

**GEORGIA
RURAL DEVELOPMENT PROJECT
PROJECT DATA SHEET**

Date: June 17, 2009 Country: Georgia Project Name: Rural Development Project Project ID: P078544	Task Team Leader: Doina Petrescu Sector Manager/Director: Dina Umali-Deininger Country Director: Asad Alam Environmental category: B					
Borrower: Government of Georgia Responsible agency: Ministry of Agriculture						
Revised estimated disbursements (Bank FY/US\$m)						
FY	2006	2007	2008	2009	2010	2011
Annual	0.85	0.29	2.60	2.60	2.00	1.66
Cumulative	0.85	1.14	3.74	6.34	8.34	10.00
Current closing date: June 30, 2010 Revised closing date : June 30, 2011						
Indicate if the restructuring is:						
Board approved <u> X </u> RVP approved <u> </u>						
Does the restructured project require any exceptions to Bank policies?		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No				
Have these been approved by Bank management?		<input type="checkbox"/> Yes <input type="checkbox"/> No				
Is approval for any policy exception sought from the Board?		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No				
Revised project development objective/outcomes: The revised Project development objective is to improve agricultural production and access to markets for Georgia's small and medium-scale farmers and rural enterprises supported by the project, through: (i) increasing the competitiveness of selected supply chains; (ii) strengthening the delivery of rural financial services and of the financial intermediaries; and (iii) modernizing key institutions for food safety and property registration with direct impact for increasing competitiveness of Georgia's agriculture.						
The revised outcomes are as follows: (i) improved incomes for farmers and enterprises from activities supported under the project; (ii) improved access to rural finance; and (iii) improved capacity of the food safety and property registration institutions to support Georgia's agriculture.						
Does the restructured project trigger any new safeguard policies? Yes. Pest Management (OP 4.09)						

Revised Financing Plan (US\$m.)			
Source	Local	Foreign	Total
Borrower	2.12	0.35	2.47
IDA	9.12	0.88	10.00
International Fund for Agricultural Development (IFAD)	9.19	0.81	10.00
Japan: Ministry of Finance – PHRD Grants	2.27	2.23	4.50
Local Sources of Borrowing Country	2.84	0.06	2.90
Local Farmer Organizations	4.79	0.05	4.84
Total	30.33	4.38	34.71

**GEORGIA
RURAL DEVELOPMENT PROJECT
PROJECT PAPER**

A. Introductory Statement

1. This Project Paper seeks the approval of the Executive Directors for changes in the Georgia Rural Development Project, Credit No. 4062 GE, Project ID P078544 and the related amendments to the project's Development Credit Agreement.
2. The proposed changes include: (i) changing the project development objective (PDO) and the key performance indicators to better reflect evolving client needs and sector priorities; (ii) revising project components in their content and scope; (iii) reallocating Project amounts between components and categories; (iv) extending the Project closing date by 12 months; and (v) triggering an additional safeguard, OP 4.09 Pest Management.

B. Background and Reasons for Restructuring

3. The Project was approved on May 17, 2005 and became effective on October 26, 2005. The Project includes four components:
4. Component 1 - Agricultural Supply Chain Development Component. The objective is to support the efficient development of marketing and supply chains for commodities that have a demonstrated market potential, with the view to expand profitable domestic and export market opportunities, through: (i) supply chain analysis and development; (ii) linkages to farm communities; and (iii) technology transfer including the provision of competitive grants through the Agricultural Supply Chain Development Fund (ASCDF).
5. Component 2 - Rural Financial Services. The objective is to increase the capacity of participating commercial banks (PCBs) and non-bank financial institutions (NBFIs) to lend to farmers, processors and agri-business enterprises involved in the supply chains of various agriculture commodities, through: (i) credit lines for PCBs; (ii) credit lines for NBFIs; and (iii) strengthening the capacity of financial intermediaries, including the national bank, PCBs, NBFIs and credit unions.
6. Component 3 - Institutional Modernization. The objective is to promote key legal and institutional reforms that would impact directly on the competitiveness of Georgian agriculture, marketability and safety of its products and enable Georgia to meet its international Sanitary and Phyto-sanitary (SPS) and trade obligations, through: (i) institutional and legal framework support of the food safety system; (ii) support for selected commodity specific programs; and (iii) support for land registration.
7. Component 4 - Project Management. The objective is to support project implementation through the development and functioning of the Project Implementation Unit (PIU) within the umbrella of a Project Coordination Center (PCC) within the Ministry of Agriculture.

