Document of the
International Fund for Agricultural Development

Republic of Georgia

Agricultural Development Project

Completion Evaluation

March 2007
Report Nº 1853-GE

Evaluation Team	
Evaluation Manager	Mr Fabrizio Felloni, Evaluation Officer, Office of Evaluation
Evaluation Research Analyst	Ms Thuy Thu Le, Consultant, Office of Evaluation
Consultants:	
Team Leader	Mr Roger Norman, Agricultural Economist
Team Members	Mr Giorgi Badrishvili, Agriculturalist
	Ms Margarita Lalayan, Microfinance Specialist

Photo on cover page:
Farmers clear land in preparation for wheat planting
in the village of Norio, Gardabani Raion
Photo by Robert Grossman

Republic of Georgia

Agricultural Development Project (ADP)
Loan No. 450-GE

Completion Evaluation

Table of Contents

APPENDICES

1. Persons met during the evaluation
2. Bibliography
3. Approach Paper

ANNEXES (*)

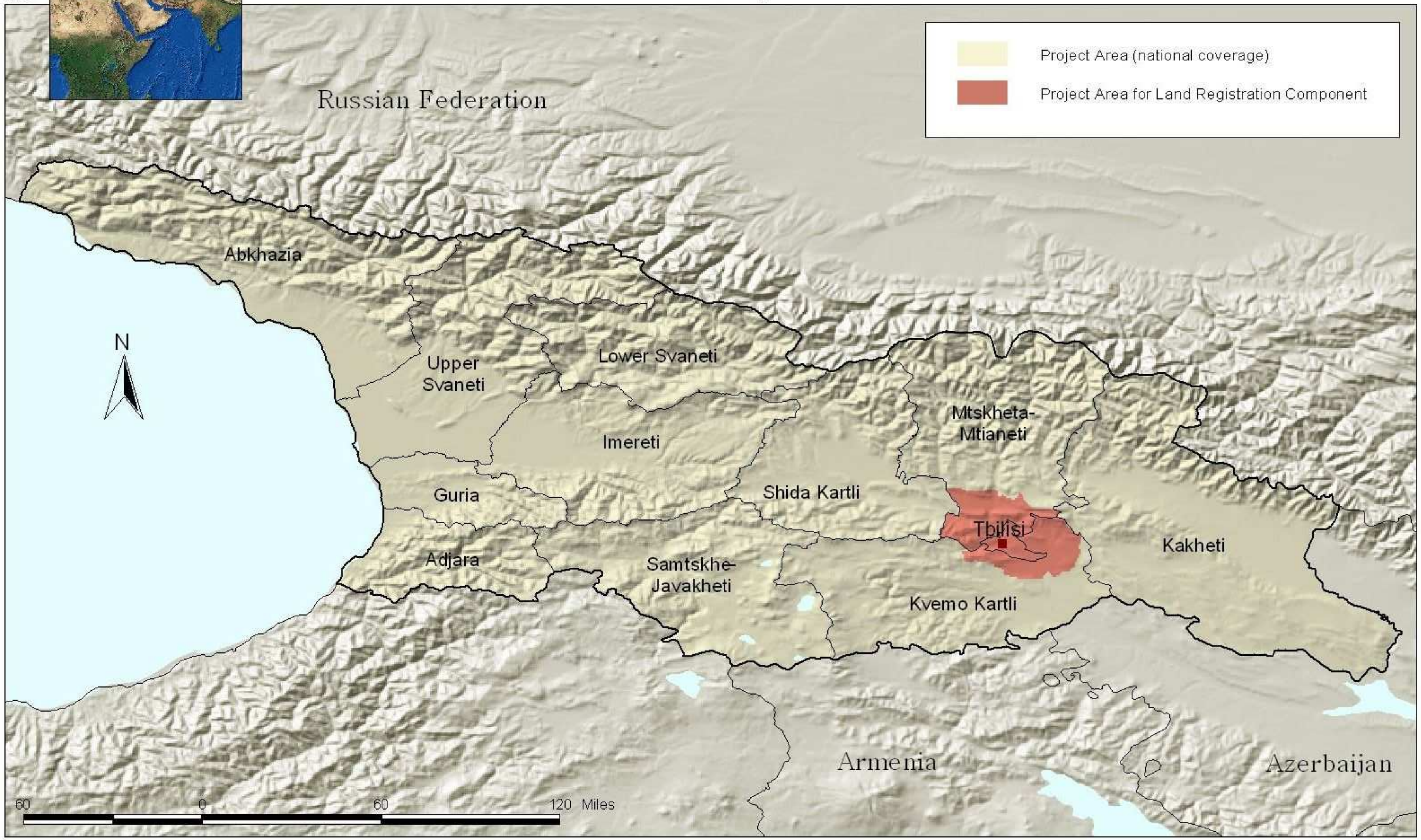
1. References
2. Logframe Matrix
3. Scoping Analysis

(*) All annexes are available from IFAD's Office of Evaluation (evaluation@ifad.org)

Abbreviations and Acronyms

ADP	Agriculture Development Project
ARET	Agricultural Research, Extension and Training Project
BTI	Bureau of Technical Information
CEN	Central Europe and the Newly Independent States
CEU	Credit for Enterprises Unit
COSOP	Country Strategic Opportunities Paper (IFAD)
CU	Credit Union
CUDC	Credit Union Development Centre
EU	European Union
FAO	Food and Agriculture Organisation
GDP	Gross Domestic Product
GEL	Georgian Lari (currency)
GEPLAC	Georgia-Europe Policy and Legal Advice Centre
GoG	Government of Georgia
GRDF	Georgian Rural Development Fund
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
IDA	International Development Agency
IDCDP	Irrigation and Drainage Community Development Project
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
KfW	Kreditanstalt für Wiederaufbau (Cadastre and Land Register)
LRU	Land Registration Unit
MBB	MicroBanking Bulletin
MOA	Ministry of Agriculture
MOF	Ministry of Finance
MFI	Microfinance Institution
MTR	Mid-term Review
NAPR	National Agency of Public Registry
NBG	National Bank of Georgia
NGO	Non-governmental Organisation
PCB	Participating Commercial Bank
PCC	Project Coordinating Committee
PCU	Project Coordinating Unit
PIU	Project Implementation Unit
RDP	Rural Development Project
RDPHMA	Rural Development Project for High and Mountainous Areas
RPL	Revised Poverty Line
SCC	State Coordination Committee
SDS	State Department of Statistics
SDLM	State Department of Land Management
SDR	Special Drawing Rights
SIDA	Swedish International Development Cooperation Agency
TACIS	(EU) Technical Aid for Commonwealth of Independent States
TOR	Terms of Reference
UNDP	United Nations Development Programme
USAID	US Agency for International Development
USD	United States Dollar
WB	World Bank
WOCCU	World Council of Credit Unions

Georgia
Agricultural Development Project
Completion Evaluation
Project Area



Source: IFAD
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

FOREWORD

The Agricultural Development Project in Georgia, co-funded by IFAD and the World Bank, was designed to address poverty problems that arose after the collapse of the country's command economy and collective farming system at independence (1991). A major problem was the absence of access to credit in rural areas. While the World Bank-funded component provided credit for agro-industrial enterprises such as processing plants, the IFAD loan concentrated on setting up a countrywide credit union network and supporting a land registration scheme. This was a challenging approach given that the mechanisms and uses of credit were largely unknown in Georgia. Considerable difficulties were encountered in building a sustainable network, but eventually some promising examples of credit unions are now emerging.

The IFAD loan also financed the piloting of a land registration scheme in two districts: an important contribution to a multi-donor programme aimed at securing land tenure for smallholder farmers. The Agricultural Development Project was IFAD's first investment in Georgia from which the Fund has learned various lessons and incorporated them in the projects that followed.

The credit union component was beset by political pressures and hampered by a design which failed to highlight sustainability factors. However, more than 12 000 rural people have gained access to retail financial services for the first time since independence; moreover, a number of credit unions are still active, showing that the model can be made to work.

As shown by the present completion evaluation, overall implementation performance, in particular effectiveness and efficiency, was below expectations, also due to the difficult political and policy environment that the project has encountered. For this reason, the major impact of the project was not so much in increasing household welfare, such as income and assets, but rather in promoting institutional changes, that is, the introduction of new rural financial institutions and the creation of a more transparent and efficient land registration system.

Also, this experience has shown that, although it is in principle desirable for IFAD to partner with larger organisations such as the World Bank, in the future the priorities and terms for IFAD's involvement should spelt out more clearly.

This evaluation report includes an Agreement at Completion Point which summarises the main findings of the evaluation and sets out the recommendations that were discussed and agreed upon by the Government of Georgia and IFAD, together with proposals as to how and by whom the proposals should be implemented.

Luciano Lavizzari
Director, Office of Evaluation

Republic of Georgia

Agricultural Development Project

Completion Evaluation

Executive Summary[1]

I. Introduction

1. **The Economy.** The ADP became effective in 1997 with the country still suffering from the abrupt withdrawal of Soviet Union capital at independence in 1991 and the collapse of the centralised economy. At the time of project design in 1995/6, industrial output had fallen to around one-sixth of its 1989 level and inflation was rampant. The United Nations Development Project (UNDP) National Human Development Report of 2001/2 estimated that 45 per cent of Georgian households were living below the poverty line, at which time the average per capita income stood at around US$680. It was not until the removal of the Shevardnadze government in 2003, that measures were put in place to address corruption and liberalise the economy.

2. **Agriculture.** Hit by the lack of investment and markets and the emigration of labour, the agricultural sector effectively reverted to subsistence farming during the 1990s. The share of agriculture in Gross Domestic Product (GDP) fell from around 50 per cent in 1990 to around 16 per cent in 2004. The unofficial land privatisation following the break-up of collective farms was regularized, with priority given to existing farmers and other rural residents. The IFAD Country Strategic and Opportunities Paper (COSOP) of 2004 saw the major challenge in rural areas as 'the transformation of the new recipients of farmland from farm workers to decision-making farmers'.

3. **Rural Finance.** The rural finance landscape of Georgia is represented by commercial banks, credit unions and MFIs, with the National Bank of Georgia (NBG) acting as supervision and regulating agency. Commercial banks have started to move into rural microfinance, but credit unions are effectively the only institution with the potential to reach vulnerable groups.

4. **The Project.** The ADP constituted IFAD's first involvement in Georgia.[2] It was designed by the World Bank/International Development Agency (WB/IDA), with IFAD agreeing during the negotiation phase to co-finance the components for credit unions and land registration. Total project costs were calculated at US$26.3 million financed largely by an IDA loan of US$15m and an IFAD loan of US$6m. The IFAD loan became effective in August 1997. Project completion was scheduled for April 2002 and progressively extended until 30 June 2005. The project financed five components: Credit to Enterprises; Credit Union Development; Land Registration; Development of Agricultural Services; Project Management.

5. **Objectives.** The overall objective of the IFAD-funded components was the reduction of the poverty level and food vulnerability of rural households. Specific objectives included the establishment of a network of village-based rural financial intermediaries and the emergence of an

[1] The evaluation team was led by Mr Roger Norman, Agricultural Economist; Ms Margarita Lalayan, Rural Finance Specialist, and Mr Giorgi Badrishvili, Rural Sociologist. The main evaluation mission took place from 15 May to 8 June 2006. The wrap up meeting (8 June) was attended by Mr Pietro Turilli, Country Programme Manager/IFAD-PN. Mr Roger Norman and Ms Thuy Thu Le, Evaluation Research Analyst/IFAD-OE conducted a preparatory mission in April 2006. Mr Fabrizio Felloni, Lead Evaluator/IFAD-OE supervised the evaluation process.

