators, including buyers of niche dairy products, can be motivated and driven by their commercial interests to lead the process of including smallholder dairy producers, youth and women in their raw milk and niche dairy product supply chains, resulting in job creation, income generation and poverty reduction for these households. To this end, aggregators will be supported to expand the outreach of their milk collection and dairy product supply chains to the project communities, and to create demand for quality dairy produce sourced from smallholder dairy producers. DiMMA will cofinance and provide implementation support to viable business plans, connecting the smallholder milk producers to the dairy aggregators, following the public-private-producer-partnerships (4P) approach. This approach is in line with government agricultural development strategies, IFAD's country strategic opportunities programme (COSOP), convergence with EU standards and other donor initiatives in the rural and agricultural sector.

II. Project description

A. Project area and target group

7. Project area. The project will start to be implemented in the three contiguous regions of Imereti, Samegrelo-Zemo Svaneti and Samtskhe-Javakheti. Together these regions have: (i) nearly 50 per cent of the national cattle population; (ii) a majority of smallholder dairy producers, with 99 per cent of households owning less than 20 cattle; (iii) more than half of the country's total rural population; and (iv) relatively large mountainous areas with higher levels of poverty. These factors present suitable conditions for supporting a relatively large group of smallholder farmers to produce large volumes of milk that can sustain the dairy-processing enterprises in the area throughout the year and deliver economies of scale to all value chain actors. During implementation and by the midterm review it will be decided on whether to expand the project area to other regions.
8. Targeting. DiMMA's benefits will be mainly directed to: (i) smallholder dairy producers linked to project-supported dairy value chains and pasture users' associations (PUAs); (ii) farm-level service providers managing the supply of inputs and services to the smallholder dairy producers; and (iii) dairy aggregators (dairy-processing enterprises), which will form market linkages to the dairy producers. Within each of these categories, DiMMA will have a special focus on the inclusion of women and youth. The inclusion of target households in the business models will be supported through: geographical targeting of those areas with a

higher concentration of target households; self-targeting, with business opportunities available in the dairy value chains that are sufficiently suitable and of interest to the target households; and direct targeting of youth and women.

9. Number of beneficiaries. The total direct outreach of DiMMA will be 6,740 households (50 per cent women). This will include 370 jobs for youth created by 121 small enterprises. In addition, 5,000 households will be indirect beneficiaries, mainly from the DiMMA's infrastructure investments.

B. Project development objective

10. DiMMA's goal is rural economic development and poverty reduction by contributing to modernization and the emergence of a competitive, diversified, resilient and sustainable dairy industry. The development objective is to enhance the livelihoods and resilience of smallholder dairy producers, especially in mountainous areas, and improve the management of the natural resources on which they depend.
11. Key impact indicators. Achievement of the project's objectives by its conclusion will be measured by the following indicators: (i) 10 per cent of farmers reporting an increase in milk production; (ii) an increase of at least 30 per cent in the monthly income of target households; (iii) 90 per cent of target households reporting an increase in productivity and total production of dairy products; and (iv) a 100 per cent increase in the volume of milk processed by aggregators in the project area.

C. Components/outcomes

12. DiMMA has two interrelated components: (i) the dairy value chain development and (ii) institutional and organizational development.
13. Component 1: dairy value chain development. This component will result in the development of innovations and improvement of capacities targeting the households for improved milk production, safety, marketing and profitability. Dairy aggregators will be assisted in expanding the outreach of their milk collection chains to the project communities. Profitable linkages between the aggregators and target households will be initiated, based on the 4P approach. This approach will be initiated through the development of business plans at the level of dairy producers, farm-level service providers and aggregators. Some of the more advanced dairy producers will be supported in carrying out on-farm demonstrations of innovative dairy production technologies and business models. The targeted smallholder producers will be exposed to these demonstrations, trained and prepared to adopt the improved production models and start profitable partnerships with the aggregators.
14. Seed capital financing will be extended to those smallholders interested in adopting the improved dairy production models through measures such as milking machines and barn renovation. Young entrepreneurs will be able to use seed capital support to initiate dairy development services such as feed and input supply, artificial insemination and veterinary services. Aggregators will be able to use seed capital assistance to expand their milk collection and processing chains to the target households. PUAs will receive grants to enable members to adopt pasture improvement measures and improve the productivity and conservation of pastures. Rehabilitation of access roads to the summer pastures will be carried out to support marketing linkages for niche dairy products that are produced in these areas.
15. Component 2: institutional and organizational development. The activities in this component will provide the foundation for implementation of the component 1 activities. This component will address local institutional development, promote dialogue among dairy sector stakeholders, and support the engagement of these stakeholders in policy dialogue. Stakeholder platforms will be formed comprising representatives of all stakeholders at the cluster level for support to the commercial linkages between the value chain actors and to facilitate project targeting, particularly by ensuring the inclusion of young people and women within the dairy