9. Overall, the Project had been progressing slowly and implementation performance among components is mixed, with an overall implementation rating of moderately unsatisfactory. While activities under Component 2 are progressing well, activities under Components 1 and 3 had been progressing relatively slowly or had become deferred priorities in the government's agenda for the sector.

10. With regard to Component 1, there had been slow implementation primarily due to: (i) an ad hoc implementation of agreed actions under the component; and (ii) the lack of approval for the Operational Manual for the Agricultural Supply Chain Development Fund (ASCDF) by the Ministry of Finance (MoF), to provide competitive grants, as the government was reluctant to use credit resources for grants purposes.

11. With regard to Component 3, and particularly with regard to the Food safety sub-component, some activities had stalled due to changes in the Government agenda, whereby food safety became less of a priority, with a view to allowing free markets and private sector to function without constraints of food safety requirements. Major food safety actions, including legislative changes, have been postponed until 2010. As a result, the Action Plan and Training Program for Food safety, developed in the first year of project implementation and which was to form the basis for future project support is still awaiting approval by the Ministry of Agriculture and Cabinet of Ministers with only one year left until current project closing.

12. Also, as currently defined, the PDO is ambitious and broad: "to develop the productivity and profitability of the private agricultural sector by facilitating access of mainly small and medium scale farmers to supply chains, improving the competitiveness of the supply chains and strengthening the capacity of selected agriculture and financial institutions serving private sector agricultural market activity". In addition, the associated outcome indicators are difficult to measure and are not specifically attributable to project activities.

13. In order to address these issues, the Bank and the Government have been working together for the past few months to develop an approach that would enable the project to achieve its objectives in a simpler more effective manner. Activities under components 1 and 3 would be revised in content and scope, including the addition of some new activities and simplification of processes. The completion of the revised set of activities will require an additional year of implementation, thereby extending the project closing date to June 30, 2011. The proposed project restructuring, including a re-defined PDO to make it more realistic and measurable, revised actions under components 1 and 3, development of their corresponding outcome indicators, and extension of closing date is expected to enable the Bank to upgrade the rating to the satisfactory range.

C. Proposed Changes

14. Revised PDO and key performance indicators. The proposed revised PDO reflects more accurately what can be achieved given the prevailing policy, institutional and legal framework. The revised PDO is "to improve agricultural production and access to markets for mainly small and medium-sized farmers and rural enterprises supported by the project, through: (i) increasing the competitiveness of selected supply chains; (ii) strengthening the delivery of rural financial services and of the financial intermediaries; and (iii) modernizing key institutions for food safety and property registration with direct impact for increasing competitiveness of Georgia's agriculture."

15. In line with the revised PDO, the key indicators and the results framework are also being revised. These changes are detailed in Section E and Annex 2 below.

16. Revised project components. The project will continue to consist of the same four components as described above; however they will be revised in scope and content. The revised project description would be as follows.

17. **Component 1 - Agricultural Supply Chain Development.** The objective is to support the efficient development of marketing and supply chains for commodities that have a demonstrated market potential, with the view to expanding profitable domestic and export market opportunities through: (i) supply chain analysis and development; (ii) a training and demonstration program; and (iii) the provision of competitive grants.

18. The main changes include:

- a. Replacing the sub-component 1(b): *Linkages to Farm Communities with Training and Demonstration Program.*
- b. Under the new sub-component 1 (b), *Training and Demonstration Program*, PHRD grant funds would be used to establish a training and demonstration program whereby farmers and rural enterprises along the citrus and hazelnut supply chains would be supported.
- c. Sub-component 1(c): *Technology Transfer* would be re-worded as *Competitive Grant Program.*
- d. Under the revised sub-component 1(c): *Competitive Grant Program*, the grant mechanism would be adjusted to provide competitive small grants to farmer groups and rural enterprises based on agreed eligibility criteria. The Project Implementation Unit (PIU) will be responsible for operating the Grant Program. The establishment of the Agricultural Supply Chain Development Fund (ASCDF) that was to be responsible for the managing the grant program in coordination with an NGO and ASCDF Advisory Committee is no longer required. The main principles of the Grant Guidelines are provided in Annex 1.
- e. In response to the government's preference to use project grant funds (IFAD and PHRD) for the provision of grants to farmer groups and rural enterprises, IFAD grant funds, currently spread among the first three components of the project, would be consolidated under Component 1, so that IFAD's total uncommitted grant contribution of US\$700,000 would be reallocated for activities under Component 1. PHRD funds would be used for the provision of technical assistance and training under the grant program as well as for studies, such as for identifying high value agricultural export commodities, identifying and assessing food safety requirements for private sector to penetrate different external markets, etc. Training, study tours and marketing activities which are not eligible to be financed from the PHRD grant will be financed under the IFAD grant.
- f. The undisbursed IDA credit funds of approximately US\$500,000 for this component would be re-allocated to the credit line for participating banks under Component 2 thereby reducing the total allocation for this component.