[2] ADP was followed by the Rural Development Programme for Mountainous and Highland Areas (RDPMHA) and the Rural Development Project (RDP), co-funded with WB-IDA and other partners. The three IFAD loans amount to an investment of around US$25 million over a period of 15 years.

active land market. The project area of the credit union component covered the entire country, while the Land Registration component concentrated on two districts only. The target group comprised rural households with low incomes, typically with less than a hectare of land and an annual income of US$200-400.

6. **Components.** The **Credit Union component** aimed to support the development of up to 120 sustainable credit unions (CUs), with funding provided for loans to members and for initial costs, and to provide the basis for the legislative regulation of CUs. The aim of the **Land Registration component** was the establishment of land registration offices in two districts and the registration of 130 000 land ownership titles, with a view to countrywide replication of the scheme. Under the **Credit to Enterprises component**, a line of credit was provided to commercial banks to finance selected private enterprises, the majority of which were expected to be among the agro-processing companies that make up three-quarters of all enterprises in the country. Under the small **Agricultural Services component** studies were to be made to assist in restructuring agricultural services and identify appropriate investment programmes. The responsibility for implementation rested with the Ministry of Agriculture, Food and Industry.[3] A Project Coordination Unit (PCU) was established to manage planning, budgeting and procurement as well as project monitoring and evaluation (M&E).

7. **The Evaluation.** The evaluation aimed to assess the relevance of project objectives to the rural poor and to IFAD strategies, the extent to which these objectives were achieved, the sustainable impact of the project and the performance of the partners involved. An evaluation mission was conducted from May 15 to 8 June 2006. The mission held discussions with the relevant government ministries, the National Bank of Georgia, WB/IDA and other donors, microfinance institutions, project officials, staff and clients of the Land Registry Offices, and the management and beneficiaries of ten credit unions. Field visits and mini-surveys of beneficiaries were carried out for both IFAD-funded components, which constitute the chief emphasis of the evaluation.

II. Project Performance

8. **Project Rationale.** The ADP placed appropriate emphasis on re-building the rural economy after the cessation of Soviet capital investment. The establishment of a viable rural finance system and the setting-up of an efficient land registration system addressed basic needs in rural areas where such systems did not previously exist. The priorities of ADP were confirmed in the IFAD's subsequent sub-regional and country strategy papers.[4]

9. **CU Component Design.** Targeting mechanisms were set out to ensure that the CU component would reach the very poor, including the stipulation of 30 per cent CU membership for 'vulnerable' households, although the only logframe indicator relating to poverty impact was 'access to credit'. No survey of regional credit unions was carried out and the CU model was to be developed through 'learning by experience', placing a heavy responsibility on the Credit Union Development Centre, set up under the PCU to manage the component. Sustainability was defined at appraisal, but no relevant statistical targets were put in place and the exit strategy was not adequately developed. The start-up grant of US$3 000 was large enough to cause the formation of CUs solely for the sake of obtaining the grant; in some cases, the credit unions existed on paper only.

10. **Changes during Implementation.** The Mid-Term Review (MTR) recommended a reduction of targeted numbers of CUs, from 120 to 55, with an attendant re-allocation of funds. The share of the CU component in the total budget thus fell from 31 per cent to 25 per cent while that of the Land Registration component rose from 20 to 25 per cent. The MTR revision reflected the unsatisfactory implementation of the CU component and allowed for the concentration of resources on sustainable CUs. The project completion date was extended three times for further institutional development in the Land Registration component and the restructuring of project-supported credit unions.

---

[3] Now the Ministry of Agriculture (MOA).

[4] Sub-regional Strategy Paper 1999, Country Opportunities and Strategy Paper 2004.

11. **Disbursement.** Around 93.0 per cent of the project funding of US$21.5 million was disbursed, including the same proportion of the IFAD loan. The principal and interest repaid by the credit unions was deposited in a revolving fund which, together with the Insurance Fund, contained nearly US$2 m in June 2006. The sum has been earmarked for credit union support under the RDP.

12. **Credit Union Component.** A total of 164 credit unions were created in the first two years of the project. This over-rapid expansion was caused by politicisation of the process and resulted in widespread fraudulence and mismanagement. The financial situation of CUs was revealed in 2001 when the majority of CUDC loans were scheduled for repayment. By 2002, loan repayment performance had reached a low of 30 per cent. Auditing was not carried out, the monitoring of loans made by CUDC was weak and performance standards were neglected. Managers of credit unions were poorly trained and many credit unions were essentially structures created by village elites to harvest donor money. There was little emphasis on savings mobilisation or sustainability.

13. These developments took place against a challenging background which included the Russian financial collapse of 1998, severe droughts and floods in 2000 and 2001, frequent staffing changes in the relevant ministries and allegations of corruption in high places. The result was a crisis of confidence within the Government and the country at large, the withdrawal of the Finance Ministry's representative from the credit committee and a consequent two-year hiatus in implementation. Of the 164 CUs, 35 were liquidated or merged and 71 were taken to court. The underlying causes of the collapse of the network were addressed by a fresh management team in early 2003 through the restructuring of loans and the re-commencement of lending. At project completion, there were 58 functioning CUs, three more than the MTR target, but one year later the number had fallen to 39.

14. Although the demand for CU membership has remained strong, actual membership fell from 12 000 at mid-term to around a quarter of that currently, with three CUs accounting for nearly 20 per cent of the total. The pro-poor quotas were abandoned after resulting in high delinquency rates. Mobilisation of savings increased up to 2001 but fell sharply thereafter, leaving the CUs dependent on project credits. At completion, only around 40-45 per cent of the total loan portfolio of the 15 top-performing ADP-supported credit unions was financed by savings, less than half of the internationally recommended benchmark. In 1998-2000, 80 per cent of loans were agricultural, but this led to repayment problems and the proportion has fallen to around 60 per cent, with successful CUs turning to commercial loans. Interest rates paid by borrowers ranges from 20 per cent to 42 per cent annually.

15. **Land Registration Component.** The component established modernised land registration offices in two districts close to the capital which have registered around 170 000 land parcels and issued 155 000 land titles, 85 per cent and 119 per cent of appraisal targets. Aerial photography was carried out on 2 000 sq. km of the selected districts and 10 000 sq. km elsewhere. The ground survey of land parcels was conducted by private survey companies supported by the project in the form of technical assistance. Savings were made by means of efficient surveying methods, with the average cost per parcel reduced by almost half. To these savings were added the budget increase at mid-term, enabling the component to refurbish and computerise 11 regional and 37 district registries countrywide. Over 200 staff were trained in legislative, managerial and technical aspects of land registration resulting in the emergence of an extensive cadre of officials with geodetic and cartographic skills. Project staff contributed to the first manual of registration, based squarely on the experience of the two supported district offices.

16. The component was implemented originally through the State Department Land Management, set up in 1997 with technical assistance provided by the project. It since been replaced by the National Agency for Public Registry (NAPR) in the Ministry of Justice, a transition physically and financially supported by ADP. NAPR currently acts as an independent and self-financing land registration and cadastre agency coordinating 67 offices countrywide. Around 4 million land parcels have been registered in different parts of the country.

17. **Credit to Enterprises Component.** A total of 48 loans were made for investment and working capital in agribusiness enterprises, to a total value of US$8.56 million. Two-thirds of supported enterprises were made up of canneries, wineries, livestock farms and hazelnut processing plants.

Demand for medium and long-term credit was high and the repayment rate was satisfactory. Repayments were placed in a revolving fund from which additional loans were made until its transfer to the state budget. Despite the bankruptcy of two participating banks, the government eventually received a sum greater than the value of the initial credit line, with interest payments more than compensating for the deficit on principal. Over 90 per cent of sub-projects were calculated to have financial rates of return of around 25 per cent at mid-term, well in excess of the projected rate of 15 per cent.

18. **Agricultural Services Component.** Studies were conducted in the areas of irrigation development and the agricultural research and extension system. These were used in the design of two WB-financed projects, the Irrigation and Drainage Community Development Project (IDCDP) and the Agricultural Research, Extension and Training Project (ARET).

19. **No Viable CU Network.** An effective CU network was not achieved under the project, with the actual figure of viable CUs now at around 15-20, 13-17 per cent of the original target or 27-36 per cent of the revised target. What has been achieved, however, is official recognition that sustainable village-owned CUs are feasible and desirable, given the appropriate management approach, training programmes and level of commitment. The existence of two or three successful CUs and a further 10-12 with reasonable prospects of sustainability, the emergence of an embryonic CU association and the corpus of lessons learned mean that the component can by no means be written off as a failure. The economic and political contexts posed formidable challenges to implementation in the early years of the project.

20. **Increased Liquidity in Land Markets.** Previous land registration procedures were lengthy and expensive, taking up to two months and involving extra-legal charges. This has now been reduced to six steps, which can usually be concluded in a single day on payment of the official fee only. There has been a marked increase in land transactions in the two pilot districts and land values have increased sharply, although limited collaboration among the eight different donors involved in land registration schemes hindered the development of a uniform system.

21. **Agricultural Credit System.** The Credit to Enterprises component fulfilled its main objective by increasing credit flows to rural areas through the development of a rural commercial credit system using commercial banks. The loans made under the component constituted a significant increase in medium-term lending to the agro-processing sector, which essentially did not exist at the start of the project. The individual loans have been successful in providing rural employment, increasing agricultural output for export and achieving a satisfactory rate of return.

22. **Poverty Focus.** CUs agreed that the bulk of their membership was drawn from 'average' and ‘poor’ socio-economic categories, which accounted for 65-90 percent of village populations and 80-90 per cent of CU membership. Loans to better-off families were rare and to the poorest almost non-existent after the first two years. The consensus among the donor community, the microfinance sector and former project staff is that membership of credit unions will be dominated by the 'economically active' population, a reality apparently unforeseen at the time of project design.

23. **Limited Integration of Components.** In essence, the ADP was made up of four distinct components having only a management structure in common. The lack of zonal planning meant there was no integration between the Credit for Enterprises component and the CU component. Nor did the two components co-funded by IFAD have any close connection, with no credit unions established in the two districts selected for Land Registration activities. The small Agricultural Services component has the appearance of being tacked-on to a project with other priorities.

24. **Assessment: Relevance.** ADP addressed significant constraints to rural development, in particular the lack of access to rural credit and of functioning agro-processing enterprises, but the design of the CU component was flawed by insufficient attention to capacity building, sustainability factors and exit strategy. There was also no clear rationale in terms of IFAD's comparative advantages for the Fund's involvement in the Land Registration scheme. Security of tenure for smallholders and

the use of their land as collateral were included among the component objectives but were secondary to the facilitation of land transactions..

25. **Assessment: Effectiveness.** The Credit for Enterprise component achieved its objectives in terms of the emergence of profitable enterprises and influence on the banking sector. The Land Registration scheme greatly accelerated the registration process and substantially assisted in the emergence of an active market in land. However, the Credit Union component failed in its stated objective, even while setting important precedents and, eventually, influencing government attitudes.

26. **Assessment: Efficiency.** Direct beneficiaries of the ADP include nearly 50 enterprises, over 12 000 CU members who gained access to retail financial services for the first time, and over 100 000 landowners who received land titles or mortgage registrations. The Land Registration component was efficiently managed, allowing for expansion of the project to new areas, but donor harmonisation was weak. Efficiency ratios calculated for CUs reveal acceptable expenses/portfolio ratios, improving (but still high) expenses/assets ratios and very high staff/client ratios. The CUDC management team was overstaffed and underskilled and no component resulting in an implementation hiatus of nearly two years and 70 court cases can be considered efficient.

