PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: AB468

Project Name	RURAL DEVELOPMENT PROJECT – GE
Region	EUROPE AND CENTRAL ASIA
Sector	Crop (50%);Agricultural marketing and trade (25%);Agro-industry (25%)
Project ID	P078544
Borrower(s)	GEORGIA
Implementing Agency	
	Government of Georgia
	Ministry of Agriculture and Food 41 Kostava Street 380062
Environment Category	[ ] A [ ] B [ ] C [x] FI [ ] TBD (to be determined)
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1. Country and Sector Background

Georgia is a small Caucasus country with a population of 4.9 million people. The country relies heavily on agriculture, which provided 18% of Georgia's GDP and 56% of employment in 2003. Because of its relative size and role in employment, economic growth in the agriculture sector is critical to Georgia's overall economic growth and prosperity.

Georgia has the potential to significantly improve its agricultural production base and become a net exporter of a number of agricultural products. Recent International Fund for Agriculture Development (IFAD) and Japan's Policy and Human Resources Development Fund (PHRD) financed studies show that the wine, nut, mineral water, herb, citrus, fresh vegetable and livestock product industries all offer potential for incremental production and sales. This would lead to a significant reduction in rural poverty. For the most part, however, the country has been unable to produce the quality and quantity necessary to test its comparative advantage and gain secure and profitable access to export markets. Smallholders are constrained by limited access to essential inputs such as improved varieties, new technologies, modern inputs and working capital. Marketing infrastructure for most agriculture products is poorly developed, including assembly systems and little investment has been made to improve it. Similarly, many agro-processors are inefficient and unable to offer favorable prices, technology, quality control or credit to farmers.

The sources of credit for agriculture are limited. In general, banks and non-bank financial institutions (NBFIs) have weak capacity for agricultural lending. This lack of capacity is exacerbated by the small size of the financial sector as a whole and its limited capacity to provide medium and long-term credit, due, in turn, to the lack of term deposits. Small farmers are the main victims of this market failure, together with agricultural enterprises seeking medium- and long-term capital for investment. The NBFIs operating in Georgia, and the newly introduced commercial bank micro-credit programs have thus far focused on urban clients. Faced with increasing competition from commercial banks, the larger and more progressive NBFIs are now looking to expand their activities into rural areas. Progress is very slow, however, because they lack the financial resources to expand, adequate knowledge of agricultural lending and suitable loan products. The legislative and regulatory environment for NBFIs is also weak, which compromises their ability to expand in a sustainable manner. Detailed information of financial sector is in Annex 1.

Programs to expand the presence of NBFIs in rural areas are further constrained by the difficulties of building adequate institutional capacity, especially for village level NBFIs, which rely on poorly skilled local staff for operation and management. While locally based initiatives are close to rural people and highly accessible, their managers lack skills and experience and need time and strong support to acquire these attributes. Without this support, such NBFIs are unable to manage the problems and risks that all financial institutions face, and they often fail. The small-scale, rural credit unions (CU) established under the Agriculture Development Project (ADP) provide an example of these issues. Most grew rapidly and subsequently collapsed, illustrating both the strong demand for village-based NBFIs and the dangers and consequences of weak support. But the survival and continued activity of some of these CU's, in the face of considerable difficulty, indicates that sustainability can be achieved. The challenge now is to strengthen and extend this structure from its current base.

Secure land registration, which underpins investor confidence in long term agriculture investment and security for creditors is essential for successful rural and agri-business development. Equally, the secure registration of liabilities against moveable assets can underpin microfinance for agriculture. Several investments were made under the ADP to develop land registration and fee-management systems to generate income for partial self-financing of the registration agency. Substantial progress has been made and a new law was recently enacted to establish a National Agency of the Public Registry (NAPR) that will be responsible for land registration and cadastre and the registration of securities on moveable assets.

Farmers and agri-business enjoy little institutional support at present. In fact, most of the concerned government agencies are inefficient, under resourced and responsible for often archaic laws and regulations, thereby creating a serious impediment to rural growth. Effort to reorganize and restructure government institutions and legislation is only now being galvanized, but requires clear direction and significant financing if it is to be effective. Areas of particular concern to the commercial agriculture and agri-business communities include product standards and food safety, sanitary and phytosanitary regulation and technical support services.