value chains. PUAs will be supported in designing, developing and implementing community-based pasture management plans that address climate change and disaster risks in order to increase the resilience of this sector. DiMMA will support the establishment of a national dairy policy dialogue forum that will bring together representatives of government and producers, the Georgian Farmers' Association, national-level service providers, processors, research institutions, NGOs and donors.

16. Implementation of the above activities will be managed through component 3: project management.

III. Project implementation

A. Approach

17. Cluster development approach. DiMMA will follow a cluster development approach to facilitate sufficient and regular availability of high-grade milk, required to sustain the dairy processors and milk collection centres operating in the project area. A dairy cluster will constitute an economic and geographic entity that includes a production basin, milk collection centres, and upstream and downstream value chain actors to which the producers and processors from the basin are connected. A total of 15 clusters will be developed in the project area, in two phases (innovation and adoption). In the innovation phase (years 1 and 2), six clusters will be developed around existing aggregators. Partnerships will be brokered between advanced dairy producers and the aggregators. Demonstration of technical innovations will be supported on the farms of the advanced dairy producers. Smallholder producers and other value chain stakeholder will be exposed to the demonstrations, so as to develop their appetite for adopting these models. Development will be initiated of dairy stakeholder platforms. In the adoption phase (years 3 to 6), nine more clusters will be selected, through the involvement of the stakeholder platforms. This phase will be characterized by growing numbers of market-vulnerable dairy producers being included in the dairy value chains, through the adoption of the project-supported technologies and business models.

B. Organizational framework

18. The Ministry of Finance will be the official representative of Georgia as the borrower/recipient. The Ministry of Environmental Protection and Agriculture will be the lead executing agency, through the project management unit (PMU) established within this Ministry's Department of External Relations, which manages projects funded by IFAD and the World Bank.
19. DiMMA's implementation structure will comprise the PMU in Tbilisi, a regional office (RO) in Kutaisi and three local coordination offices (LCOs), one in each region. The PMU will be headed by the Project Director and will be responsible for day-to-day management and implementation of project activities, encompassing: overall management/supervision; fiduciary aspects; procurement; and monitoring and evaluation. The RO, headed by a Regional Coordinator, will provide technical backstopping and implementation support to the LCOs in each region. The LCOs, each headed by a Field Coordinator, will implement project activities in each region.
20. Two types of service providers – capacity-building service providers and field facilitators – will be hired to provide implementation support to the project. The former will be competent entities hired to provide technical and business/entrepreneurship development services to aggregators and farm-level service providers. Field facilitators will provide implementation support at the LCO level, through activities such as community mobilization, strengthening of local institutions, and the provision of training and capacity-building to smallholder producers.

21. In order to ensure the technical excellence of implementation activities, DiMMA will rely on partnership with an international NGO with prior experience in implementing similar projects. The partnering NGO will be involved in a range of activities to support the technical quality of implementation activities carried out by the PMU, RO and LCOs.
22. Learning and knowledge management. The learning process will be part of the regular monitoring and evaluation (M&E) activities. DiMMA will prepare and implement a knowledge management and innovation strategy as part of its policy dialogue intervention. The development of the knowledge management system may entail the presence of: an appropriate M&E system; an evaluation and documentation system; appropriate institutional arrangements; information management and communication; and knowledge-based project support, decision-making and policy dialogue. Lessons learned will be prepared and reported covering each component activity. Innovations and best practices at village level will be documented and disseminated for replication and scaling up. Progress reports will serve as a formal knowledge product that covers implementation activities, including details about planned versus actual activities, physical and financial progress, key corrective actions taken and forecasts for the next reporting period.