27. **Performance of IFAD.** The goal of building a CU network from scratch was courageous and may yet prove a sound development option. A more realistic approach to targeting, a clearer insistence on the elements of sustainability and a consistent IFAD presence on supervision missions would have been desirable. No major problems with the disbursement of funds, procurement or contractual arrangements were noted.

28. **Performance of Government**. A supportive legislative framework was established by the enactment of a Land Registration Law in 1996 and a Law on Credit Unions in 2002. Official support for the project has been fairly consistent, although the crisis in the CU component provoked the MOF to cause the suspension of the loan facility. CUDC was obliged to step in as an on-lending institution when the arrangement with MOF and the commercial banks failed to materialise, which it did without proper training or appropriate legal basis.

29. **Performance of National Bank of Georgia.** The partnership between ADP and NBG worked well in the preparation of the enabling legislation, and NBG's assistance to credit unions in meeting prudential regulations is appreciated by credit union managers. NBG regulations generally correspond to international best practices. The 2002 Law is acknowledged to have certain defects, among them the prohibitive expense of external audit.

30. **Performance of the World Bank.** The collaboration between WB and IFAD continues under RDP. IFAD is thereby involved in larger programmes with greater resources, while WB's influence in terms of policy dialogue is reflected in the close relation between ADP activities and the developing legal and institutional framework. Supervision of the project was regularly carried out by the WB, latterly with an IFAD representative on the team. WB supervision missions were slow to identify the causes of the crisis in CUs and to take preventive measures.[5]

III. Impact[6]

31. **Physical Assets.** The main impact under this heading has been the emergence of an active land market, the first beneficiaries of which were small landholders able to get a fair return on the sale of

[5] Duly acknowledged by the WB in their December 2005 completion report.

[6] Two impact indicators only were selected for the IFAD-funded components. There was no monitoring of food security or income levels among beneficiaries, or of changes in the utilisation of cultivable land, and no baseline survey for these indicators. Partially offsetting these omissions were a 1998 Rural Poverty study and a 2003 OE Thematic Evaluation, which both contained useful household level data. The present mission conducted 34 interviews with CU members and non-members in ten villages and with a further 32 beneficiaries of the Land Registration scheme.

unutilised land. Increases in the price of newly-registered land were intensified close to the district capital, with some plots now selling at up to five times as much as three years ago.

32. **Agricultural Productivity.** Around 60 per cent of loans, with a total amount of US$1.36 m, were made by CUs for agricultural purposes. This represents a direct investment of US$7 000-10 000 in 150 villages. From 50-100 ha of new or revived cultivation per village may have been financed in this way, but no figures for increased agricultural production are available at village level and no impact indicator was included in the logframe. Some agricultural diversification was noted, for example the commercial cultivation of strawberries and greenhouse vegetables in new areas.

33. **Food Security**. Some CUs have made emergency loans to very poor households, but the impression is that families affected by food insufficiency rely on relatives in the lean months. Among CU villages visited by the mission, estimates of food-insecure households varied between 5 per cent and 25 per cent, for the most part substantially below the national average of 29 per cent. Some CUs visited described a proportion of the communities they served (up to 10 per cent) as 'hungry', but these households did not constitute the target group of CUs after the first two years of the project.

34. **Human Assets.** At least 2,000 CU loans were used for consumption purposes, with medical and educational expenses among the first priorities. At one CU, 40 per cent of all loans were used for health and education purposes. Of the households interviewed in 2003, nearly a third utilised their loans for medical treatment, educational expenses, house renovation, household goods and wedding expenses. Training was provided to CU staff in financial management, loan appraisal and book-keeping, and the emergence of well-trained staff in the land registry offices has been a notable achievement.

35. **Social Capital.** Villagers stated that the CUs supported them during difficult times and gave them a sense of hope. This was borne out by the 2003 survey, in which views of overall CU operations were 99 per cent positive. CUs are often found at the heart of village life and are gradually becoming stronger self-help institutions. Women account for 50-55 per cent of CU membership and the same percentage of loans. In many CUs, women dominate the committees, and the managers are often women.

36. **Institutions and Services.** The 2002 Law on Credit Unions was drafted with the support of CUDC. New reporting forms and prudential standards were introduced and training was provided for credit unions in applying them. Under the land registration component, land registration offices using modern techniques and streamlined procedures revolutionised an inefficient system of doubtful legality. The establishment of the NAPR was a direct result of ADP initiatives.

37. **Financial Assets.** More than 12 000 rural people gained access to retail financial services for the first time since independence. Over US$1.5 m were mobilized in savings and around UDS 7 m in rural lending was generated by CUs. All surveys indicate that the CUs constituted the only available source for the great majority of these loans, which enabled borrowers to initiate new income generation activities or to re-start productive enterprises relinquished through lack of finance. The household survey of 2003 showed that 28 out of 40 household used their loans primarily for business purposes. The range of income increase was wide (17 per cent to 200 per cent) but never insignificant.

38. **Sustainability and Ownership.** Project achievements in the spheres of land registration and credit to enterprises seem assured, on the one hand through the institutionalisation under NAPR, and on the other through the boost to the banking system. Of the 15 CUs for which sufficient data exists, two have achieved a financial sufficiency ratio of 85 per cent and a further six 65 per cent, but the sustainability of the remainder is problematic. The picture is more favourable in terms of 'ownership': there is everywhere strong evidence of commitment among members and managers, including community initiatives funded by members and managers working on reduced or unpaid salaries.

39. **Innovation, Replicability and Scaling-up.** The major innovation of ADP was in its attempt to set up a village-based network of financial institutions in a country where there was virtually no access to formal credit in rural areas. This was a bold initiative in a country with a generally negative attitude

towards cooperatives in the wake of the Soviet experience. With the benefit of the hindsight, the limitations of the project were to (i) underestimate the risks of developing financial institutional innovations under a volatile policy environment and (ii) provide limited technical assistance to support the development of CUs (the CU component was based on WB experiences in Albania, where the 'learning-by-experience' method had given positive results). Under the Land Registration scheme, the ADP registration system has been chosen as the model of countrywide replication. This case provides an example of replicating an innovation by forging an alliance with a partner (EU) with practical experience and relevant technical expertise (through its former pilot project).

IV. Conclusions and Recommendations

Conclusions

40. **Overall Assessment.** ADP was a project implemented in difficult conditions. The establishment of a replicable system of registration and titling was a major achievement. The lack of integration between components, however, meant that the project was no more than the sum of its parts. If the credit unions had served to finance the production of the raw material for supported enterprises, the overall impact of the project might have been more impressive.

41. Disturbing financial trends in CU development were overlooked by supervision missions and the MOF decided to withdraw its support rather than seek remedial measures. The result was a setback to the reputation of the CU movement in Georgia from which it is only now recovering. Yet the obstacles to sustainability are not insuperable.

42. **The Road to CU Sustainability.** In order to achieve long-term sustainability, credit unions need to concentrate on savings mobilisation, loan diversification, closer attention to loan assessment and control of delinquency, and the minimum of loan refinancing and rescheduling. The best performing credit unions seek their clientele over areas wider than a single village, have de-emphasised agricultural loans, accept only members with strong repayment capacity, and are considering moving their headquarters to trading centres.

43. **Vulnerable Groups.** The risk is that CUs will focus on the more attractive urban loan market and lose touch with the poor in rural areas. Particularly affected would be groups lacking in entrepreneurial initiative and unable to meet collateral requirements. The Government considers that farming households which the lack the labour or the ability to exploit their land in a businesslike way can only be reached by welfare programmes, but such programmes are presently scarce.

44. **Alternative Approaches**. It is important for IFAD to explore other approaches. An immediate objective must be to ensure that all cultivable land is productively utilised. Movements in this direction have been taken under RDPHMA, notably the setting up of cooperative ventures to provide inputs and machinery, but the success of this approach is not yet clear, also due to implementation management problems the project is facing.

45. **Markets.** Alternatives to the banned Russian market are being pursued by the Government, but solutions will take time. Private initiatives are being undertaken to set up processing plants in rural areas but these are still isolated examples. Meanwhile, the issue of access to urban markets within Georgia needs to be urgently addressed. In remote and mountainous regions, roads and transport are one aspect of this problem, but there are also indications that large urban markets, particularly Tbilisi itself, are controlled through unofficial monopolies.

46. **Partnership with the World Bank.** This report stresses the advantages of partnership with WB in Georgia, while drawing attention to its problematic aspects, which include differences over the importance of targeting and a neglect of poverty impact in supervision. IFAD has also moved out from its area of expertise by co-financing the Land Registration component, probably as a result of the Fund's involvement after the main features of the project had been determined.

Recommendations

47. IFAD should clarify its priorities and conditions for involvement in co-financed projects. The Fund should ensure the inclusion of impact indicators connected with its concern for marginalized groups and should maintain a regular presence on supervision missions.

48. Measures will be required to support households that are unable to "automatically" take dvantage of interventions aiming at agricultural commercialisation. The Government needs also to intensify the development of an effective extension system and take measure to liberalise access to urban markets.

49. Credit unions are part of the solutions to rural poverty but not a panacea. Measures are necessary to strengthen the economic tissue of rural areas and increase the number of potential borrowers. These measures may include: (i) more direct solutions to the problem of uncultivated arable land, based on access to mechanised equipment for example through customised financial services; (ii) improved marketing methods for agricultural products, including attention to post-production phases; (iii) the liberalisation of urban markets within Georgia.

50. Future microfinance projects in Georgia and the region should learn from the principal error made under ADP, which was to allow the numerical target of CUs to become the predominant indicator. Project designs should recognise that the sustainability of CUs depends on high repayment rates and seek appropriate ways of reaching the poorest groups. CUs that have reached a certain level of assets could be offered incentives to undertake pro-poor initiatives.

51. Regarding land registration, the mission recommends measures to protect rural households from the effects of land speculation in areas where the demand for residential property is likely to catapult land prices beyond the means of local farmers. The priority given to village residents in the original distribution of land was aimed at guaranteeing the basic livelihoods of those depending on the land for their survival and this aim should not be jeopardised.

Republic of Georgia

Agricultural Development Project (ADP)

Completion Evaluation

Agreement at Completion Point

I. Core Learning Partnership

1. In 2006, IFAD's Office of Evaluation conducted a Completion Evaluation of the Agricultural Development Project (ADP) in the Republic of Georgia. An Approach Paper was discussed with partners in Tbilisi in April 2006, and a Core Learning Partnership (CLP) was formed comprising representatives of the Ministry of Finance, the Ministry of Agriculture and Food, the National Bank of Georgia, the National Agency of Public Registry, the World Bank, the Project Coordination Centre (PCC) and IFAD. The evaluation mission[1] was conducted in May/June 2006, and a wrap-up meeting was held with the Government of Georgia on June 9. This Agreement at Completion Point summarises the main findings of the evaluation and sets out key recommendations to be discussed and agreed upon by the stakeholders, as represented by the CLP, together with proposals as to how and by whom these proposals should be implemented. The process of discussion and agreement was carried out by correspondence.

II. Main Evaluation Findings

2. **Implementation Progress.** The evaluation concentrated on the two components of the ADP that were wholly or partially funded by IFAD, namely the Credit Union and the Land Registration components.[2] The project was implemented from 1997 to 2005.

3. Under the Credit Union (CU) component, 164 CUs were created in the first two years of the project against a target of 120 over a five year period. This overly rapid and premature expansion was caused by the politicization of the process and resulted in widespread fraudulence and mismanagement. By 2002, loan repayment performance had reached a low of 30%. Auditing was not carried out, the monitoring of loans made by the Credit Union Development Centre (CUDC) of the project was weak, and the performance standards of the credit unions were neglected. There was little emphasis on savings' mobilisation or sustainability. At mid-term, the target of CUs to be sustained was reduced to 55.