2. Objectives

The proposed project is consistent with the Bank's December 2003 Country Assistance Strategy(CAS) for Georgia which emphasizes the need for further support of the rural sector and describes strategies to promote export markets and provide an environment for private sector-led growth. This includes the need to remove constraints to private sector development, improve the institutional framework and complete the already initiated reforms supporting the restructuring of the economy. The project is included in the priority assistance program in the Reform Support Credit presented to the Board on June 24, 2004.

The ultimate goals of the Bank and IFAD involvement are sustainable rural income growth and poverty reduction, strong public institutions and good governance. This would be achieved through continued growth of private commercial agriculture and with a high level of participation in it by small-scale farmers and unemployed and under-employed rural people. Investments to develop strong rural institutions and to promote good governance would enhance the opportunities for employment creation and rural income growth.

The principles of supply chain development would be applied in a broad context and would be used to modernize production, increase productivity and reorient agriculture and agro-industry to meet the requirements of consumers in evolving domestic and international markets. As a successful result of the proposed project, financial institutions would expand coverage and outreach in rural areas, banks and micro-credit institutions would become more comfortable and competent in lending to agriculture, and these financial institutions and credit unions would provide a sustainable platform for growth.

A sustainable public registry system would support an efficient land registration and cadastre system and a system for securing interests in moveable assets. This would have a major impact in providing acceptable collateral for PFIs to lend for capital investments in agriculture production and marketing, as well as for working capital. Action plans to reform sanitary and phytosanitary and veterinary institutions to meet World Trade Organization and European Union requirements would be developed and an effective food safety system established. Laws for plant, veterinary and sanitary control would also be modernized, with more transparent regulatory frameworks, improved monitoring systems, expanded staff performance incentives and an institutional culture more oriented toward public service.

3. Rationale for Bank Involvement

The Bank and IFAD's continued involvement in the agriculture sector is crucial for the sustainability of investments in land registration and credit unions already made under existing ADP and for the further development of activities necessary for the growth of commercial agriculture and agricultural exports. The Bank and IFAD's role would be to directly support private sector actors in developing their businesses through technical assistance and training and the provision of investment directly and through financial intermediaries. As part of this approach, the Bank and IFAD could promote commercial agriculture by strengthening the legal and institutional framework of selected public institutions to provide improved services and regulation and by helping to create an enabling environment for private sector investment.

The Bank and IFAD have the capacity and expertise to strengthen agriculture value chains by reinforcing the concepts of supply chain development and demand-driven production and proven ability to assist the government in analyzing agricultural development policies, including institutional issues and leverage for policy reform in particular areas. It also has significant experience in promoting the development of rural financial institutions through measures to strengthen the legislative and regulatory environment, build institutional capacity and develop new loan products and financial services. IFAD has extensive experience in poverty alleviation in Georgia, associated with the development of upland areas. Because of its overall approach and position, the Bank and IFAD would be able to play a catalytic role in helping to coordinate donor activities in rural and commercial agriculture development in Georgia.

4. Description

The proposed project has four components. Detailed descriptions of the four components can be found in Annex 4.

Component 1: Agricultural Supply Chain Development (*Estimated Cost US$ 4.38 million, of which PHRD co-financing grant $2.21 million, IFAD loan $0.89 million, IFAD Grant $0.12 million, Beneficiary $0.34 million and Government $0.82 million*)

The proposed project aims to support the efficient development of marketing/supply chains for commodities that have a demonstrated market potential, with the view to expand profitable domestic and export market opportunities. The proposed project would work with all agents in potentially profitable agricultural supply chains to develop and implement a holistic strategy for identifying and addressing weaknesses and bottlenecks. The project would support the following:

Supply Chain Analysis and Development (*US$0.76 million, of which PHRD co-financing grant $0.51 million and Government $0.25 million*). Using CERMA and AgVANTAGE analysis of the production, processing and/or marketing of potentially profitable agricultural commodities, the objective of this sub-component is to develop a holistic strategy for the expansion of profitable sales in domestic and export markets. This would involve assistance in determining consumer demand, identifying technical, regulatory, institutional, contractual and financial constraints, developing a collaborative strategy for their redress, and analyzing sources of supply. The supply chain analysis would attempt to determine where commodity associations and other market participants could productively reinforce linkages among actors along a commodity chain both formally and informally. The project would coordinate with other parallel donors projects. In cases where parallel projects have not carried out a full analysis (e.g., the wine industry), the project would have the capability (with stakeholder participation) to initiate detailed studies of the sub-sectors. The project would finance for each project year, technical assistance, training, and studies in market and supply chain analysis and development. It would support agri-business firms in identifying regulatory, technological, contractual, and investment constraints and assist in the development of marketing plans, supply chain linkages, contractual agreements, and investment proposals.