C. Financial management, procurement and governance

23. Georgia's country risk is rated low. Transparency International's Corruption Perceptions Index ranked Georgia 44 out of 176 countries in 2016 (up from 49 in 2013), with a score of 57. The country has embarked on a series of in-depth governance reforms related to public sector management, access to information and the fight against corruption. The legal framework governing public procurement was further amended, with electronic government procurement linked to the Treasury information system being introduced in 2010, thus allowing for full information-sharing. In accordance with IFAD guidelines, a financial management assessment has been undertaken at design. Overall, the financial management risk is rated as medium, improving to low after meeting the conditions for disbursement.
24. Financial management arrangements. The PMU responsible for ongoing IFAD-funded operations will have overall responsibility for financial management of the project. The finance team will undertake IFAD e-learning training on IFAD financial management and fiduciary controls. All project activities will be included in an annual workplan and budget, and a procurement plan approved by the government and submitted to IFAD for its "no objection". The counterpart contribution for project activities and foregone taxes will be made available through a single Treasury code of the Ministry of Finance in accordance with approved budget allocations. All internal control mechanisms will be detailed within the financial management arrangements of the project implementation manual before disbursement begins.
25. Disbursement arrangements and flow of funds. A designated account will be opened in euro for the IFAD loan part of the project at the National Bank of Georgia, with an authorized allocation of approximately 9 to 12 months of project expenditure. Replenishments to the designated account will use the imprest modality. Withdrawal applications will be prepared by the PMU every three months, or when 30 per cent of the advance has been expended, whichever occurs first.
26. Financial reporting. The project will adopt accounting procedures and policies consistent with acceptable international accounting standards and government requirements. Accounts and financial reporting will be managed by the PMU, which will also be responsible for ensuring that funds have been used for the purposes intended. The PMU will prepare monthly financial reports in accordance with IFAD financial reporting requirements, which will include a monitoring of the in-kind contributions of cofinanciers.

27. External audit. The terms of reference of the external audit will be agreed between the PMU and IFAD, with IFAD's "no objection" being required. The external audit will be conducted by the supreme audit institution or a private sector auditor acceptable to IFAD, in accordance with international audit standards and IFAD requirements, including public access to the audit report.
28. Procurement. The Ministry of Environmental Protection and Agriculture, through its Department of External Relations, will be responsible for all procurement functions under the project. The staff in this department has adequate experience to conduct procurement activities and is familiar with IFAD procurement guidelines and procedures, as it has been involved in similar IFAD- and World Bank-financed projects. The existing PMU will be strengthened with a full-time experienced procurement specialist, who will be assigned to exercise overall management and review DiMMA procurement-related transactions.
29. The Georgian public procurement system is assessed to be consistent with IFAD's procurement guidelines in particular, and with international donor community requirements in general. Thus the Georgian public procurement system – including the e-procurement system – will be used to undertake procurement activities funded by the DiMMA project. IFAD Policy On Preventing Fraud And Corruption In Its Activities And Operations (December 2005) will be applied.

D. Supervision

30. Supervision will be by IFAD (under its direct supervision framework and guidelines), and will be mobilized at least once a year. Additional implementation support from IFAD on specific identified issues will be mobilized if considered necessary by the Government of Georgia and IFAD, or as recommended by the supervision mission. During the first two years of the project, the supervision teams – together with the Government of Georgia and the project team – will be specifically tasked with reviewing and refining critical project aspects, such as: selection of the implementation support NGO; identification of model progressive farmers to support informal training; technical assistance and demonstrations; and management of seed capital financing, including targeting, eligibility criteria, and application and administration processes. A joint midterm review will be undertaken following completion of the innovation phase.

IV. Project costs, financing and benefits

A. Project costs

31. Total project costs, including physical and price contingencies, are estimated at EUR 46.9 million over a six-year period. Component 1 (dairy value chain development) is the main investment component, representing EUR 38.69 million in total project costs. Component 2 (institutional and organizational development) represents EUR 5.6 million in total costs. In addition, component 3 (project management) represents EUR 2.6 million of total project costs (as shown in table 1).

Table 1
Indicative project costs by component and financier
 (Thousands of euro)