19. **Component 2 – Rural Financial Services.** The objective is to increase the capacity of participating commercial banks (PCBs) and non-bank financial institutions (NBFIs) to lend to farmers, processors and agri-business enterprises involved in the supply chains of various agriculture commodities, through: (i) credit lines for PCBs; (ii) credit lines for NBFIs; and (iii) strengthening the capacity of financial intermediaries, including the national bank, PCBs, and NBFIs .

20. The main changes include: (i) support for strengthening the capacity of credit unions is dropped from the project, due to the collapse of the credit union system in Georgia; (ii) the amount for credit lines for PCBs is increased by reallocating IDA credit funds from component 1.

21. **Component 3 - Institutional Modernization.** The objective is to strengthen the institutional capacity of key agencies that could impact on the competitiveness of Georgian agriculture, marketability and safety of its products through: (i) support for food safety; and (ii) support for land registration.

22. The main change is refocusing the support for food safety through preparing the groundwork for when the legislation will be changed towards enforcing food safety actions and controls. The support would include: (i) food safety laboratory rehabilitation and provision of equipment; (ii) rehabilitation of, and provision of equipment for, several regional veterinary offices; and (iii) training and technical assistance for the food safety staff.

23. Reallocation of Project amounts. The Project’s financing plan, including the IDA and IFAD co-financing sources, has been revised to accommodate the proposed changes. The reallocations of the IDA credit proceeds are as follows. The IFAD Financing Agreement is being amended separately.

Category	Original (SDR)	Revised (SDR)
(1) Works	100,000	100,000
(2) Goods	700,000	900,000
(3) PCB sub-loans	4,200,000	4,530,000
(4) NBFI sub-loans	600,000	600,000
(5) Operating expenses	300,000	470,000
(6) Unallocated	700,000	0
TOTAL	6,600,000	6,600,000

24. Extension of Project Closing Date. In order to effectively implement the proposed changes, project closing date would be extended by one year, i.e. June 30, 2011.

25. Triggering Safeguard OP 4.09 Pest Management. As the purchase and application of pesticides will likely be supported by the grants program under component 1, the project will trigger an additional safeguard, i.e. OP 4.09 Pest Management. (See Section D for additional details)

26. The IDA Development Credit Agreement will be amended to reflect the proposed changes.

D. Analysis

27. The proposed changes do not have any major effect on the original economic, financial, technical, institutional and social aspects of the project as appraised, and do not involve any exceptions to IDA policies.

28. Safeguards. Project restructuring will not change the Project's environmental category, which remains FI – financial intermediary. As a result of restructuring, approximately US\$1.0 million will be allocated for operating a competitive small grant program to support farmer groups supplying agricultural produce to the processing entities. It is expected that farmers will use grant resources for enhancing the quality and quantity of their production. Pesticides and fertilizers will be part of inputs which the farmers are likely to purchase from the grant proceeds. Therefore, in addition to the initially triggered OP 4.01 Environmental Assessment, OP 4.09 *Pest Management* will also be triggered. In fact, OP 4.09 should have also been triggered under the original project in response to the types of grants that may have been financed under the previous competitive grant program for technology transfer although no violations of the OP 4.09 have happened. A Pest Management Plan (PMP) will be developed and disseminated among relevant farmer beneficiaries to ensure optimal application, storage and disposal of pesticides.