Linkages to Farm Communities (*US$ 2.25 million, of which IFAD loan $0.89 million, IFAD grant $0.12 million, PHRD Co-financing grant $0.69 million and Government $0.55 million*). The project would assist farmers and communities to engage with commodity supply chains in an equitable and profitable manner. First, the support would be directed through the establishment of farmer-community linkage teams in east, central and western Georgia. In each of these areas, an NGO would be contracted to provide the phased introduction of three teams with the objective of working with farmer groups to raise the quality and quantity of their produce, in response to specific market signals. The farmer groups themselves would largely be derived from existing informal groups where there is trust and familiarity. Initially, one team of two persons with technical and market related skills would be formed in each area and, through its operation for the first year, would develop and test modalities of interaction with farmers. Subsequently, two more teams would be formed in each area. Dependent on need, the teams might be commodity or geographically focused in their respective regions. It is expected that each team would be able to provide assistance for about 20 groups of farmers, each consisting of an average of about 20 participants. Over the whole project, assistance would be provided to up to 300 community groups, providing a strong basis for rapid improvement in farmers' ability to identify and participate in more lucrative markets. The teams would provide training in formation and operation of common interest groups and associations, and empower farmers through support for farmer-initiated field days, community meetings and regional study tours. Leadership training would be emphasized, especially for younger members of rural communities. In the medium term, some of these farmer groups are expected to grow into substantially larger self-sufficient farmer associations.

Second, the project would also provide assistance both to the new and to existing farmer groups to link to commodity supply chains. For this, the project would finance technical assistance and training and partially support farmer group set-up costs and some equipment. In cases where groups desire to invest in facilities essential for participation in commodity supply chains, e.g. produce packing plants, the project would assist farmers (through the appropriate service providers) in developing business plans and proposals for loan applications to participating financial institutions (PFIs). Provision would also be made for the staging of regular discovery events to allow for initiation and development of enduring commercial relationships between farmers and key supply-chain entities.

Technology Transfer (*US$1.37 million, of which PHRD Co-financing grant $1.01 million, Beneficiary $0.34 million and Government $0.02 million*). The project would support small-scale farmers and farmer groups engaged in potentially profitable agricultural supply chains to develop appropriate, modern farm technology, crop and livestock management practices, and post-harvest technology and demonstration programs. Development of technology would be supported through the Agricultural Supply Chain Development Fund (ASCDF) and be coordinated by NGO and ASCDF advisory Committee (FAC). Farmer's access to support would be facilitated by the NGO team operating in each region. Management of this fund will be in accordance to the ASCDF operational guidelines.

Producers, processors and traders would be also encouraged to identify technology gaps and develop applied research and demonstration programs in collaboration with local and national research and extension institutions. The proposals would be submitted to the ASCDF Advisory Committee (FAC)for competitively selection.

Component 2. Rural Finance Services (*Estimated Cost US$ 27.22 million, of which IDA Credit $8.31 million, IFAD Loan $8.07million, IFAD grant $ 0.68 million, PHRD Co-financing grant $1.01 million, Beneficiary $4.44 million, Government $1.41 million, Commercial Bank $3.1 million and NBFI $0.20 million*)

This component would improve the capacity of PFIs to lend to the farmers, processors and agri-business enterprises involved in the marketing/supply chains of marketed agricultural commodities. This would be achieved by (a) providing them with additional capital for lending to private entities in the agricultural sector, particularly medium and long-term loans for investment, and (b) strengthening their capacity for sustainable rural lending.