Component category	Gov't		IFAD loan 1		Adaptation Fund		Beneficiaries in cash		IFAD loan 2		NGO		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
A. Dairy value chain development														
1. Innovations, demonstrations and capacity-building	549	8.5	3 334	51.7	1 209	18.7	732	11.4	160	2.5	465	7.2	6 449	13.8
2. Supporting investments and strengthening stakeholders' linkages to value chain	7 565	23.5	8 682	26.9	1 891	5.9	9 232	28.6	4 816	14.9	58	0.2	32 245	68.8
Subtotal	8 114	21.0	12 017	31.1	3 100	8.0	9 964	25.8	4 976	12.9	523	1.4	38 694	82.5
B. Institutional and organizational development														
1. Community mobilization and stakeholders' organization	949	17.7	2 006	37.3	474	8.8	-	-	332	6.2	1 614	30.0	5 374	11.5
2. Policy dialogue	41	18.0	77	33.7	-	-	-	-	110	48.3	-	-	228	0.5
Subtotal	990	17.7	2 083	37.2	474	8.5	-	-	442	7.9	1 614	28.8	5 602	11.9
C. Project management (PMU)														
1. Knowledge management, planning and M&E	23	10.0	211	90.0	-	-	-	-	-	-	-	-	234	0.5
2. Project coordination	506	21.4	1 689	71.3	126	5.3	-	-	48	2.0	-	-	2 369	5.1
Subtotal	529	20.3	1 900	73.0	126	4.8	-	-	48	1.8	-	-	2 604	5.6
Total project costs	9 633	20.5	16 000	34.1	3 700	7.9	9 964	21.2	5 466	11.7	2 137	4.6	46 900	100.0

B. Project financing

32. The total project cost of EUR 46.9 million will be financed by an initial performance-based allocation system (PBAS) IFAD loan of EUR 16 million and, subject to availability and agreement with the Government of Georgia, by a second PBAS IFAD loan of approximately EUR 5.46 million. A grant of EUR 3.7 million (US\$4.5 million) from the Adaptation Fund will be used to finance adaptive climate change activities. NGO cofinancing is estimated at EUR 2.14 million, mainly contributing towards capacity-building activities across the different components. Beneficiaries are also expected to provide an in-cash contribution of EUR 9.96 million to the matching grants for seed financing. A government in-kind contribution is expected of EUR 9.63 million (over two funding cycles), in the form of exemption from taxes and duties, provision of facilities (PMU office space and furniture, including utilities and other office-related costs), infrastructure/road rehabilitation and support to the development of cooperatives in the project area.

Table 2
Indicative project costs by expenditure category and financier
 (Thousands of euro)

Expenditure category	Gov't		IFAD Loan 1		Adaptation Fund		Beneficiaries in cash		IFAD Loan 2		NGO		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
I. Investment costs														
A. Works	5 454	100.0	-	-	-	-	-	-	-	-	-	-	5 454	11.6
B. Equipment and goods ^a	2 334	63.8	706	19.3	511	14.0	-	-	106	2.9	-	-	3 658	7.8
C. Consultancies ^b	693	16.8	2 031	49.3	441	10.7	-	-	143	3.5	812	19.7	4 120	8.8
D. Training ^c	721	17.7	1 125	27.7	403	9.9	-	-	492	12.1	1 325	32.6	4 065	8.7
E. Grant ^d	-	-	10 610	38.5	2 291	8.3	9 964	36.2	4 677	17.0	-	-	27 542	58.7
Total investment costs	9 202	20.5	14 472	32.3	3 646	8.1	9 964	22.2	5 418	12.1	2 137	4.8	44 839	95.6
II. Recurrent costs														
A. Operating costs	431	66.5	170	26.2	-	-	-	-	48	7.4	-	-	648	1.4
B. Salaries and allowances	-	-	1 358	96.2	54	3.8	-	-	-	-	-	-	1 412	3.0
Total recurrent costs	431	20.9	1 528	74.1	54	2.6	-	-	48	2.3	-	-	2 060	4.4
Total project costs	9 633	20.5	16 000	34.1	3 700	7.9	9 964	21.2	5 466	11.7	2 137	4.6	46 900	100.0

a. It includes vehicles, goods and services

b. It includes studies and technical assistance

c. It includes workshops and meetings

d. Matching grants

C. Summary of benefits and economic analysis

33. DiMMA will generate financial and social benefits by promoting investments and activities aimed at enhancing and/or creating linkages between targeted vulnerable households, service providers and dairy aggregators along the dairy value chain. In particular, it will: (i) support the development of 75 dairy product aggregators in the project area, creating the capacity to process 240 tons of compliant milk per day; (ii) support the emergence of 46 farm-level service providers in the project area (to supply fodder, artificial insemination and veterinary services, machinery services, etc.); (iii) support 4,220 target households to link to dairy value chains through profitable partnerships with aggregators; (iv) create 370 new jobs for youth and women in the small enterprises developed in the project area; (v) support 250 youth to increase family income through non-extractive livelihoods; (vi) assist 76 PAUs with 1,900 members to improve 9,500 hectares of pastures; and (vii) improve access to pastures by supporting the rehabilitation of 300 kilometres of roads.