29. In response to the requirements of OP 4.09, the Borrower is preparing a Pest Management Plan (PMP). The PMP will provide an overview of the national legislation on pest and pesticide management and a comprehensive list of pesticides allowed for trade and application on the territory of Georgia, as approved through the decree of the Minister of Agriculture. The PMP will enumerate the “positive list” of pesticides from within this comprehensive list that could be financed under the project. The Plan will also recommend optimal models of pesticide use including the main principles of integrated pest management (IPM) for the crops cultivated by farmers groups targeted for project assistance. Simple local language guidebooks on IPM, adapted to application for specific crops and in the specific regional context will be developed and disseminated among beneficiary farmers. The project will also provide technical assistance (TA) in IPM to grant-recipient farmers. The detailed scope of such TA will be identified based on the real needs of farmers. The PMP will be attached to the “Environmental Guidelines” of the Project. The revised “Environmental Guidelines” will be re-disclosed in-country and in the Bank's InfoShop.

E. Expected Outcomes.

30. The proposed changes in the PDO and in the project design are reflected in a revised set of outcomes and outputs. The main expected outcome indicators of the restructured project are the following: (i) improved incomes for farmers and enterprises from activities supported under the project; (ii) improved access to rural finance; and (iii) improved capacity of the food safety and property registration institutions to support Georgia's agriculture. The revised output indicators and the Results Framework are attached in Annex 2.

F. Benefits and Risks

31. Benefits. Benefits of the proposed changes are multi-fold. For farmers it would mean better quality and quantity of production which will help improve sales to local markets and agro-processors and thereby improve incomes; for rural enterprises, this would mean better marketing opportunities, locally, regionally and globally. The changes would also lay the groundwork to help the government be better prepared when legislation related to food safety is enforced in 2010.

32. Risks. The proposed changes would reduce the overall risk of the Project, through focusing on doable activities which the Government is committed to implement. However, some risks remain, stemming mainly from the political instability in the country and the global financial and economic crisis.

33. The revised risks and the proposed mitigation measures are as follows:

Revised Risks	Mitigation Measures
Unstable political environment and frequent changes of policy makers and policy decisions.	The restructured Project relies less on the political environment and on legal and institutional changes that became deferred priorities on the Government agenda.
Delays in implementing decisions, including amendments to the IDA and IFAD financing agreements and approval of the Grant Guidelines.	The Project is largely simplified by this restructuring and there are no additional substantive Government actions required to complete the restructured Project. The envisaged changes were discussed with and approved by main stakeholders.
Low interest of farmer groups to apply for grants	Areas being supported under the grant program are the result of participatory needs assessments and stakeholder consultations. Advice and training will be provided on grant application benefits and procedures. The contribution percentage has been determined after extensive consultations with potential beneficiaries
Exposure of grant recipients to toxic agrochemicals	Preparation of a Pest Management Plan (PMP) and use of a "positive list" to prevent purchase of highly hazardous pesticides, as well as implementation and monitoring of the PMP which will promote IPM methods and safe use of pesticides
Reduced interest of financial institutions to provide loans	Through participation in trade fairs and promotional events, the project will help potential rural enterprises identify future markets and increase their likelihood of qualifying for a loan.

Increased possibility of default by sub-loan beneficiaries	Training and TA is being provided to PFIs to increase their capacity for appropriate screening of applications
Continued low prioritization of the food safety agenda	The restructured Project will make small investments in the food safety sector that will increase Georgia's readiness for enforcement of the food safety legislation in 2010. Key legal and institutional changes will be addressed through the Development Policy Credit policy matrix

Main elements of the Grant Guidelines for Component 1

The IFAD grant funds and a share of PHRD remaining grant funds would be used to provide competitive grants for implementation of sub-projects in priority areas of Georgia's agriculture supply chain. Beneficiaries would include farmer groups and rural enterprises.

Under each of the competitive grants, up to 75% of the grant amount would cover equipment, goods and small civil works, which will be financed from the IFAD grant allocation; and not less than 25% of the grant amount would cover TA, training and advisory services, which will be financed from the PHRD grant allocation. IFAD grant funds will not be used to finance operating expenses. Procurement will be undertaken directly by grant recipients for packages up to a maximum threshold of US\$5,000; the PIU will be responsible for procurement above this threshold. Procurement by the grant recipients would be conducted based on the Bank's "Good Practice Guidelines for Procurement, Disbursement and Financial Management in Competitive Grants Projects in ECA countries".

Grants to Farmer Groups. The eligible recipients would be farmer groups/organizations that are regular suppliers to an enterprise in the selected supply chain. Farmer groups would be provided competitive grants based on agreed eligibility criteria and after passing a minimum technical score.