(a) Credit Lines for Commercial Banks (*Estimated cost US$17.00 million, of which IDA Credit $7.31 million, IFAD loan $3.19 million, Beneficiary $3.4 million and Commercial Bank $3.1 million*). This credit line would be made to eligible commercial banks to increase their capacity to make medium and long-term investment loans to eligible farmers, processors and agri-business enterprises. Loans to commercial banks would be in either US dollars or lari, with a grace period of four years and repayment period of up to 10 years.

(b) Credit Lines for Non Bank Financial Institution (*Estimated cost US$5.00 million, of which IDA Credit $1.0 million, IFAD loan $3.0 million and beneficiary $1.0 million*.) This credit line would be made to eligible non-bank financial institutions to increase their capacity to make small investment and working capital loans to eligible farmers, processors and agri-business enterprises. Loans to NBFIs would be in either US dollars or lari, with a grace period of two years and repayment period of up to 10 years.

PFIs would revolve these loans during the project. Interest rates charged by Government to PFIs on dollar loans would be determined on the basis of US$ LIBOR (6 month) plus a Spread comprising of an Administrative Cost Surcharge, and a Default Risk Premium[1]. Interest rates charged by Government to

[1]Currently, this would work out to around: 2.6% (Libor) + 1.5% (Administrative Cost Surcharge) + 2.5% (Default Risk Premium) = 6.5%. Government's cost of borrowing is included in Libor.

PFIs on lari loans would be determined on the basis of the domestic inflation rate plus a Spread similarly calculated but including a separately determined surcharge for government's cost of borrowing[2]. PFIs would set their own interest and repayment terms to final beneficiaries and would bear the full risk of loan repayment. For the first year of their participation, commercial banks are required to contribute a minimum 10% to the loans and 20% for the subsequent years. In addition, the private applicants for loans would be expected to finance a minimum of 20% of the cost of each business venture from their own resources.

The PFIs would be selected on the basis of eligibility criteria, a summary of which is contained in Annex 4. 1. The PFIs would be responsible for identifying prospective borrowers and carrying out appraisals of the proposals submitted for financing. Appraisal of sub-loans would be according to procedures and criteria summarized in Annex 4.2. These would include compliance with environmental safeguards, which would be monitored throughout sub-loan implementation. The disbursement of loans to PFIs would be managed by a specialist unit within the PIU (see Annex 6). This unit would perform the functions of: (a) ensuring that PFIs meet eligibility criteria; (b) verifying proposed loans are eligible for financing under the project; (c) enabling rapid disbursement of loans to PFIs; and (d) monitoring the actual disbursement and utilization of loans. The PIU function in this respect would not include any discretionary functions; it would simply approve or reject applications made to it by the PFIs.

(c) Strengthening the Capacity of PFIs for Sustainable Rural Lending (*Estimated cost US$1.31 million, of which IFAD grant $0.2 million, NBFIs $0.2 million, PHRD Co-financing grant $0.47 million and government $0.44 million*). The proposed project would strengthen the capacity of participating rural financial institutions to appraise and manage loans for production, agro-processing and agri-business; develop and promote appropriate loan products and collateral instruments; provide matching grants to selected NBFIs for the establishment of new rural branches; and develop sustainable rural credit unions. Support would be provided for training of bank and NBFI personnel, technical assistance to design, test and adopt more appropriate loan products, collateral instruments and financial services and matching grants of up to $10,000 to cover the costs of qualifying NBFIs of establishing new rural branches. The legal and regulatory framework for NBFI operation would also be strengthened through supporting the implementation of the proposed new legislation to establish a conducive legal framework for micro-finance institution (MFI) activity, and improving the capacity of the NBG to regulate and supervise credit unions. The new MFI law is expected by July 2005.