34. All farm and activity models generate attractive profitability indicators. The overall economic internal rate of return of the project is estimated at 18 per cent for the base case. The net present value of the net benefit stream, discounted at 11 per cent, is US\$17.6 million.

D. Sustainability

35. DiMMA's sustainability will be achieved in multiple ways: (i) market sustainability will be achieved by strengthening the buyers of raw milk/dairy products from smallholders, and by simultaneously developing a cadre of advanced smallholder farmers to serve as a stable anchor to engage the dairy value chain actors; (ii) economic sustainability will be achieved through the use of seed capital financing to trigger "first mover" investments and innovations in the dairy value chain serving smallholders, and by building the capacity of financial institutions to develop appropriately structured and priced financial services for the dairy value chains; and (iii) institutional sustainability will be achieved by strengthening farmers' organizations and by supporting the development of a comprehensive pasture policy with effective implementation institutions and mechanisms.

36. Climate change adaptation. The support provided through DiMMA will enhance the climate change adaptation of smallholders by: (i) mainstreaming climate-resilient dairy production technologies; (ii) training and knowledge-sharing among smallholder farmers, leading to replication and scaling up of climate resilience practices; and (iii) raising awareness of climate change adaptation among government staff and other stakeholders.

E. Risk identification and mitigation

37. The key risks for DiMMA are: (i) low capacity on the part of smallholder dairy producers to adopt new production technologies and market-oriented production systems; (ii) difficulties in accessing finance by smallholder producers and other dairy value chain actors; and (iii) low private sector interest in involvement in the project. In order to mitigate these risks, DiMMA will: (i) pay attention to the technical as well as business capacity-building and training of smallholders, along with support to informal and formal farmers' organizations to facilitate the adoption and management of efficient livestock production systems and new technologies; (ii) offer access to seed capital financing for stakeholders, and provide training and record-keeping guidance, which will make them bankable and result in them obtaining credit financing from financial institutions in the future; and (iii) use a demand-driven and private cofinancing approach that will only support investments for which there is a market demand and a high probability of profitable production.

V. Corporate considerations

A. Compliance with IFAD policies

38. DiMMA is fully aligned with all relevant IFAD strategies and policies, including the Strategic Framework 2016-2025, in particular through: promoting investment in productive capacities and market participation by beneficiaries through the 4P vehicle; targeting policy; gender strategy; rural finance policy; climate change strategy; policy on supervision and implementation support; and environment and natural resource management policy. Given the nature and extent of the likely environmental effects, the project is classified as category B, in line with IFAD's environmental assessment procedures. The potential negative environmental effects are assessed to be within controllable limits.

B. Alignment and harmonization

39. DiMMA is part of the Ministry of Agriculture's substantial ongoing investments to modernize agriculture in Georgia, and is fully aligned with the national Strategy for Agricultural Development in Georgia 2015-2020. It reflects the desire of the Ministry to develop a modern and competitive yet inclusive dairy sector in Georgia that can meet the burgeoning demand for raw milk from small and industrial processors. DiMMA is also aligned with other donor projects, such as the Alliances Lesser Caucasus Programme and the recently concluded Market Opportunities for Livelihood Improvement Kakheti, Georgia. These have followed a "Making Markets Work for the Poor" (M4P) approach, where the key providers of services to smallholders have been strengthened and this has had a transformative impact on smallholders. DiMMA will draw on the positive experiences of these interventions and add value to the M4P approach by directly working with the farmers in addition to the service providers. DiMMA is also aligned with the EU support to Georgia, to reap the full benefits of the Deep and Comprehensive Free Trade Area and to increase the income of Georgian farmers by supporting farmers' organizations.

C. Innovations and scaling up

40. It is expected that value chain champions will emerge, increasing the likelihood of leading and sustaining the investments beyond the project. The livestock development models that will emerge during the course of project implementation will create the necessary base for the government to establish the legal and organizational ground to scale up the results of the project, with the support of the

private sector. Thus the complementary efforts with other actors in the livestock sector – including development partners (European Bank for Reconstruction and Development, Food and Agriculture Organization of the United Nations, Swiss Agency for Development and Cooperation, United States Agency for International Development, etc.) – is expected to create fertile ground and pathways for future scaling up. A concrete scaling-up strategy will be developed based on the performance of the project at midterm.