4. These developments took place against a challenging background, which included the Russian economic collapse of 1998, severe droughts and floods in 2000 and 2001, frequent staffing changes in the relevant ministries and allegations of corruption in high government positions. The result was a crisis of confidence within the Government and the country at large, the withdrawal of the Finance Ministry's representative from the credit committee and a two-year hiatus in implementation. Of the 164 CUs, 35 were liquidated or merged and 71 had legal action taken against them. The underlying causes of the collapse of the network were addressed by a new management team in early 2003 through the restructuring of loans and the re-commencement of lending. The new management team was able to salvage and revitalise the remaining CUs through their robust approach and appropriate decisions, which was fundamental in restoring the confidence of the beneficiaries and the government in the future of the CUs. At project completion, there were 58 functioning CUs, three more than the mid-term target, but one year later the number had fallen to 39.

---

[1] The mission consisted of: Mr Roger Norman (Team Leader), Ms Margarita Lalayan (Microfinance Specialist) and Mr Giorgi Badrishvili (Agriculturalist).

[2] The project also included two World Bank-funded components, the Credit to Enterprises and the Agricultural Services studies.

5. The Land Registration Component set up and modernised land registration offices in two districts close to the capital which have registered around 170 000 land parcels and issued 155 000 land titles, 85% and 119% of appraisal targets, respectively. Aerial photography was carried out on 12 000 square kilometres of land. The ground survey of land parcels was conducted by private survey companies supported by the project in the form of technical assistance. Savings were made by efficient surveying methods, with the average cost for surveys per parcel reduced by almost half, enabling the component to refurbish and computerize 11 regional and 37 district registries countrywide. Registration was implemented originally through the State Department Land Management, which has since been replaced by the self-financing National Agency for Public Registry (NAPR), a transition supported by the ADP.

6. **Strengths.** The major achievements of the IFAD-funded components have been to demonstrate that community-managed credit unions are a viable proposition in the country, provided that due emphasis is put on sustainability factors; and make a major contribution to the establishment of an efficient land registration scheme throughout the country. Over 12 000 CU members gained access to retail financial services for the first time, and over 100 000 landowners registered land titles.

7. **Weaknesses.** The principal shortcoming of the project was the failure to recognise the problems resulting from the premature expansion of CUs in the early years, which came close to causing the demise of the CU concept in the country. Since there was no initial survey of regional CUs, the CU model was developed through 'learning by experience', placing excessive responsibility on the CUDC, which was set up to manage the component. No exit strategy was put in place.

8. **Project Relevance and Design.** The overall project design addressed the key needs of the rural poor in terms of credit access and land entitlement; however, the four distinct components shared only a management structure. Accordingly, there was no cross-fertilisation in terms of impact, nor an integrated approach. The lack of a focus on poverty in targeting and of relevant impact indicators in monitoring resulted from IFAD's late involvement in a project whose main features had already been determined under the auspices of the World Bank.

III. Recommendations

9. The two most recent IFAD-funded projects in Georgia have incorporated certain lessons from the ADP. In particular, the Rural Development Programme for Mountainous and Highland Areas (RDPMHA) [3] integrated the need for direct measures to assist poor farmers in remote areas, and the Rural Development Project (RDP)[4] included a more sustainable strategy for the support of credit unions. The recommendations that follow are designed to reinforce these initiatives and to make specific suggestions within the broader strategic approaches adopted by the two new projects and future interventions.

A. Clarify Priorities for Co-financing

10. This project would have benefited from clearer priorities and conditions for IFAD’s involvement in co-financed projects. The Fund should determine the comparative advantages that it has in the region, define the main elements of its targeting strategy and decide which components and sub-components are most appropriate for IFAD investment. Impact indicators relevant to the Fund's concern for marginalized groups should be included in the design of programmes and a regular presence of the Fund’s staff in supervision missions should be stipulated.

11. *Partners involved:* IFAD-Division of Near East and North Africa (PN), Co-financing Institutions

12. *Timeframe:* Prior to engaging in future co-financing of new projects/programmes in Georgia.

[3] The RDPMHA was approved in September 2000.

[4] The RDP, co-funded with the World Bank-International Development Association and other partners, was approved in April 2005 and is now in the implementation phase.

B. Raise the Issue of Very Poor Households in Project Design and Policy Dialogue

13. Specific measures are required for those households (poor and very poor) which may otherwise be unable to take advantage of operations aimed at agricultural commercialisation. The Government's concern with providing employment and credit access for active farmers should be buttressed by a workable and affordable specific agenda for the poor and the very poor in rural areas. At the project design phase, IFAD should clearly identify the target groups that can realistically be assisted, and the strategies and project components to be adopted to reach them, in line with IFAD’s targeting policy and government priorities. In the case of households unable to take advantage of interventions aimed at agricultural commercialisation, IFAD should draw the Government’s attention to the risks of marginalising poor households and communities in rural areas so that specific plans and measures to support them could be jointly developed within its overall growth-oriented strategies and policies.

14. A system to strengthen the economic tissue of rural areas and increase the number of potential borrowers under credit schemes is necessary. This approach may include: (i) a process focused on improving the marketing of agricultural products, including the post-production phase; and (ii) assisting in the development of market-oriented smallholder agriculture supported by access to rural financial services and agricultural support services (mechanisation, etc.). These measures require consideration during the project design phase and at the policy dialogue level.

15. In order to protect rural households from land speculation, the priority given to village residents in the original distribution of land should be continued. This measure was aimed at guaranteeing the livelihoods of those depending on the land for their survival and should be maintained.

16. *Partners involved:* IFAD-PN, Co-financing Institutions, Ministry of Agriculture and Food, Ministry of Finance, Ministry of Justice/National Agency of Public Registry

17. *Timeframe:* Immediately, by all partners

C. Emphasise Sustainability for CUs

18. Future microfinance projects in Georgia and the region should learn from the principal error made under ADP, which was to allow the numerical target for CUs to become the predominant indicator. There should be no haste in developing the CU network and short-term targets should be avoided. Below are best international practices to be adopted for ensuring sustainability:

- Greater focus on building management capacities rather than on the injection of fresh loans and grants; initial funding to the apex organisation and to credit unions should be restricted, with incentives for its eventual increase;
- Support for savings mobilization activities and the linkage of overall support to the volume and quality of savings; and
- Setting of high performance standards for supported credit unions including quantitative indicators such as financial ratios and efficiency measures, and qualitative indicators such as management commitment and the degree of community participation.

19. *Partners involved:* PCC, IFAD-PN, UNOPS

20. *Timeframe:* During the initial implementation phases of the RDP.

Republic of Georgia

Agricultural Development Project (ADP)

Completion Evaluation

Main Report[1]

I. INTRODUCTION

A. Country Background[2]

1. **Recent History.** Georgia became independent from the Soviet Union in April 1991. Having been one of the richest of the states of the Soviet Union, it was to become one of the poorest of the former Soviet countries, suffering an economic collapse amid a series of political upheavals and separatist movements. Its healthcare system was devastated, its vital tourism industry reduced almost to nothing and two of its northern regions, Abkhazia and South Ossetia, declared their independence. The restoration of stability began in the mid-1990s under the leadership of former Soviet Foreign Minister Edward Shevardnadze but the country continued to be affected by separatist violence and was badly hit by the Russian financial crisis of 1998 and by a severe drought in the year 2000. Governmental corruption was widespread and reform efforts were resisted by the still powerful conservative faction within the governing party. It was not until the removal of the Shevardnadze government in November 2003, after weeks of popular protest that real progress was made in terms of a crackdown on corruption and the initiation of liberalising reforms. The International Monetary Fund had suspended its loan facility in August 2003, but approved a three-year poverty reduction and growth facility worth US$144m. in June of the following year. The government's commitments under this arrangement include reform of the fiscal and energy sectors and an overhaul of the civil service.

2. **Geography.** Georgia is a country of 70 000 sq. km. bordered on the north by the Russian Federation and on the south by Turkey, Armenia and Azerbaijan. It has a 400-km coastline on the Black Sea, which includes the seaports of Poti and Batumi. One-quarter of the land area is pasture land, and one-third is covered by forest; around 11 per cent is arable land. There are huge resources of mineral water, including over 2 000 natural springs. Communication infrastructure is generally in a poor state of repair, but the existence of two large oil pipelines to carry (mainly) Azeri oil to the Black Sea and to Turkey, and of a gas pipeline to Turkey, raises the possibility of Georgia once more becoming an important east-west trade route.

3. **Population.** The population of the country at the last census (2003) stood at 4.4 million, down from 5.5 million in the previous census (1989), the fall of nearly 20 percent being due mainly to loss of territory and emigration, especially of young professionals, as well as to a falling birth rate caused by more than a decade of political and economic uncertainties. The population is 99 per cent literate, with around 50 per cent of 16-21 year olds in full-time education, but there is a growing disparity in educational standards between urban and rural areas. Average wages are low: US$80 per month in 2005. Unemployment stood at 13-14 per cent at that time, and nearly twice that in towns and cities.

---

[1] The evaluation team was led by Mr Roger Norman (Consultant, Agricultural Economist), Ms Margarita Lalayan (Consultant, Rural Finance Specialist) and Mr Giorgi Badrishvili (Consultant, Rural Sociologist). The main evaluation mission took place from 15 May to 8 June 2006. The wrap up meeting (8 June) was attended by Mr Pietro Turilli (Country Programme Manager, IFAD-PN). Mr Roger Norman and Ms Thuy Thu Le (Consultant, IFAD-OE) conducted a preparatory mission in April 2006. Mr Fabrizio Felloni (Evaluation Officer, IFAD-OE) supervised the evaluation process.

[2] Information in Chapter I is based on the following sources: The Economist Intelligence Unit: Georgia Country Profile 2005; Georgian Economic Trends, published by the Georgian-European Policy and Legal Advice Centre (GEPLAC), March 2006, The UNDP National Human Development Report for 2001/2; IFAD Country Strategic Opportunities Paper (COSOP), December 2004.

Infant mortality is 19 per 1 000 live births (compared to 6/1 000 in EU countries). Many rural areas still have only a few hours of electricity per day.

4. **The Economy.** The collapse of the Soviet centralised economy based on heavy industry led to a dramatic fall in GDP (by about 77 per cent between 1980 and 1993) and rising unemployment, with an inflation rate that averaged 50 percent *per month* in 1994. By the end of 1996, industrial output had fallen to just 14 per cent of its 1989 level. Many Georgians were forced into subsistence farming and casual labour where available. Macro-economic stabilisation laid the basis for economic recovery from 1995, and annual growth rates averaged 10 per cent over the next two years until the Russian financial crisis and a domestic fiscal crisis again applied the brakes. The Georgian *lari* (GEL) lost 50 per cent of its value against the dollar in 1998 and consumer price inflation rose to 19 per cent. Recovery began again in 2003, with real GDP growing at 11 per cent that year, 8.5 per cent the following year and 10 per cent in 2005, driven largely by pipeline construction, expansion in service industries such as tourism and telecommunications, and strong growth in the mining sectors (manganese and gold), and in the export of scrap metals. Privatisation has proceeded apace since 1993, with around 17 000 small private companies emerging, mostly in the trade and service sectors. Industry still relies heavily on the activity of about 50 large firms, which are responsible for 75 per cent of industrial output. The industrial sector remains dogged by lack of investment, poor management and outdated technology. An IMF review of 2005 noted a strong fiscal performance, a successful anti-corruption drive and boosted public spending in the infrastructure and energy sectors. Revenue collection almost doubled in 2004/5; spending on social security, debt servicing and law enforcement has surged accordingly. However, the 'shadow economy' is still reported to account for 30 per cent (and maybe much more) of economic activity.