(d) Strengthening Credit Unions (*Estimated cost US$3.92 million, of which IFAD loan $1.88 million, IFAD grant $0.48 million, PHRD Co-financing grant $0.54 million, Beneficiary $0.05 million and Government US$0.97 million).* The project would build on an existing core of small and well-managed rural credit unions to help the CU system expand and become financially sustainable. This would be achieved through technical assistance, training, and study tours aimed at: (i) strengthening the individual CUs in savings mobilization, credit administration, financial management, and overall governance; (ii) facilitating the consolidation of some of the smaller CUs into larger, more viable units; (iii) providing modest fund for on-lending to these new consolidated credit unions in year 3, after adequate confidence is established, and (iv) developing a national Association of Credit Union (ACU) as a precursor to the formation of an apex framework. The ACU would: a) coordinate the CU system's training and other capacity building programs; b) facilitate cross-fertilization and knowledge sharing within the system; c) consolidate, analyze and disseminate key industry data for mutual comparison; d) elaborate and disseminate industry standards, and promote self-regulation, in conjunction with the National Bank of Georgia; e) carry out advocacy; f) advise Government on relevant legislative and regulatory issues; and g) liaise with various stakeholders, including other members of the financial sector, donors, government (see

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[2] Currently, this would work out to around: 4.0% (Domestic Inflation) + 1.25% (Government's commitment fee and Service Charge) + 1.5% (Administrative Cost Surcharge) + 2.5% (Default Risk Premium) = 9.25%.

Annex4.3). The ACU would be small, composed of a chairperson supported by a secretariat. The project would contribute to its establishment costs and fund operating costs on a diminishing scale.

Component 3: Institutional Modernization (*Estimated Cost US$ 4.00 million, of which IDA Credit $1.17, IFAD loan $0.52 million, PHRD co-financing grant $1.15 million, Beneficiary $0.07 million and Government $1.09 million)*.

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

(a) Institutional and Legal Framework (*Estimated cost US$ 2.29 million, of which IDA Credit $ 1.02 million, PHRD co-financing grant $0.6 million and Government $0.67 million*). The project would provide technical experts to advise and interact with the management staff of the relevant departments on the revision of the food, plant variety protection and veterinary laws and also assist government legal staff in drafting pertinent laws and regulations. Training and study tours would be provided, and operating manuals based on an EU compliant legislative framework would be developed. The project would support Georgian membership in the Union for Plant Variety protection (UPOV), the European Plant Protection Organization (EPPO) and the International Plant Protection Convention (IPPC) and International Seed Testing Association (ISTA), provide training for seed department staff on international standards in seed testing and certification, and introduce ISTA seed certification laboratory procedures. The improvement of legal & regulatory framework for the privatization of veterinary services has been addressed through the PHRD project preparation grant with the redrafting of the Veterinary Law, which is now before the Parliament. The project would also enable the Georgian government to establish a comprehensive, unitary food safety management and risk assessment system in line with the requirements of a new Food Law, developed with the support of the PHRD grant and soon to be presented to government for review and legislation.

(b) **Strategies and Action Plans for Institutional Development (*Estimated cost US$0.29 million, of which PHRD co-financing grant $0.23 million and Government $0.06 million*).** The project, in collaboration with the USAID-financed Restructuring Assistance and Policy Advice (RAPA) Project and the EU-financed Food Security Project (FSP), would assist the government in analyzing the operations of its various institutions dealing with agriculture and food and help it develop fiscally sound strategies and action plans for their restructuring and strengthening, including the privatization of veterinary services. MOA and the Ministry of Finance would be involved in the development of these strategies and action plans, would commit to agreed restructuring plans and would deliver the required financial support. Technical assistance, training and study tours would be provided for government staff, so that they can understand and observe improved management styles and their benefits and learn from successful experiences in other countries.

(c) Support for Selected Commodity-Specific Programs (*Estimated cost US$ 0.27 million, of which IDA Credit $0.15 million, beneficiary $0.07 million and Government $0.05 million*). Programs to support specific commodity chains supported by project under component one and consistent with strategies and actions plans for institutional development developed under sub-component 3 (b) would be identified. For example, the project might provide, based on the needs and proposals from the commodity chains, support for the development of product certification, quality testing and labeling standards. In the case where private services are not available and public services are not proficient, the project may consider strengthening these services.

(d) **Continuing Support for Land Registration (*Estimated cost US$1.15 million, of which IFAD loan $0.52 million, PHRD co-financing grant $0.32 million and Government $0.31 million*)**. Under the recently promulgated Law on Public Registries, the State Department for Land Management (SDLM) and the Bureau of Technical Information (BTI) were liquidated. Land registration and cadastre responsibilities have been transferred to a new National Agency for Public Registry (NAPR), which has been established as a Legal Entity Under Public Law giving it substantial legal and financial independence. The NAPR would also be responsible for the registration of secured interests on moveable assets, which will be important to the development of rural financing. To ensure that the transition is smooth and original objectives are maintained, the project would, over a two year period, provide training, equipment, information technology, technical assistance and limited incremental operating costs to support the transition.