D. Policy engagement

41. The regional stakeholder platforms promoted by DiMMA will play a key role in identifying the critical policy issues to be addressed, and will promote the engagement of the cluster-level stakeholders in policy dialogue. Further, DiMMA will support the Ministry of Environmental Protection and Agriculture to establish a national dairy policy dialogue forum, made up of representatives of government, producers, NGOs, donors, regional stakeholder platforms and other national stakeholders. This forum will focus on a public-policy, regulatory and project framework for the dairy sector. Among other functions, it will provide an opportunity for the value chain actors to raise their specific policy issues and concerns with the Government, and for the Government to consult value chain actors; for example, on proposed legislation associated with the ongoing reforms related to the process of legal convergence with EU standards. The forum discussions may recommend the development of specific policies or regulations (for example, pasture policy and climate change adaptation strategy), for which the project will support with international technical assistance and the organization of stakeholder consultations and workshops.

VI. Legal instruments and authority

42. A project financing agreement between Georgia and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement will be delivered to Executive Board representatives at least five business days prior to expiry of the 30 days following delivery to these representatives of the President's report and the project design document.
43. Georgia is empowered under its laws to receive financing from IFAD.
44. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

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

RESOLVED: that the Fund shall provide a loan on ordinary terms to the Republic of Georgia in an amount of sixteen million euros (EUR 16,000,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
President

Negotiated financing agreement: "Dairy Modernisation and Market Access Programme (DiMMA)"

(Negotiations concluded on 31 October 2018)

IFAD Loan No.: _____

Project Title: Dairy Modernisation and Market Access Programme (DiMMA)

Georgia (the "Borrower")

and

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

(each a "Party" and all of them collectively 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) and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as amended April 2014 and as may be amended hereafter 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 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. The amount of the Loan is Euro sixteen million (EUR 16 000 000).
2. The Loan is granted on ordinary terms and shall be subject to interest on the principal amount outstanding of the Loan at a rate equal to the IFAD Reference Interest Rate, payable semi-annually in the Loan Service Payment Currency, and have a maturity period of eighteen (18) years, including a grace period of three (3) years, starting from the date as of which the Fund has determined that all general conditions precedent to withdrawal have been fulfilled.
3. The Loan Service Payment Currency shall be the Euro.
4. The first day of the applicable Fiscal Year shall be 1 January.
5. Principal, interest and service charge shall be payable on each 15 May and 15 November.

6. The Borrower shall provide counterpart financing of approximately EUR three million three hundred forty thousand (EUR 3 340 000) (21% of the Loan amount), to cover the taxes and duties as well as the provision of office facilities.

Section C

1. The Lead Project Agency shall be the Ministry of Environmental Protection and Agriculture of Georgia (MEPA).

2. The additional Project Party shall be the Agriculture Projects Management Agency (APMA) or its successor.

3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

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

Section E

1. The procurement of goods, works and services financed by the Financing shall be carried out in accordance with the provisions of IFAD's Procurement Guidelines.

2. This Agreement is subject to ratification by the Borrower and shall enter into force on the date the Fund receives an instrument of ratification.

3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

The Ministry of Finance
16, Vakhatang Gorgasali Street
00114, Tblisi, Georgia

For the Fund:

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

This Agreement has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

GEORGIA

(name)
Minister of Finance

Date: _____

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

(name)
President

Date: _____

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1.1. Target Population. The Project's benefits will be mainly directed to: (i) smallholder dairy producers linked to project-supported dairy value chains and pasture users' associations (PUAs); (ii) farm-level service providers managing the supply of inputs and services to the smallholder dairy producers; and (iii) dairy aggregators (dairy-processing enterprises), which will form market linkages to the dairy producers. Within each of these categories, the project will have a special focus on the inclusion of women and youth.

1.2. Project Area. The Project will start to be implemented in the three contiguous regions of Imereti, Samegrelo-Zemo Svaneti and Samtskhe-Javakheti ("Project Area"). During implementation and by the Mid Term Review it will be decided on whether to expand the Project Area to other regions.

1.3. Goal. The Project's goal is rural economic development and poverty reduction by contributing to modernization and emergence of a competitive, diversified, resilient and sustainable dairy industry.

1.4. Objectives. The development objective is to enhance the livelihoods and resilience of smallholder dairy producers, especially in mountain areas, and improve the management of the natural resources on which they depend.

1.5 Activities/components. The Project has two principal and inter-related technical components (1) Dairy VC Development, and (2) Institutional and Organisational Development.

