

**PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB479

Project Name	RURAL DEVELOPMENT PROJECT - GE
Region	EUROPE AND CENTRAL ASIA
Sector	General agriculture, fishing and forestry sector (50%);Agricultural marketing and trade (25%);Agro-industry (25%)
Project ID	P078544
Borrower(s)	GOVERNMENT OF GEORGIA
Implementing Agency	
	Government of Georgia
	Ministry of Agriculture and Food 41 Kostava Street 380062
Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Safeguard Classification	<input type="checkbox"/> S ₁ <input checked="" type="checkbox"/> S ₂ <input type="checkbox"/> S ₃ <input type="checkbox"/> S _F <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	July 15, 2003
Estimated Date of Appraisal Authorization	June 1, 2004
Estimated Date of Board Approval	March 29, 2005

1. Key development issues and rationale for Bank involvement

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 2002. Because of its relative size and role in employment, economic growth in the agriculture sector is critical to the success of Georgia's overall economic growth and prosperity.

The agriculture sector in Georgia is mainly composed of small-scale, subsistence farmers producing food for family consumption and a small surplus for the market. Small-scale farmers are mostly excluded from the markets for agricultural products and inputs, because the costs and risks of market participation are too high. As a consequence, they have not improved yields by adopting new technologies and modern inputs and agriculture stagnates. Their incentive to increase marketed surplus is weak, as marketing infrastructure for most agriculture products is poorly developed, assembly systems are inadequate and agro-processors are inefficient and unable to offer favorable prices, technology, quality control or credit to farmers.

Georgia has the potential to become a net exporter of a number of agricultural products (particularly high-value products, such as wine, nuts, mineral water, tea, spices, citrus fruit and livestock products), but for the most part the country has been unable to produce the quality and quantity necessary to gain secure and profitable access to export markets. Efforts have been made by both government and donors to support the agriculture sector, but their emphasis has

been on the supply side (e.g., irrigation, land and agriculture technologies), to increase production. This project aims to complement on-going Bank and donor efforts by concentrating, rather, on demand side considerations so as to improve market performance and access to markets (domestic and international) by small-scale farmers.

The Bank's continued involvement in the agriculture sector is crucial for the sustainability of investments already made under existing projects and for further development of activities necessary for the growth of commercial agriculture and agricultural exports. The Bank's role will be to support the public sector in creating enabling environment for the development of private sector in agricultural and food markets, and to enable the inclusion of small-scale farmers and SMEs in those markets. It could assist the government in analyzing agricultural development policies, including institutional issues. The Bank could also play a catalyst role in helping to coordinate donor activities in rural and commercial agriculture development.

The proposed project is consistent with the Bank's draft CAS for Georgia, which has been discussed with the Government and Bank Management and emphasizes the need for further support of the rural sector. The CAS describes strategies to promote export markets and provide an environment for private sector-led growth as involving the need to remove constraints to private sector development, improve the institutional framework and complete the initiated reforms supporting the restructuring of the economy. In order to reach this goal, the CAS describes a rural development project that increases exports and rural incomes through investments in agribusiness and export promotion. The proposed project would promote sustainable growth and rural employment through private sector development of small and medium-scale commercial farms and agro enterprises and supporting institutional development, particularly the development of farmer associations and credit unions. Because the Georgian rural areas are generally poor, the project also supports the broad objective of poverty reduction.

2. Proposed objective(s)

The objective of the project is to develop the private commercial agriculture sector by facilitating the access of Georgia's mainly small farmers to supply chains, and improving the competitiveness of the supply chains in response to demand from domestic and international markets. This would increase incomes and employment and reduce poverty in rural areas.

3. Preliminary description

The project would support clusters of agro-processors, traders, packers, graders, farmer and traders associations, and commercial farmers producing specific commodities to develop the supply chains for selected commodities. These commodities would already have established demand from both domestic and international markets for which Georgia has a demonstrated comparative advantage. The integrated supply chain approach links market demand backward to production by transmitting market requirements to producers and enabling them to respond effectively to buyers by bringing competitive products to market. During project preparation, commodity studies would be carried out to assess major constraints at all stages of the supply chain, including those involving production, policies and regulation, institutions and infrastructure. These studies will be done in cooperation with government, donors, private sector and stakeholders. Each study would identify project interventions, e.g., private- and public-sector roles, assess commercial quality and food safety requirements, evaluate risk and identify market opportunities and requirements.