Component 4: Project Management (*Estimated Cost US$ 2.12 million, of which IDA Credit $0.52 million, IFAD Loan $0.52 million, PHRD co-financing grant $0.13 million and Government $0.95 million*).

The proposed project would be managed under the umbrella of the existing World Bank Project Coordination Center (PCC) within MOA. The PCC would be responsible for all aspects of project administration, including overall project oversight, TA, goods and materials procurement, and financial control. The day-to-day management of the project would be with the technical Project Implementation Unit (PIU). A Project Steering Committee (PSC) including representatives from government, private sector and donor agencies would provide project oversight and ensure national program integration. The project would finance technical assistance, training and study tour, office equipment and vehicles, staff salaries, auditing and other operating expenses related to the project. The structure of the PIU and its staff requirements are described in Annex 6.

5. Financing

Source:		($m.)
BORROWER		4.27
INTERNATIONAL DEVELOPMENT ASSOCIATION		10.00
IFAD		10.80
JAPANESE PHRD		4.50
LOCAL SOURCES		3.30
BENEFICIARIES		4.85
	Total	37.72

5. Implementation

The project would be managed by the Project Coordination Center (PCC) which is established by the joint order of Ministry of Agriculture and Ministry of Finance as a legal public entity according to the Residential Decree number 149. The PCC has an overall management and supervision responsibility of donor-financed projects. The PCC is supported by a core service team which provides centralized procurement and disbursement services to all agriculture projects. Each project has its own project management unit which is responsible for technical management and supervision. The RDP would have a Project Implementation Unit (PIU) to be responsible for the whole project implementation, day-to-day management of all components including planning and budgeting of project activities, preparation for procurement plan, preparation of progress and project management reports, staff management and project monitoring and evaluation. The PIU will be managed by a project manager, who has overall responsible for all components of the project. The PIU manager will report directly to the Director of PCC.

The PIU would include professional staff and administrative and support staff. Professional staff positions would include a project manager, a senior finance and banking specialist, two PFI finance supervisors (including one specialized in CUs and MFIs), a Secretariat to the FAC, a training and communications specialist and a monitoring and evaluation officer. The PIU would be supported administratively by an administrative officer and drivers.

The PIU will work with (a) an Agricultural Supply Chain Development Fund (ASCDF) Advisory Committee (FAC), which would manage the award of competitive grants supporting commodity, technology and supply chain development (b) A group of NGOs who would coordinate the linkages to farm communities programs, (c) Credit Union Development Center (CUDC) which would provide technical services to credit unions, (d) An Association of Credit Unions (ACU) which would manage the development of a national rural credit union program, (e) Participating commercial banks and NBFIs through subsidiary loan agreements between the Ministry of Finance and PFIs, following the rural credit guidelines, (f) The responsible government agencies for each institutional reform sub-component, and (g) the NAPR which will implement the land registration, cadastre management and moveable asset registration programs.

The Project Steering Committee (PSC) would be chaired by the Minister of Agriculture and include the relevant Vice-ministers of Finance (MOF), a Vice-President of the National Bank of Georgia, the chairperson of the Parliamentary Agrarian Committee, the RDP PIU manager and PCC director and representatives of the donors, international and domestic NGOs engaged in agricultural and rural development and a private sector representative. The RDP PIU would provide secretarial support to the PSC. The PSC would meet half yearly to review the RDP semi-annual and annual reports and annual work program with a view to ensuring the closest possible alignment of RDP activities with government financial control and economic growth policies and to capture synergies with other donor and international financial institution funded projects. The PSC members would inform the Minister of Agriculture of their opinion on these matters, but would have no jurisdiction over the program or budget of the RDP.