Farmer groups would submit proposals to the Grant Committee that will be responsible for screening and evaluating the applications and awarding the grants which will be undertaken in accordance with the Grant Guidelines. The Grant Committee will comprise the PIU Manager, one representative from the Ministry of Agriculture, one private sector representative and one regional/local government representative. The grants will be monitored by a Monitoring Committee comprised of the National Supply Chain Coordinator, the Regional Supply Chain Coordinator and the M&E specialist.

The priority commodity supply chains for grant interventions could include, inter alia: citrus, hazelnuts, wine, herbs, potatoes, milk, fruits and vegetables. The grants could finance small capital investments such as agricultural machinery (mowers, sprayers), equipment, drying facilities, etc; as well as, on a case by case basis, inputs such as seeds, fertilizers, pesticides, planting materials and seedlings. A portion of the grants could finance training and demonstrations, technical assistance and advisory services. Grants will be screened to ensure that proposed activities do not involve any land acquisition and do not have a negative impact on the environment.

The maximum amount of the grant would be US\$50,000. Beneficiary contribution to each grant would be at least 30% (in cash) of the total grant value.

Grants for Rural Enterprises. Competitive grant funds will be provided on a rolling basis to rural enterprises receiving credit under the Rural Finance component of the project.

The aim of the grants would be to help enterprises improve their marketing opportunities, to test and find new markets. Grant support would cover, inter alia, goods, marketing studies, marketing strategies, and participation in trade fairs, exhibitions and promotional events.

The maximum amount of the grant would be US\$50,000. The recipient's contribution is expected to be at least 50% of the total sub-project amount.

Matrix of proposed changes in the Project Development Objective (PDO) and associated outcome indicators

<p>Old PDO: “to develop the productivity and profitability of the private agricultural sector by facilitating access of mainly small and medium scale farmers to supply chains, improving the competitiveness of the supply chains and strengthening the capacity of selected agriculture and financial institutions serving private sector agricultural market activity”</p>	<p>New PDO: “to improve agricultural production and access to markets for mainly small and medium-sized farmers and rural enterprises supported by the project, through: (i) increasing the competitiveness of selected supply chains; (ii) strengthening the delivery of rural financial services and of the financial intermediaries; and (iii) modernizing key institutions for food safety and property registration with direct impact for increasing competitiveness of Georgia’s agriculture”</p>
<p>Old Outcome Indicators</p>	<p>New Outcome Indicators</p>
<p>Increased sales and profits of enterprises in the supply chains supported under the Project</p>	<p>Improved incomes for farmers and enterprises from activities supported under the Project</p>
<p>Increased net income of farmers participating in project-enhanced supply chains</p>	<p>Improved access to agricultural rural finance</p>
<p>Employment created in enterprises supported by the Project</p>	<p>Improved capacity of the food safety and property registration institutions</p>
<p>Increase in agricultural lending by participating financial institutions, both in absolute terms and as a % of agricultural GDP</p>	
<p>Increase in the number of credit unions attaining operational and financial sustainability</p>	
<p>A substantial self-financed public registry for land and moveable property registration</p>	
<p>Seed, sanitary and phyto-sanitary, and food safety laws enacted and food safety system upgraded</p>	
<p>Strategies and action plans for institutional development completed</p>	

Revised Results Framework

PDO Indicators	Baseline	Proposed Targets
Outcome Indicators		
(i) improved incomes for farmers and enterprises from activities supported under the project	Data collected through grant and loan applications	+10%
(ii) improved access to agricultural rural finance	28% of rural households with access to financial services	35%
(iii) improved capacity of the food safety and property registration institutions	No systems in place	Central and local capacity developed
Output Indicators		
Component 1		
Number of supply chains supported	0	5
Number of farmers and farmer groups supported in the supply chain through T&D and grants	0	35
Number of rural enterprises supported through grants	0	7
Component 2		
Total rural investments generated by the project through the banks	0	
Jobs created through PFIs lending with project funds	0	50
Total number of loans and microcredits generated by the project	0	1000
Component 3		
Well functioning and effective labs and regional centers for food safety	Non-existent	Upgraded
Establishment of the network on NAPR regional centers	Non-existent	Completed
Development of the CORS for NAPR	Non-existent	Completed