5. **Agricultural Sector.** The share of agriculture in GDP fell from around 50 per cent in 1990 to around 16 per cent in 2004, although nearly half of the population live in rural areas and more than half are employed in the agricultural sector. IFAD's 2004 COSOP states that since the collapse of the Soviet-style command system, the country 'has effectively reverted to subsistence agriculture' and that 83 per cent of the rural population depend entirely on their own farms for subsistence. During the 1990s, there were substantial falls in production of grains and fruits, with the fall in grape production having a significant effect on exports of wine, one of the country's high value-added foreign currency earners. The sector has also suffered from a lack of credit, the small size of landholdings and the virtual absence of a land registration system. Around one-quarter of the country's arable land is in private hands, with a further 30 per cent on lease. In early 2006, Russia, then easily Georgia's largest trading partner, closed its borders and ports to all Georgian exports, with severe implications for all export-oriented produce, especially grapes, wine, citrus fruits and vegetables.

6. **Land Reform.** During the Soviet era, collective and large-scale state-owned farms were the only commercially-operated farms in the country, all of them subject to centralized management and control, although collectivisation was never as all-encompassing as in other republics of the Union. The Georgian peasant had always enjoyed the exclusive use of small parcels of land, normally 0.25 ha, for family production. In the early 1990s, the Soviet withdrawal was followed by an unofficial land privatisation, with households independently cultivating land previously included within collective farms. A 'passport system' of privatisation was introduced whereby the de facto land-user became the rightful owner of the land. This was the principal means by which mass starvation was avoided in the years 1992-1994 and, after the resolution of the worst criminality and banditry in 1996-1997, by which a measure of economic growth was achieved. The maximum area of agricultural land transferred to the ownership of eligible households was set in the lowlands at 1.25 ha, and in the highlands at 5 ha. Land reform committees elected by the village managed the land distribution process. Lowland plots were distributed in three categories: existing farmers were allowed up to 1.25 ha per household, other rural residents up to 0.75 ha and urban dwellers up to 0.25 ha.

7. **Rural Finance.** The rural finance landscape of Georgia is represented by commercial banks, credit unions and 'non-banking microfinance institutions'. Informal finance mechanisms include supplier credits and moneylenders, as well as friends and relatives. The National Bank of Georgia (NBG) is the main supervision and licensing agency, regulating commercial banks and credit unions through the Department of Banking and Non-Banking Supervision. Credit unions operate under the

Law on Non-Bank Depositary Institutions of 2003. NGOs engaged in rural finance function under the Georgian Civil Code. The new Law on Non-Bank Financial Institutions designed to strengthen NBFI sector is due to be enacted by the end of 2006. The great majority of credit unions operating in Georgia were formed under the ADP and offer savings and credit services to a rural population without access to alternatives. The first credit associations in post-Soviet Georgia date to 1996-1997, formed under a USAID-funded project and supported by the Georgian Rural Development Fund (GRDF). The earliest credit unions were created by the World Bank during the ADP preparation phase at the same time.

Credit union members gathering
IFAD Photo by Thuy Thu Le

8. In both urban and rural areas, commercial banks have started to move into microfinance and retail lending, realizing that these neglected markets offer reasonable business opportunities. Microfinance projects through commercial banks have been supported by TACIS, IFC, EBRD and KfW. Banks such as Bank of Georgia, Pro-Credit Bank and United Georgian Bank serve rural areas, but their main target groups for micro credit remain urban based entrepreneurs and better-off farmers, with assets available as collateral and diversified income sources. There are 11 non-banking microfinance providers in Georgia, many of them institutionally linked with international NGOs, and often with an explicit mission to provide services to the poor. Credit is the main product offered to the clientele, although some institutions also deal with micro-insurance and micro-leasing. Savings are not permitted by the existing laws and regulations pertaining to MFIs.

9. Commercial banks, credit unions and other institutions providing loans to micro-enterprises as of March 2004 served more than 45,000 clients with an outstanding portfolio above US$25 m. Loans from the Pro-Credit bank accounted for around 45 per cent of the total. The average loan size for all providers was around US$1 500.[3] Together with the Agro-Business Bank of Georgia,[4] which specialises in agricultural lending, the credit unions and the GRDF accounted for around three-quarters of the agricultural micro-loan market in 2004. Credit unions are currently the only institution reaching vulnerable groups within the rural population. Other microfinance providers have been deterred from entering the market by the high risks and costs and tend to concentrate on clients with minimal credit risk, usually requiring collateral or evidence of stable income. Recently, increased competition in urban microfinance has persuaded banks and microfinance NGOs to consider rural markets as a possible option for expansion, and activity in this respect is noted among several banks. However, the total level is still not significant, and the economic repercussions of the blockage of Georgian exports to Russia may put a brake on this trend.

10. **Poverty Profile.** The scale of the economic collapse after 1990 was huge. Unemployment rose sharply as jobs guaranteed by the state ceased to exist. The UNDP National Human Development

3 Figures from the USAID Georgian Microfinance Stabilization and Enhancement Microfinance Demand Survey, 2004.

4 Now renamed Standard Bank.

Report of 2001/2 estimated that 45 per cent of households were living below the poverty line,[5] at which time the average per capita income stood at around US$680. Pensioners with children and women-headed households have been especially vulnerable. Gender differences were marked in terms of employment opportunities and wage levels, with women four times more likely to be poor in certain districts, such as Mtskheta-Mtianet in the central region and Kakheti in the south-east.[6][7] The IFAD COSOP of 2004 concluded that the main opportunity for poverty reduction lay in 'completing the transformation of the economy from state control to a market economy', with a major challenge in rural areas being 'the transformation of the new recipients of farmland from farm workers to decision-making farmers'.

11. **IFAD in Georgia.** The Agricultural Development Project (ADP) constituted IFAD's first involvement in the country. It was followed by the IFAD-funded Rural Development Programme for Mountainous and Highland Areas (RDPMHA), approved in September 2000, and the Rural Development Project (RDP), co-funded with WB-IDA and other partners, approved in April 2005 and now in the process of getting underway. The three IFAD loans to date (ADP, RDPHMA and RDP) amount to an investment of around US$25 million over a period of around 15 years.

B. The Project

12. The project was initiated by the World Bank/IDA, which provided nearly 60 per cent of project financing. During appraisal, the Government of Georgia, with the concurrence of IDA, requested IFAD to consider co-financing the project, with the result that IFAD undertook the financing of the bulk of one major component (Credit Unions) and a major part of the Land Registration scheme. Total project costs were calculated at US$26.3 million, with the IDA loan accounting for US$15m., the IFAD loan for US$6m, and contributions from commercial banks, the Government and the beneficiaries US$1.1m, US$0.5m and US$3.7m respectively. The substantial beneficiary contribution was mainly in the form of 10 per cent matching investments in supported enterprises. Pilot activities funded by IDA started in 1996, but the IFAD loan was not signed until the following year and became effective in August 1997. Project completion was originally scheduled for April 2002 and progressively extended until 30 June 2005 (see para. 39). The final loan closure date was 31 December 2005. A joint WB/IFAD/Government mid-term review (MTR) was carried out in Oct/Nov 2000, with separate publication of the WB and IFAD reports.

13. **Project Area and Target Group.** The project area of the Credit for Enterprises and the Credit Union component covered the entire country, while the Land Registration component concentrated on two districts[8] only, Gardabani and Mtskheta. The choice of these two districts was made primarily on the grounds of easy access from the capital and, in the case of Gardabani, because an EU pilot land registration scheme had been operated in the area. The target group for all components comprised resource-poor rural households with low incomes. Typically, the targeted households were expected to own less than a hectare of land, to obtain all or most of their food from their own land and to have an annual per capita income (including the value of home-grown food) of US$200-400. Their diet would include a disproportionate amount of bread and little meat. Poorer families would possess neither cattle nor horses and would lack the means to buy fuel, medicines and clothes.

14. **Goals and Objectives.** The overall objective of the IFAD-funded components was given in the IFAD Post-appraisal Report as the reduction of the poverty level and food vulnerability of rural

[5] The poverty line used in this evaluation report is the Revised Poverty Line (RPL) recognised by the State Department for Statistics, the Food Security Programme of the European Commission and the FAO. In 2005, the RPL was based on a monthly income of GEL 93 per working adult, around GEL 1,120 (c. US$620) per annum or US$1.7 per day.

[6] The decline in women's socio-economic situation is mainly due to the weakening or abolition of social guarantees (daily childcare, flexible working hours etc.) since independence.

[7] Adults percentage (15-49) with HIV-AIDS is estimated at 0.1 per cent, which is low by international and regional (0.4 per cent) standards.

[8] Administrative districts in Georgia are called *rayons* (or *raions).* 'District' has been preferred in this report.

households. Specific objectives included the establishment of a network of village-based rural financial intermediaries and support for the emergence of an active land market. The WB Staff Appraisal Report gave the overall objective of the project as the increase of agricultural productivity through the development of private sector farming and agro-processing, and 'specific goals' as the development of an agricultural credit system and increased liquidity in land markets.

Table 1. Components and Financing at Design

Component	Total Investment ('000 USD)	Proportion of Base Costs	Share of WB/IDA	Share of IFAD	Share of Commercial Banks	Share of Benefic-iaries	Share of Govern-ment
Credit to Enterprises	12 000	46%	72.5%	-	9.2%	18.3%	-
Credit Unions	8 269	31%	24.5%	55.1%	-	20.5%	-
Land Registration	6 029	20%	58.2%	33.5%	-	-	8.3%
Agricultural Services	500	2%	100%	-	-	-	-
Project Management	300	1%	100 %	-	-	-	-
Totals	27 098	100	55.5 %	24.2%	4.1%	14.4%	1.8%

Source: WB Appraisal Report, 1997

15. **Project Components**. The project financed five components: Credit to Enterprises; Credit Union Development; Land Registration; Development of Agricultural Services; Project Management. It will be seen from Table 1 that the first two of these account for 77 per cent of base costs and that Agricultural Services and Project Management together represent only 3 per cent.

16. **Credit to Enterprises.** Under this component, a line of credit was provided to participating commercial banks (PCBs) selected according to predetermined criteria, to be used to finance fixed investments and associated working capital of selected private enterprises. Although the credit was accessible to all private enterprises for productive investments, it was expected that the majority of the funds would be utilised by agro-processing companies that make up around 75 per cent of all enterprises in the country. Agriculture-related companies were to be assisted in developing appropriate business plans and loan applications.

17. **Credit Unions.** The component originally aimed to support the development of up to 120 well-managed and sustainable CUs over five years. The funding was to cover an equity grant for establishment and initial operating costs, and short- and medium-term loans to members, mainly small private farmers, micro-enterprises and small traders. The component also aimed to create and support the Credit Union Development Centre (CUDC) and to provide the empirical basis for regulations and prudential requirements for CUs to be enacted by Parliament.

18. **Land Registration.** The main aim of the component was the establishment of land registration offices in the two selected districts and the registration of 130 000 land ownership titles, with a view to eventual countrywide replication of the scheme and the establishment of a Land Administration Authority. The component was to be implemented by the newly constituted State Department of Land Management (SDLM).

19. **Agricultural Services.** Under this small component, a series of studies were to be carried out to assist the government in restructuring agricultural services, the chief aim of which was to identify priority services demanded by farmers and appropriate investment programmes.