The Linkages to Farm Communities program would be managed by a group of NGOs selected on a competitive basis, following TA procurement procedures. The successful NGOs would be responsible for staffing and managing the nine field teams (three per region) that would implement the program and for managing the associated farmer training and technology testing and demonstration programs. The field teams would assist farmers to prepare applications for grants for technology testing and demonstration programs and for market linkage activities. Grant applications for less than US$5,000 would be awarded by the PIU on the recommendation of NGO management committee that would oversee the Linkages to Farm Communities Program. Grant applications for larger amounts would be screened by the review committee with short-listed proposals forwarded to the FAC for final approval.

The ASCDF Advisory Committee (FAC) would include one representative from each of the MOF, Agrarian Committee, MOA and Academy of Agricultural Sciences, together with two representatives respectively of the Linkages to Farm Communities NGO management committee and the farming and agri-industry communities. The Minister of Agriculture would nominate private sector FAC members on the advice of the PCC Director. This 10-person committee would elect an independent person of high standing in Georgian agriculture as its chairperson. The Committee could invite tenders for the Chairperson position if preferred. Committee members would be appointed for two-year terms with staggered replacement to ensure continuity of knowledge of FAC operations. The RDP PIU would provide a Secretariat to support the FAC, which would meet quarterly to review funding proposals and progress reports and to select applications for ASCDF grant funding. The detailed operation of the FAC is described in the ASCDF Operational Guidelines.

6. Sustainability

Sustainability beyond the implementation period of the increased production, profitability and productivity resulting from the project is considered likely because the project is specifically designed to support and improve only profitable private production of commodities. In terms of actual implementation, the project would help participants in supported supply chains to increase their adaptability to respond to the constantly changing market demand of globalized internal and external markets. Thus, the sustainability of project interventions would be the improved commercial sustainability of the already viable private industries supported under the project. Anything that improved the general sustainability and profitability of business activity in Georgia would be positive for the sustainability of project interventions. Conversely, a declining business environment would be a negative factor and a non-favorable aspect of the project's orientation to let the market rather than the project "pick winners". Sustainability would be enhance by project action to mitigate commercial risk by (a) relying on matching-grant from private sector beneficiaries; (b) reliance on commercial banks/NBFIs for taking commercial risk and partial loan financing; and (c) avoiding non-competitive agricultural commodities.

In the case of legal, regulatory and institutional modernization, the project aims to modernize certain aspects of the legal framework, analyze future institutional development needs, secure supply chain-specific regulatory improvements, particularly food safety and quality, and complete the development of the land registration and cadastre system. Only the land subcomponent raises significant sustainability issues and these are in fact the focus of the intervention, which aims to create a financially and institutionally sustainable land registration system based on the successful interventions under ADP and an appropriate legal framework, which has now be established (Law of Georgia On State Registry, June 1 2004)). Mindful of the MOAs limited recurrent budget, the Project, in developing a modern legal and regulatory framework for the sector, and in developing and endorsing action plans and strategies for institutional development (including restructuring of services, plans to deal with over-staffing, privatization of services, etc.) would actively pursue least cost options consistent with a modern administrative, regulatory and support service.

The project would enhance the capacity of PFIs to continue agricultural lending on a sustainable basis in two ways: (a) by providing credit lines to allow banks to strengthen and diversify their portfolios and enable NBFIs to attain the critical mass needed to achieve economies of scale and improve their access to private capital; and (b) by increasing the capacity of banks and NBFIs to make well-informed decisions about agricultural lending and to better manage agricultural loan portfolios. Moreover, the more profitable agriculture-related lending expected as a result of these interventions is also likely to raise PFI interest in such lending. That is, after project credits have been repaid, banks and NBFIs are expected to continue to allocate a greater share of their resources than pre-project to the rural and agricultural sectors. Project interventions are also designed to enhance the capacity of PFIs to repay subsidiary loans received from MOF (discussed under risk). The investments made by project sub-borrowers would be sustainable, for the reasons outlined in the previous paragraph. The sustainability of participating NBFIs would be further enhanced by project measures to build a National ACU structure for rural credit unions to strengthen training and supervision and increase deposit mobilization; to strengthen the legal basis for MFI activity; and to strengthen the capacity of the NBG to regulate and supervise NBFIs.