The commodities supported could be classified into two groups; high value horticulture and livestock products; and bulk commodities such as wheat, corn and other grains. The major difference between the two groups lies in the extent of government involvement in marketing; while for the first group of commodities, market activities include mainly private farms and businesses and public-sector services to these farms and businesses; for bulk commodities, market activities include partially privatized public enterprises and potentially sensitive political issues. Government willingness to undertake policy reform identified in commodity studies would be an essential element in determining whether any commodities in the second group would be supported in the project.

The project will focus on a few commodities which have clear market demand to reduce commercial risk. For the first group of commodities (high value crops and livestock) the project would use a competitive approach in selecting a commodity and its supply chain. Rural communities that form the base of an existing priority commodity supply chain or have the potential for development of such a supply chain would be encouraged to submit a proposal for evaluation by a screening committee. During project preparation, a public awareness program would be used to inform the public about the project and a local preparation team would assist communities in preparing proposals. Criteria for screening would be developed. After passing the first round, TA would be used to evaluate the desirability of assisting candidate programs.

The preparation team will investigate whether to support the implementation of land registration and cadastre programs invested in by the ADP under the project in order to secure sustainability of the programs and continued progress in developing an effective land market and the ability of agricultural borrowers to use land as collateral.

Description of Components: The project would support activities under three main components plus a project management and M&E component:

Policy and Institution Development. Commodity analysis would outline recommended changes in policy and regulatory frameworks, restructuring and strengthening of public services, and building of public and private participation, which will be necessary to support increased competitiveness and an improved environment for private sector development. The policy frameworks could be in trade, tax, legal and regulatory policies; food safety and standards; land markets; credit policies; and policies concerning farmer groups and cooperatives. Institutional development would be limited to strengthening the quality and efficiency of the core public services necessary to support commercial agriculture. These are seed and seedling regulation, veterinary services, technology extension services, and input supply. During project preparation, other services will be evaluated as to whether to include them in project activities, including animal breeding, quarantine, food safety and border services. Core and other services will be analyzed with respect to public or private provision. Cost-recovery mechanisms would be designed as appropriate.

Development of Supply Chains. This component would strengthen all links in project-assisted supply chains. The commodity studies will identify weak links in technology, institutions, market information, transportation and market infrastructure. Project interventions would probably involve (a) provision of TA and training to individual, firms and professional

associations in development of their capacity to satisfy supply chain commercial requirements, (b) support the start-up of marketing and other commercial agriculture associations including farmer associations, (c) support pilot programs to develop private-sector input supply, and (e) finance essential commercial public sector infrastructure, such as feeder roads, storage facilities, collection points and wholesale markets. The project would seek assistance from the Social Investment Fund Project for other needed community-based social programs.

Access to Credit. The project would provide (a) two credit lines; one through commercial banks for investment and working capital for large loans, which would typically be needed for upgrading agro-processing. Existing agro-business firms typically need investment to upgrade their technology, improve product quality and expand their market reach. Additional loans may be required by agro-processors who may want to extend supplier credit to primary producers in the context of supply chain development. The second credit line would be the provision of small working capital loans for small farmers and traders through existing credit unions or micro finance organizations. (b) The project would assist participating commercial banks in improving their capacity to lend to agro-business borrowers, in developing loan products suitable for the rural sector and in exploring alternatives to collateral such as warehouse receipts. TA would also be financed to assist the participating credit unions in strengthening their management capacity.

Project Technical Unit. The project would also strengthen the capacity of the project technical unit and project coordination unit to manage day-to-day project activities and coordinate work with governmental departments. It would support activities related to project’s monitoring and evaluation.

Project Costs: Estimated project costs would be about US\$20million. This would include a loan amount of approximately US\$16 million. Efforts are being made to obtain co-financing from other donors, including IFAD, KfW and DFID.

4. Safeguard policies that might apply

Environmental-, Social- and Economic Assessments will be carried out during project preparation. After project sites have been identified, the preparation team will evaluate in which of the safeguard policies the project falls into. Environmental studies will be carried out according to each Operational Directive. If there is no specific category, the Environmental Assessment will be carried out according to the Bank’s guidelines, and will contain a first draft Environmental Management Plan.

The Social Assessment will be done using a participatory process to identify the priority needs of the poor rural population and their views on how their needs can best be addressed.

An Economic Analysis would be carried out to assess the expected medium and long term economic costs and benefits of the project to the government, as well as potential economic benefits to beneficiaries.

5. Tentative financing

Source:	(\$m.)
BORROWER/RECEPIENT	4
INTERNATIONAL DEVELOPMENT ASSOCIATION	16

Total 20

6. Contact point

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