20. **Implementation Arrangements.** The overall responsibility for implementation rested with the Ministry of Agriculture, Food and Industry[9] which provided monthly progress reports to the State

[9] Now the Ministry of Agriculture (MOA).

Coordination Committee (SCC), the body charged with overseeing all externally-funded projects in Georgia. A Project Coordination Unit (PCU) was established within MAFI to carry out day-to-day coordination and implementation of activities, and to be responsible for procurement contracts, the preparation of Annual Work Plan and Budgets and semi-annual progress reports, and project M&E. The Credit to Enterprises component was supervised by the Credit to Enterprises unit (CEU) under the PCU, the Credit Union component by the Credit Union Development Centre (CUDC) and the Land Registration component by the Land Registration Unit (LRU), all of which were set up within the PCU. Disbursement of loans to credit unions was to be effected by an 'administrative bank' appointed for the purpose. Principal and interest repaid was to be deposited in a revolving fund. Supervision of the project was to be carried out by the World Bank.

C. The Evaluation

21. The Georgia ADP was the first IFAD-funded project in the sub-region[10] in which IFAD supported the development of member-owned savings and loan institutions and assisted in the process of land registration and titling following the privatisation of collective farms. Both of these areas are being up-scaled by means of the new Rural Development Project. The provision of loans for smallholders and small enterprises represents an issue of major concern in the sub-region[11], and the results of the evaluation are expected to provide an important input into the ongoing discussion about the most effective interventions in terms of rural finance in ex-Soviet transitional economies.

22. The evaluation aims to assess:

- the relevance of project objectives to the rural poor, the country and IFAD strategies;
- the extent to which these objectives were achieved and the efficiency of the intervention;
- the intended and non-intended impact of the project on rural poverty and its expected sustainability;
- the performance of partners involved in the project design and implementation.

The evaluation will also serve to generate a series of insights and recommendations intended as building blocks for enhancing the effectiveness of IFAD's interventions in Georgia.

23. Field work in Georgia was conducted between 15 May and 8 June 2006. The mission[12] carried out a desk review of all available project documents, together with relevant secondary sources (see bibliography in Annex 2). In Tbilisi, talks were held with officials of the ministries of agriculture and finance, with the staff of the National Bank of Georgia (NBG), the World Bank (WB-IDA) and other donor agencies and microfinance institutions, and with former project staff. In Gardabani and Mtskheta rayons the mission had discussions with the staff and clients of the Land Registry Offices, and in Imereti, Samegreli and Adjara regions, with the staff and beneficiaries of ten credit unions, representing around one-third of functioning credit unions in the country. The CUs selected included well-performing and under-performing institutions in regions with differing agricultural and geophysical characteristics. For the Credit Union component, a mini-survey of 34 beneficiaries and non-beneficiaries in ten villages was carried out, and for the Land Registration component, a parallel mini-survey was conducted among 32 beneficiaries in Gardabani and Mtskheta. On June 8, a wrap-up meeting was held in Tbilisi to discuss the mission's preliminary findings.

24. The chief emphasis of the evaluation is on the two IFAD-funded components, although attention is also paid to the effectiveness of the project as a whole, including the degree of integration between components. Although joint WB/IFAD supervision of the project was carried out on a number of occasions, there was a separate IFAD 'post-appraisal', and separate MTR reports were prepared. The

---

10 Central and Eastern Europe and the Newly Independent States (CEN).

11 See the OE Thematic Evaluation on *Rural Financial Services in Central and Eastern Europe and the Newly Independent States*, Sept. 2005, hereafter referred to as the *OE Thematic Evaluation 2005*.

12 The mission consisted of: Mr Roger Norman (Team Leader), Ms Margarita Lalayan (Microfinance Specialist) and Mr Giorgi Badrishvili (Rural Sociologist).

WB conducted a self-evaluation in late 2005, resulting in the production of an Implementation Completion Report (ICR), which covered all project activities, on which the mission has drawn for the assessment of the Credit to Enterprises component. The detailed analysis of impact to be found Chapter III of the present report, concerns itself almost exclusively with the IFAD-funded components. [13]

II. PROJECT PERFORMANCE

A. Design Features

25. **Rationale.** The rationale for the Credit Union component was based on the fact that only an estimated two-thirds of cultivable land was utilised at the time of project design, due principally to the lack of mechanized equipment and the wide dispersal of land parcels distributed under the Land Distribution programme. The lack of formal credit facilities in rural areas meant that farmers lacked the financial resources for cultivation of land, the transportation of produce and the purchase of inputs. The provision of seasonal production credit and the establishment of elements of a viable rural credit system were considered to be imperative in order to address these issues.

26. The underlying purpose of the land registration component was to achieve efficient use of agricultural land through market allocation to the most efficient users. For this it was necessary to establish a land market permitting the low cost transfer of land through sale or rental. This required a system providing low cost verification of ownership and encumbrances, which also provided the means for mortgage-based lending. The lack of clearly defined title to land made land sales and rental agreements uncertain, and the high cost of ownership verification together with the difficulty of transferring untitled land made mortgage lending on land prohibitively expensive for banks.

27. **Relevance of Design.** The ADP duly recognised the particular circumstances of rural communities in transitional economies, with an appropriate emphasis on re-building the rural economy after the cessation of Soviet capital investment. The provision of credit for medium-size agro-processing enterprises and for micro enterprises at the smallholder level, the establishment of a viable system of rural finance through support for a network of credit unions, and the setting-up of an efficient land registration system all addressed basic needs in rural areas. Credit was chosen as the main engine for project implementation, rather than any more direct intervention in terms of infrastructural development, access to machinery, equipment and other agricultural inputs. Neither savings nor credit services were available in rural areas. Commercial banks did not serve rural areas due to cost considerations, and microfinance institutions were still at the initial stages of development.

28. There was no Country Opportunity and Strategy Paper (COSOP) at the time of project design. A sub-regional strategy for Azerbaijan and Georgia was produced in 1999, and the first separate COSOP for Georgia in 2004. The main thrusts of the sub-regional strategy were: to support the establishment of a conducive policy environment; to increase the competitiveness of agriculture, including support for the creation of land markets through an appropriate legal framework; to assist in the emergence of a sustainable rural financial system, including support for credit unions. The 2004 COSOP reiterated broadly similar approaches, emphasising the role of private enterprise as well as support for market linkages, processing and packaging enterprises and agricultural service providers. These strategies drew on features of existing projects, including the ADP, with no marked deviation in strategic emphasis. The present government Economic Development and Poverty Reduction plan was not articulated until ADP was close to completion. Its primary focus is on the provision of rural employment through the development of rural enterprises, which matches ADP support for small and medium scale enterprises under its two largest components.

---

[13] Even had a detailed evaluation of the Credit to Enterprises component been part of the mission's brief, it would have been virtually impossible to carry it out with any accuracy. Most of the enterprises concerned have either merged or altered the nature of their business and are reluctant to unearth the details of what to them is ancient history.

29. IFAD's involvement in ADP was initially to be limited to the CU component, but it was decided during negotiations that this would be extended also to the Land Registration component. The arrangement represented for IFAD a venture into unfamiliar territory and the financing of activities which were rather indirectly related to the primary objective of the reduction of poverty and food insecurity. Although it was emphasised that a formal process of land registration and entitlement would strengthen the security of tenure for poor farmers as well as ensuring that land would be available for use as collateral, these aims were in fact secondary to the emergence of an active land market. There was thus a lack of real coherence between the objectives stated in the post-appraisal report and the activities funded.

30. There was also a lack of cohesion between the four components of the project. There was no zonal planning to integrate the location of supported agro-enterprises under the Credit for Enterprises component with the selection of villages for credit union development, and therefore no scheme by which enterprises would be supplied by producers of grapes, vegetables, milk and meat financed by credit union loans.[14] The small Agricultural Services component, designed principally to prepare further WB interventions, has the appearance of being tacked-on to a project with very different objectives. Nor did the two components wholly or partly funded by IFAD have any close connection, with no credit unions established in the two districts selected for intensive Land Registration activities. The ADP as a whole, therefore, was made up of four distinct components with separate objectives and having only a management and supervisory structure in common. This was not a failure of implementation but an inbuilt feature of the design. The WB Appraisal Report accurately described the components as 'free-standing'.

Beehives thanks to credit union loan
IFAD Photo by Thuy Thu Le

31. **Targeting.** The selection of beneficiaries under the Credit for Enterprises and Land Registration components depended only on the initiative of applicants - suitable enterprises in the one case and landowners in the other. However, the Loan Agreement did include two targeting mechanisms to ensure that the CU component would be concentrated in poor areas and reach the poorest groups. The first stipulated regions with some or all of the following features: a large proportion of households living below the poverty, a high incidence of food insecurity; poor education facilities, poor communications, inadequate health facilities, poor agricultural potential, and a refugee problem. The second stipulated that a new CU should demonstrate to the satisfaction of CUDC that a significant proportion of individual members (around 30 per cent) could be classified as 'vulnerable'. Vulnerability was defined in terms of landholding, income, food insecurity and health status. It was envisaged that three rapid rural appraisals would be carried out in 'representative vulnerable areas' in

[14] The mission encountered one case where component integration would have been of great value. The Nakoro dairy farm in Samegreli, supported by ADP and equipped through a Netherlands grant with modern dairy processing equipment, is operating only at a fraction of its potential capacity due to lack of suitable quality milk, which is not available in the locality. Had local credit unions been able to fund the purchase of Friesian cattle by smallholders, there would have been two-way benefits: a ready market for livestock farmers and raw material for the enterprise.

order to arrive at a definition of vulnerable groups and refine component strategies. Prospective credit unions were required to submit a profile of their expected membership, together with appropriate documentation, in order to demonstrate their eligibility. No region of the country was excluded a priori, which meant that applications were given consideration even if they originated outside 'vulnerable areas.' The detailed targeting criteria set out in the post-appraisal document reflected the component's determination to ensure the inclusion of the very poor, but no means of verifying the documentation submitted were stipulated.[15]

32. **CU Component Design.** The design of the CU component as set out in the IFAD Post-Appraisal Report was simply an edited version of what had appeared in the WB Appraisal Report, with additional targeting criteria. The WB design drew on the experience of three WB-funded projects in the region, two of which contained rural finance components, but no comprehensive survey of regional credit unions was carried out. At the time of ADP start-up, ten credit unions had been established - or were in the process of being established. These constituted the CU target for the first year of the project and thus provided the basic model for the ADP credit unions. The crucial section of the WB/AR runs as follows:

> Since rural credit unions are new to Georgia, the approach adopted in the project is to *include the design and pilot phase into the project itself*. This will be followed by an expansion of the programme as the absorptive capacity permits. The experience of the Albanian Rural Poverty Alleviation Program (1993) and the subsequent Rural Development Programme (1995) would suggest that the 'learning by experience' approach to the development of rural credit union system is highly successful. [16]

33. It was envisaged at appraisal that the MOF would absorb both the foreign exchange and credit risks[17] with the administrative bank carrying out on-lending to CUs. Thus the CUDC was not initially designed as a lending institution, and indeed it was intended that its role would be reviewed after two years, to be transformed into either an apex organisation or a national cooperative bank serving small farmers or into a free-standing regulatory and supervisory state agency. That it should carry out on-lending, supervisory and monitoring responsibilities for nearly six years was certainly not envisaged.

34. Both appraisal reports made it clear that 'the maintenance of high prudential standards and well managed CUs would take precedence over achieving… numerical targets'[18], and the required standards were clearly formulated, but it will be noted that the learning-by-experience approach put a great deal of responsibility on the CUDC, which was expected to monitor the performance and adjust the model accordingly. Medium and long term sustainability - defined in terms of operational and financial self-sufficiency - was to be ensured by specifying borrower eligibility criteria and loan evaluation standards in the subsidiary loan agreements and through detailed credit guidelines. However, no statistical targets were put in place in terms of performance and the project's exit strategy was not adequately developed, the consequences of which will be seen below.