Component 1: Dairy Value Chain Development

The expected outcomes are: (1.1) dairy VC innovations and capacities developed; and (1.2) milk production, milk safety, marketing and profitability of target households improved through 4-Ps model (Public – Private – Producers Partnership Model). This component has two mutually reinforcing sub-components (SC): (i) SC1 - Demand driven demonstration of dairy production and business models; and (ii) SC2 - Strengthening stakeholder linkages to dairy VCs.

Sub-component 1.1. Demand driven demonstrations of dairy production & business models. This sub-component will assist dairy aggregators to expand the outreach of their milk collection and dairy product supply chains to the programme communities. Profitable linkages between the aggregators and target households will be initiated based on the 4Ps approach. Some of the progressive dairy producers who are linked to the aggregators will carry out on-farm demonstration of innovative dairy production technologies and business models. The market vulnerable producers in the Project area will be exposed to these demonstrations, trained and prepared to adopt the improved production models and start profitable partnerships with the aggregators.

Sub-component 1.2. Strengthening stakeholder linkages to the dairy value chains. This sub-component will focus on the adoption of innovative technologies and business models promoted by the Project. Seed capital financing will be extended to assist them to adopt these improved models and partner in the dairy VCs. In order to improve the productivity of pastures and the profitability of the producers who depend on pasture grazing, PUAs will receive grants to adopt pasture improvement measures. Simultaneously, in order to reduce grazing pressure on pastures, non-extractive livelihood activities will be supported in pastoral communities.

Component 2: Institutional and organisational development

The expected outcomes of this component are: (i) dialogue between dairy sector stakeholders; (ii) active and sustainable FOs engaged in policy dialogue. This component has two sub-components (i) Community mobilisation and stakeholder organisation; and (ii) Policy dialogue.

Sub-component 2.1. Community mobilisation and stakeholder organisation. The Project will deploy up to 30 field facilitators - depending on the phase of implementation - who will collaborate with local government bodies (both technical agricultural and veterinary as well as administrative staff) and local level opinion leaders and resource persons to mobilise communities. They will start their work by identifying existing organising practices and patterns of collaboration among community members, related by family ties and otherwise. The core idea of community mobilisation will be to build on these in order to strengthen stakeholder networks, gradually over time, and to directly and indirectly contact as many potential programme beneficiaries as possible.

Sub-component 2.2. Policy dialogue . The programme will support the MEPA to establish a National dairy policy dialogue forum which will be convened by MEPA and supported and serviced by the programme. The forum will gather representatives of Government, producers, Georgian Farmers' Association, national level service providers, processors, research institutions, NGOs, donors and regional stakeholder platforms. The National forum will establish strong linkages to the regional stakeholder platforms which will have the key role of identifying the critical policy issues to be addressed through the national platform. The Dairy Forum would be established in the second year. DIMMA will support the cost of meetings and the participation of stakeholders from the programme area.

II. Implementation Arrangements

2.1 Implementing structure. The project's implementation structure will comprise the PMU in Tbilisi, a regional office (RO) in Kutaisi and three local coordination offices (LCOs), one in each region. The RO, headed by a Regional Coordinator, will provide technical backstopping and implementation support to the LCOs in each region. The LCOs, each headed by a Field Coordinator, will implement project activities in each region. A Programme Implementation Manual (PIM) will be prepared as part of the start-up activities, to guide the programme team on planning, implementation and monitoring of activities, the procurement of technical assistance and services, and the programme investments. The PIM should be prepared immediately after the entry into force of the Financing Agreement and shared with IFAD for No Objection.

2.2 Implementation partnership with international NGOs. To ensure timely availability and technical excellence of the services delivered by these service providers, the Lead Project Agency and IFAD will explore the partnership between the Project with an international NGO which will be invited to co-finance these services wherever relevant.

Schedule 2

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

Category	IFAD Loan (Expressed in Euro)	Percentage of Expenditures (all net of Taxes and Government and Beneficiaries' contributions)
1. Equipment and Goods	732 500	100%
2. Consultancies	564 000	100%
3. Training	347 000	100%
4. Grants	10 580 500	100%
5. Salaries and allowances	406 000	100%
6. Operating Costs	170 000	100%
Unallocated	3 200 000	
Total	16 000 000	