7. Lessons Learned from Past Operations in the Country/Sector

The main lesson learned during the last few years from Bank and IFAD-financed credit line operations in the ECA Region and elsewhere is that the project design should be kept as flexible as possible in order to allow for adjustments during project implementation. Considering the political and economic uncertainty in Georgia, it is critical to allow for adjustments during project implementation. Lessons learned from ongoing projects, especially from the ADP, the Agriculture Research, Extension and Training Project

(ARET), the Mountain Areas Development Project and the Irrigation and Drainage Community Development Project (IDCDP) show that it is important to create trust among all stakeholders before the project can enter the main implementation phase. Capacity building in all institutions dealing with the project as well as a step-by-step approach during project implementation is essential in order not to overwhelm the local authorities and institutions. The RDP would promote the development of self-financing institutions, specifically a national ACU and the NAPR, which are logical further steps beyond their development under the ADP to secure the sustainability of the post investment in these institutions.

The design of the supply chain development component would draw on experience from the USAID-funded AgVANTAGE project and CERMA-ERProject. AgVANTAGE has carried out extensive analysis of various supply chains, which the RDP would use in designing its support of supply chains. Experience provided by CERMA is especially useful for the design of the project in the areas of institutional arrangements with the authorities, the development of trust among partners, selection procedures for assisted companies, and cost-sharing between the project and beneficiaries.

Experience from the ADP shows that improved access to credit does make a difference to agricultural investment, output and rural livelihoods, and that it can be done without distorting financial markets. Success or failure of the credit components of the ADP was highly correlated with the intensity and quality of project supervision and management. The performance of partner financial institutions depends on the ability of their staff to appraise loan proposals, particularly the ability to assess market prospects for the commodities to be produced, and to develop repayment schedules consistent with income streams.

There is a strong demand for locally based credit facilities (such as credit unions) in rural villages, but these institutions need sustained, strong support in the form of training and supervision, if they are to evolve into viable financial institutions. Small village-based credit unions often lack the critical mass required for financial viability, hence the need to consolidate, particularly with a focus on rural towns. They also need to be savings-driven and encouraged to diversify their loan portfolio and loan products. This would enable them to expand to a wider membership base and generate a stronger member commitment to the organization – all of which would improve sustainability. These lessons learned from the ADP were used in the design of the credit component of the Rural Development Project (RDP).

8. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP/GP 4.01)	[x]	[ ]
Natural Habitats (OP/BP 4.04)	[ ]	[x]
Pest Management (OP 4.09)	[ ]	[x]
Cultural Property (OPN 11.03, being revised as OP 4.11)	[ ]	[x]
Involuntary Resettlement (OP/BP 4.12)	[ ]	[x]
Indigenous Peoples (OD 4.20, being revised as OP 4.10)	[ ]	[x]
Forests (OP/BP 4.36)	[ ]	[x]
Safety of Dams (OP/BP 4.37)	[ ]	[x]
Projects in Disputed Areas (OP/BP/GP 7.60)*	[ ]	[x]
Projects on International Waterways (OP/BP/GP 7.50)	[ ]	[x]

* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

9. List of Factual Technical Documents

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- Georgia Country Report by The Economist Intelligence Unit, May 2003.
- Georgia Microfinance Feasibility Study by Business and Finance Consulting GmbH, November 2003.
- Central and Eastern Europe and the Newly Independent States – Thematic Study on Comparative Advantage and Agricultural by The International Fund for Agriculture Development (IFAD) March 2004,
- Georgia Trade Diagnostic Study by Poverty Reduction and Economic Management Unit Europe and Central Asia Unit – The World Bank, June 2003.
- Georgia Agricultural/ Agribusiness Sector Assessment, USAID, March 2001.
- Wine Sector Competitiveness in Georgia, The World Bank, November 2002.
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- Restructuring Assistance and Policy Advice for the Ministry of Agriculture and Food of Georgia – An Overview of the Georgian Tea Sector, USAID, November 2002.
- From Subsistence to Markets: Overcoming constraints to Rural Growth in Georgia by Sharidan Faiez, The World Bank, May 2004.
- Assessment of Specific Constraints to Agribusiness in Georgia and Methodology for Prioritization ,Support of Added-Value Enterprises - ACDI/VOCA – USAID, Georgia 2003.
- Export and National Marketing Development for Horticultural Products in Georgia, FAO, 2002
- Assessment of the Competitiveness of Georgian Agriculture, Agrisystem Ltd, September 2004.

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