35. **Start-up Grants.** The distribution of cash grants for new credit unions was to be linked to performance, with CUDC monitoring the required standards of qualification, but at US$3 000 the size of the grant was large enough to become attractive in itself, rather than serving as a support for credit union development. This eventually led to the formation of credit unions only for the sake of obtaining the grant; in some cases, the credit unions existed on paper only. In the event, CUs spent the bulk of the start-up grants on salaries for managers and accountants during the first two or three years.

36. **Poverty Impact Indicators**. The Appraisal Report set out a logframe matrix together with three sets of component-wise performance indicators ('development', 'output' and 'input' indicators), which

---

15 Effective verification would have been complicated and expensive. The component design could not have foreseen the pressures generated by the politicisation of the process which later ensued (see chapter II).

16 WB Appraisal Report p. 27.

17 ADP Loan Agreement, Section 3.02, p. 4.

18 ADP Post-appraisal Report, 1997. 'Numerical targets' refers to the overall number of CUs to be established.

were to be based on verifiable monitoring figures and utilised in supervision and for the Mid-term Review. Ten indicators were selected at appraisal: (a) rural population with access to credit; (b) deposits held by CUs; (c) loan recovery rate; (d) total lending; (e) number of CUs; (f) total of land-registration fees; (g) number of landholdings registered; (h) agricultural output; (i) use of fertilisers; (j) changes in farm gate prices. It will be noted that the only indicator relating to poverty impact was 'access to credit', despite the overall objective in the IFAD post-appraisal report being given as the reduction of poverty and food insecurity.

37. **Innovations in Design.** Prior to ADP, there existed almost no formal system of rural credit in Georgia. Of the six credit association set up under the USAID project, four survived, but the required share capital for these associations was set at GEL 400, effectively restricting membership to better-off farmers. The ADP concept of a network of community-owned and community-managed credit unions, envisaged ultimately as covering the entire country, was entirely new in the Georgian context, and constitutes the chief innovation of the IFAD-funded components of the project. Under the Land Registration component, the whole system had to be formulated, from administrative systems to registration formats, although many of the technical aspects of survey and mapping had been tested in the prior EU-funded programme.

38. **Changes at Mid-term.** A joint WB/IFAD mission was fielded at mid-term, with separate reports produced by the co-financiers. A sharp reduction of targets in terms of the establishment of CUs, from 120 to 55, was recommended, with an attendant re-allocation of funds (Table 2) and a restructuring of the CUDC, with additional training and technical assistance to be provided. The share of the CU component in the total budget fell from its original 31 per cent to 25 per cent while that of the Land Registration component rose from 20 to 25 per cent. The extra funds available under Land Registration were utilised to fund the extension of the Land Registry scheme to a further nine regions. The cost of project coordination rose from 2 per cent to 3.6 per cent of the total budget to cover the extension of the closing date by two years. The MTR revision of targets reflected the unsatisfactory implementation of the CU component, related to portfolio deterioration and the default of many credit unions. The more realistic target set by the MTR allowed for the concentration of resources on those credit unions with reasonable prospects for a stable performance and a demonstrable level of commitment.

Table 2. MTR Budget Revision

Component	Budget at Appraisal (US$'000)	Per cent of base costs	MTR Revision (US$'000)	Per cent of base costs
Credit to Enterprises	12 000	44	12 000	44
Credit Unions	8 000	31	6 760	25
Land Registration	6 000	22	6 580	24
Agricultural Services	500	2	500	2
Project Management	300	1	965	4

Source: adapted from WB/ICR

39. **Project Extensions.** The original completion date of the project was April 30, 2002. At mid-term, this was extended two years to April 2004 to enable the project to finance further institutional reforms in the title registry and allow additional time for the passage of credit union legislation. The second extension was for an additional six months to allow more time for the development of the 11 regional land registration centres and the restructuring of project-supported credit unions. The last extension, to June 2005, was to establish a firm foundation for the new National Agency for Public Registry.

B. Implementation and Outputs

40. **Loan Disbursement.** In dollar terms at the prevailing exchange rate at the time of expenditure, the project expended US$19.8 million, or 92 per cent of the available project funding of US$21.5 million. Disbursement of the IFAD loan at completion was recorded in the project status report at 100 per cent, but this included the cancellation in 2005 of unspent funds to the tune of SDR 312 000, around seven per cent of the total loan amount, giving an effective disbursement level

of 93 per cent. The Government contribution to expenditure amounted to US$0.46 million compared to a projected US$ 0.5 million at appraisal.

41. **Revolving Fund.** The revolving fund containing the principal and interest repaid by credit unions has been successfully maintained to the present day. By the end of the project there was US$1.13 million in the revolving fund, available for further on-lending to credit unions. Another US$0.45 million were deposited in the Insurance Fund, giving a combined total of US$1.58 m at project closure. By the time of the Evaluation Mission (May-June 2006), this amount had risen to nearly US$2 m. The sum has been earmarked for delivery of credit to selected credit unions under the aegis of the RDP.

<u>Credit Union Component</u>

42. There was no appointment of an administrative bank to manage the delivery of credit to credit unions and the receipt of repayments of principal and interest, consequently this function was undertaken by the CUDC, in addition to its other tasks. The overall revision of the CUDC after two years, as suggested at appraisal and repeated by the MTR, was not undertaken until 2003.

43. **Premature Expansion of CUs.** The CU component aimed at the development of 120 sustainable CUs in five years. An over-rapid and premature expansion resulted in the creation of 164 credit unions within two years (1999), with a membership that had grown to 12 000 the following year. This was misinterpreted as an indication of success and as a sign of the re-establishment of trust in financial institutions. By the end of 2000, CUDC had disbursed loans totalling 3 262 100m GEL to 119 credit unions, 45 per cent of this amount in a single year, 1999. At 75-100 per cent, repayment rates were deemed satisfactory by the CUDC at this stage, but only small amounts (mainly interest payments) were due and CUDC's loosely applied re-financing strategies concealed potential delinquency problems. These emerged in 2001 when the great majority of loans were scheduled for repayment. After the withdrawal of the MOF representative from the Credit Committee (see below, para 41), no new loans were made for a period of two years, thereby closing that avenue for troubled CUs to cover their debts. Not that fresh loans constituted a viable solution to the problem, nor was the suspension of credit by any means the *reason* for poor repayment, but it did serve to reveal the portfolio's actual quality. By 2002, loan repayment performance had reached a record low of 30.7 per cent.

44. **Distortion of CU Concept.** In these early years, project implementers were inspired by the number of credit unions created, and paid insufficient attention to qualitative aspects. Auditing was not carried out as stipulated in the Loan Agreement, the monitoring of loans made by CUDC was weak, and the maintenance of high performance standards was neglected. Managers of credit unions were trained in loan appraisal, financial management and loan product design, but the quality of training was poor. CU managers at this time tended to view credit unions simply as brokers between the donors and the poor, rather than financial institutions with a long-term future. Many credit unions founded in the period of rapid expansion were not in reality community-based grassroots institutions but structures created by village elites to harvest donor money. Communication of operating principles was minimal. At this time, credit unions acted largely as a conduit for loans, with little emphasis on savings mobilisation or sustainability, aspects insufficiently highlighted in project design.

45. **Crisis of Confidence in CUs.** The above developments took place against a challenging political and economic background which included the Russian financial collapse of 1998, severe drought in parts of Georgia - and floods in others - in 2000 and 2001, frequent staffing changes in the agriculture and finance ministries, and widespread allegations of corruption in high places. The process of CU expansion became heavily politicised, with the founding of CUs in particular locations being offered as electoral inducements. By 2001, the overall picture of credit union formation was one of politicisation, fraudulence and mismanagement. Lending by CUDC to credit unions and consequently on-lending to CU members was supply driven, without proper assessment of borrowers' capacities and attitudes. The immediate result was a crisis of confidence within the Government and in the country at large, the withdrawal of the MOF representative from the credit committee and a consequent two-year hiatus in implementation. Defaulting credit unions were later penalised,

liquidated or taken to court. Of the 164 CUs formed overall, 70 have been the subject of legal proceedings and 35 have either been liquidated or merged.

46. **MTR and After.** The MTR's reduction of the target to 55 credit unions by completion allowed for the concentration of component funds on those CUs with some prospects of viability, but the underlying causes of the collapse of the network were not fully addressed until the appointment of a fresh management team in early 2003. The PCU was replaced by a slimmer Project Implementation Unit (PIU) set up within the newly established Project Coordination Centre (PCC). The new management initiated a process of rehabilitation. Appropriate training programs for CU management were designed and the monitoring of credit unions strengthened. Promising credit unions had their loans restructured, and lending to CUs restarted. In the same year (2003), responsibility for the supervision of CUs was transferred to the National Bank of Georgia, relieving the PCU/PIU of a function which it was ill-equipped to perform.[19]

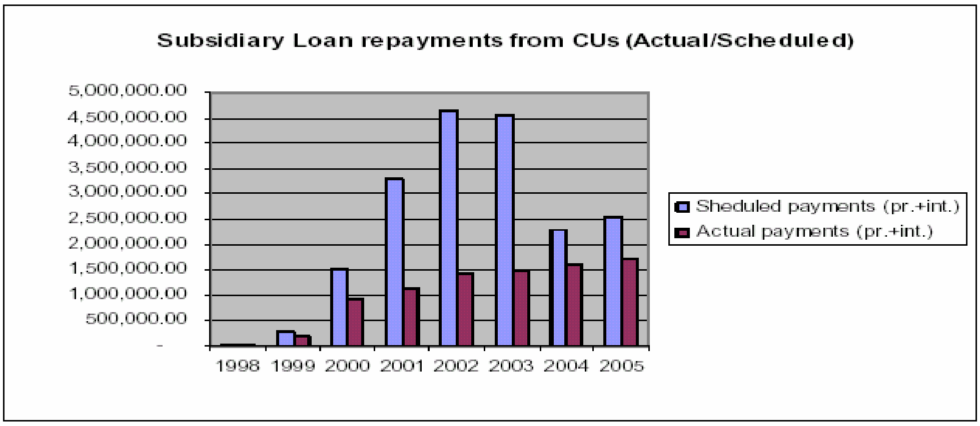
47. At project completion there were 58 functioning CUs, three more than the MTR target, but less than one year later the number was 39, 21 of which are reporting to the PCC and formally licensed by the NBG. However, full data for only 15 of these was available at the time of the evaluation. Table 3 shows the number of functioning CUs during the project cycle, while Table 4 provides a graphic illustration of the rise, fall and stabilisation of the CU movement.