Logical framework

Results	Indicators					Means of Verification			Assumptions
	Hierarchy	Name	Unit	Baseline	Mid-Term	End Target	Source	Frequency	
Outreach	Number of persons receiving services promoted or supported by the project (Core indicator outreach 1) ¹	Men	0	1,953	3,370	M&E system	Semi-annually	M&E officer	
		Women	0	1,953	3,370				
		Young	0	2,105	3,518				
		Non-young	0	1,801	3,222				
Goal: Rural economic development and poverty reduction by contributing to the modernization and emergence of a competitive, diversified, resilient and sustainable dairy industry	Contribute towards the increase in national targets of milk production in Georgia	%	530 million ton/ year	-	10%	GEOstat Baseline and completion surveys	Baseline and completion	PMU	<ul style="list-style-type: none"> Political stability Marco-economic conditions remain stable or improve Major milk processors maintain local sourcing policy on milk produce
	Number of households experiencing economic mobility (IFAD impact assessment indicator)	Number	0	-	3,514				
Development Objective: Enhance the livelihoods and resilience of smallholder dairy producers, especially in mountainous areas, and improve the management of the natural resources	Percentage increase in average monthly income of supported dairy smallholders over baseline	%	TBD ²	-	30%				
Outcome 1 Milk production, safety, marketing and profitability of target households improved	Increase in volume of processed milk in milk collection centres/ processing enterprises	Litres/ day	TBD ³	50%	100%	Enterprise records	Baseline and annually	PMU/ M&E officer	<ul style="list-style-type: none"> Livestock epidemic disease (R) Various dairy value chain actors are willing to participate in the project Dairy value chain actors are willing to invest in development of the farm production capability Availability of qualified service providers for group facilitation, training and extension activities
	Percentage reduction in volumes of milk rejected by milk collection centers	%	0	10%	30%	Annual outcome survey	Annually	M&E officer	
	Number of new jobs created (core indicator 2.2.1)	Number	0	129	370	Enterprise records	Annually	PMU/M&E officer	
Output 1.1 Value chain actors capacitated	Number of persons trained in production practices and/or technologies (core indicator 1.1.4)	Total	0	3,600	6,000	Training reports	Semi-annually	M&E officer Component officer	
		Men	0	900	1,500				
		Women	0	900	1,500				
		Youth	0	1,800	3,000				
	Number of persons trained in income-generating activities or business management (core indicator 2.1.2)	Total	0	1,790	3,820	Training reports	Semi-annually	M&E officer Component officer	
		Men	0	448	955				
		Women	0	448	955				

¹ The total number of targeted households is 6740 on the assumption that there will only one beneficiary per household as per the economic and financial analysis

² Baseline figures to be updated based on the baseline survey.

³ Baseline figures to be updated based on the baseline survey. The estimated capacity of the supported processing units/ milk collection centers is 121,300 litres/day. The current volume of processed milk will be estimated during the baseline survey

Results	Indicators					Means of Verification			Assumptions
Hierarchy	Name	Unit	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Output 1.2 Seed capital financing provided through DVCF	Number of persons benefiting from seed capital financing	Youth	0	895	1,910	APMA reports	Semi-annually	M&E officer Component officer	
		Total	0	2,420	4,470				
		Men	0	605	2,235				
		Women	0	605	2,235				
		Youth	0	1,210	2,360				
Output 1.3 Pasture lands developed	Number of hectares of land brought under climate-resilient management (core indicator 3.1.4)	ha	0		9,500	Component reports	Semi-annually	M&E officer Component officer	
Output 1.4 Marketing infrastructure developed	Number of kilometres of roads constructed, rehabilitated, or upgraded (core indicator 2.1.5)	KM	0	300	300	construction contracts/ progress reports	Semi-annually	M&E officer Component officer	
Outcome 2: Sustainable institutional and organizational development	Number of existing/new regulations, policies, or strategies supporting pasture management and growth of dairy subsector proposed to policymakers for approval, ratification, or amendment (Core indicator policy 3)	Number	0	1	2	MSP proposals	Annually	KM officer	<ul style="list-style-type: none"> ▪ Interest and motivation among community members ▪ PUAs
Output 2.1. local dairy initiative clusters and platforms and farmer groups developed/strengthened	Number of groups supported to sustainably manage natural resources and climate-related risks (core indicator 3.1.1) Number of members in groups supported to sustainably manage natural resources and climate-related risks	PUA	0	76	76	PUA meetings	Annually	M&E officer Component officer	
		Total	0	3,800	3,800				
		Men	0	950	2,660				
		Women	0	950	1,140				
		Youth	0	1,900	1,900				
Output 2.2. Dialogue between dairy sector stakeholders strengthened.	Number of functioning multi-stakeholder platforms supported (Core indicator policy 2)	MSP	0	3	3	M&E system MSPs meetings	Semi-annually	M&E officer Component officer	