Table 3. Number of ADP-supported Credit Unions

Year	Overall Target	Existing CUs
1997	120	72
1998	120	132
1999	120	164
2000 (Mid-Term)	120	121
2001	55	121
2002	55	79
2003	55	69
2004	55	56
2005 (Completion)	55	58
2006 (Evaluation)	-	39

Source: Evaluation Mission, 2006

Table 4. Loan Repayments by Credit Unions to CUDC (GEL)



Source: ADP Final Report 2005

48. **Membership Trends.** From a high of 12 000 at mid-term, membership fell to 5 800 at completion to 2 890 at the time of the evaluation mission. The average membership across all credit

[19] The move also conforms with current IFAD rural finance policy. The MTR had taken up this issue in 2000, although their recommendation was the establishment of a separate supervisory agency 'under the aegis' of the NBG.

unions at completion was around 100, an encouraging result when compared to the NBG qualifying minimum of 50. The three largest credit unions (Khutsubani, Mejinistskali and Meria) together had a membership of around 1 100, nearly 20 per cent of the total, whereas 62 per cent of credit unions accounted for only 33.5 per cent of members. The increase in average membership per CU is mainly due to the growth of the three largest CUs, which have succeeded in attracting a clientele in neighbouring villages and towns and offer a variety of loan and savings products. Although many credit unions face problems of scale, the demand for membership is strong in all the villages visited by the mission, mostly motivated by a desire for loans. However, the limitation of their financial resources puts pressure on credit unions - legitimate pressure in terms of their financial sustainability - to accept as members only those with high repayment capacity. Membership is also costly: the law demands that share capital be registered with tax offices and documentation be verified by notary, an additional burden both for the applicant and the credit union. Reaction to the size of the initial share capital required (50 GEL) is mixed, being variously referred to by CU members as 'unaffordable' or 'acceptable' or 'appropriate'. Managers of CUs tend to see the required share capital as an earnest of good intent.

49. **Savings Mobilisation.** Two main savings products are offered by credit unions: time deposits with terms of 3-12 months and current deposits. The interest rate paid on deposits is 20-30 per cent annually, much higher than the rates of commercial banks, reflecting the efforts made by credit unions to attract savings as well as the prevailing rate of inflation.[20] The amount of savings mobilized by credit unions at the end of the project was equivalent to around US$540 000 and the average saving *per depositor* in the range of US$360-475. Most savers had acquired a considerable sum of money at one go, for example through the sale of livestock or the receipt of money from abroad. Cases of building up deposits year-by-year are rare, except in the case of top-performing credit unions. Total savings in CUs gradually increased up to 2001, then started to decline, with a sharp reduction in 2003 after the interruption of CUDC credit and the collapse of many credit unions. To qualify for further credit, some CUs artificially increased savings by making temporary deposits which disappeared after the loan was received. After 2003, the average savings per member stabilized, varying between GEL 160-200, or around US$88-110 at current rates.

Table 5. Savings Mobilization by Year

Year	No. of CUs	No. of CU members	Amount of savings (GEL)	Ave. saving per member (GEL)
1997	72	2 791	171 868	62
1998	132	8 419	1 131 515	134
1999	164	10 668	1 992 791	187
2000	121	12 227	2 664 472	218
2001	121	12 231	2 665 391	218
2002	79	6 718	2 499 265	372
2003	69	6 645	1 322 878	199
2004	56	5 652	966 443	171
2005	58	5 831	975 718	167

Source: IFAD-OE 2006

50. The 'savings first' principle of credit unions has not been realized. This has contributed to the dependency of credit unions on project credits and a lack of long-term sustainability. The population still does not trust formal financial institutions (and particularly credit unions which are still in the early stages of development), preferring savings in livestock or other assets. Nor was the importance of savings sufficiently emphasized during project implementation. The availability of subsidized loans from CUDC was another major factor affecting motivation towards greater saving mobilization. For example, the interest rate of 13.5 per cent set for loans to CUs in 2005, although considered high, is still much lower than the interest rate paid by credit unions on savings (up to 30 per cent), which constitute an alternative source of funding. As of end 2005, only around 40-45 per cent of the total loan portfolio of the 15 top-performing ADP-supported credit unions was financed by savings, far below the benchmark of 95.5 per cent given in the latest MIX MicroBanking Bulletin. The ratio of

[20] Consumer price inflation averaged just over 8 per cent 2000-2004.

savings to total assets for these 15 CUs was in the range of 35-40, compared to the WOCCU benchmark of 70-80 per cent.[21]

51. **Loan Products.** Credit unions offer short-term loans for working capital, with loan amounts ranging from 50 GEL to 5000 GEL, and the average amount varying from 700-1000 GEL in large CUs like Khutsubani and Mejinistskali and 300-600 GEL in others. The average loan term is 6-7 months, with a normal maximum of 12 months. Initially, loans were designed with a balloon repayment scheme[22], which tended to entail an asset/liability mismatch, jeopardising timely repayment by final borrowers and affecting punctual repayment to CUDC. Most credit unions now apply schedules with payment of interest and partial principal each month. Both collateralised and non-collateralised loans are on offer, depending on the loan size, its projected use and availability of collateral. Household assets can be used as collateral, as well as savings, future salaries, pensions and other cash incomes. Loans with guarantors are also made.

52. **Loan Utilisation.** In 1998-2000, 80 per cent of the portfolio consisted of loans for agricultural purposes, but this led to serious repayment problems, connected with covariant risks of crop production. Currently, credit unions provide loans for many different purposes usually categorised as agricultural, commercial, consumer and miscellaneous (including emergency purposes) in the proportion of 60 per cent, 20 per cent, 15 per cent and 5 per cent respectively. Analysis reveals that the portfolio of the most successful CUs is becoming less concentrated on agriculture and more on commercial loans. Matkhoji has around 72 per cent of the portfolio in commercial purposes and 15 per cent in agriculture, Mejinistskali has around a half of the portfolio in consumer loans, the urban-based CU Khutsubani has only 8 per cent in the agricultural sector. It is evident that credit unions are gradually developing more diversified portfolios and thus reducing the risks of portfolio concentration.[23]

53. **Interest Rates.** The interest rate paid by borrowers ranges from 20 per cent to 42 per cent annually, depending on loan size, existence of savings and history with the institution. Overall interest rates have decreased from an annual maximum of 60 per cent, in line with the annual interest rate payable on CUDC loans, which fell from a high of 26 per cent in 1999 to 13.5 per cent at project completion. Some borrowers complain that the interest rate is high, but the mission found that it was the availability of the loans that was most highly valued by borrowers and the majority of them were prepared to pay the interest rate charged. If competition with banks and MFIs increases, credit unions might be forced to reduce their interest rates, but in view of the high interest paid on savings accounts this could negatively affect their sustainability.

54. **Quality of Loan Portfolios.** The portfolio at risk ratio, the most accurate indicator of the quality of loan portfolio, was not monitored closely by CUDC, which focused on repayment rates and arrears. Credit unions are obliged to report information concerning portfolio quality since their supervision was transferred to the NBG. The accuracy of the information provided seems unreliable, however, and rescheduling practices are still underway within many credit unions. The ratio of delinquent loans to loan portfolio reported by credit unions operating in March 2006 is in the range of 1.8 per cent to 25 per cent[24], but the real quality of the portfolio can only be guessed at. What is clear is that delinquency prevention in the 8-10 top-performing credit unions has improved significantly since 2000-2003. Loan capacity assessment is being properly carried out, the work of credit committees has become more efficient, credit unions are stricter in cases of non-payment and portfolios are more diversified. Information about the non-reporting credit unions is elusive, with some undergoing restructuring, some having had their NBG licence revoked and some in liquidation.

---

[21] MIX is a non-profit organization whose mission is to help build the market infrastructure by offering data sourcing, benchmarking and monitoring tools, as well as specialized information services. MicroBanking Bulletin (MBB) is one of the principal outputs of the MIX. WOCCU is the World Council of Credit Unions, which manages technical assistance programmes to strengthen credit union systems around the world.

[22] Monthly interest payments and bulk repayment of principal at the end of the term.

[23] For some implications of this trend, see para 132.

[24] ADP/PIU, Financial and Lending Data of Reporting Credit Unions, 2003-2006.

Land Registration Component

55. The main aims of the component were the establishment of land registration offices in the districts of Gardabani and Mtskheta and the registration of 199 000 land parcels and 130 000 land ownership titles, with a view to eventual countrywide replication of the scheme. The component budget at appraisal was set at US$6m, and this was increased to US$6.76 after the reallocation of SDR 560 000 from the credit union component at mid-term. Around 36 per cent of the IFAD loan was eventually invested in the Land Registration component, a total of US$2.36 m. The main activities undertaken were aerial surveying, land office refurbishment and capacity building, the development of efficient land registration and titling services at the new offices, and institutional development. Implementation was carried out by the State Department of Land Management (SDLM) set up by the Government to manage the component under the guidance of the Land Registration Unit (LRU).

56. **Aerial Survey.** The selection of Gardabani for the pilot scheme was based on the operation during 1995/6 of a EU-funded TACIS programme of land survey in a single *sakrebulo*[25] of the district. Liaison and collaboration between this programme and the ADP was close, with geodetic and cartographic equipment purchased from TACIS and the same digital technologies utilised. Aerial photography of the two districts of Mtskheta and Gardabani was carried out on a scale of 1:20 000, and residential areas on a scale of 1:8 000, from which digital maps were prepared. This was done through the technical processing of stereo pairs of aerial photos, the core of this sophisticated process. The vector (digitalised) mapping was used as the basis for the surveying and titling works covering 2 000 sq. km. of territory in the two districts. Aerial photography was also carried out by the project on around 10 000 sq. kms of Kakheti region and selected parts of central Georgia.

57. **Land Survey and Registration.** Land Registration offices were established in Gardabani and Mtskheta in September 1999 and made responsible for the registration process in these districts. The initial steps consisted of the refurbishment of the offices, which were equipped and computerised. The survey of land parcels in the project area was carried out on a systematic basis by private survey companies which were supported by the project in the form of technical assistance. These survey companies were also expected to play a role in the adjudication of land disputes, a role they have fulfilled when necessary.[26]

58. The land registration programme concentrated on privately held rural house lots and farm lands, with each title recording all land parcels held by an individual landholder in the given district. Currently, about 80 000 parcels have been registered in Mtskheta district and about 75 000 titles issued to landowners, with around 50 per cent of land still requiring survey and registration. The Gardabani office has registered 90 000 parcels and issued 80,000 land titles. The combined achievements represent 89 per cent of the registration targets and 84 per cent of the titling targets set at appraisal. Both offices now serve an average of 50-60 clients on a daily basis and appear to operate smoothly and efficiently, run by qualified and experienced staff. The fact that both Mtskheta and Gardabani are used as models for newer offices (which was indeed an objective of the component) is evidence of their standing. One significant effect of their activities has been a marked increase in land transactions in these areas, reflected in the rapid rise in the number of 'secondary transactions' (sale or re-sale of registered land) recorded by the two offices.

Table 6. Targets and Achievements under the Land Registration Component

Activity	Target	Achievement	Percent
Aerial Survey (sq.km)	12 000	12 000	100
Registration of Land Parcels (no.)	199 000	170 000	85
Issue of Land Titles (no.)	130 000	155 000	119

Source: Evaluation Mission, 2006

[25] Village-level administrative unit.

[26] Disputes appear to be few in number. The Mtskheta office reported around five-six cases per year.

59. Following the success of the pilot programmes, the government requested that further regional and district offices be established utilising the savings made on initial expenditures. These savings were due to the ability of the survey contractors involved to handle larger areas than projected, with the result that the average cost per parcel was reduced by almost half. To these savings were added the component budget increase recommended by the MTR. Between 2000 and 2005, the project accordingly provided refurbishment, computerisation and staff training to a total of 11 regional and 37 district registries countrywide. The component has also surveyed land plots in eight upland districts using ground survey.

60. **Cadastral Works.** In parallel with the delivery of base-digital maps, cadastral activities were undertaken in the territories of Mtskheta and Gardabani districts, commencing in 1998, continuing for four years and covering 36 *sakrebulos* in all. The cadastral ground surveys confirmed and regularised the work done by the local land reform commissions. In September 2003 cadastral/registration works were initiated in eight districts in mountainous areas, concentrating on residential areas. As a result of the survey/titling activities, the project has collected registration information on 170,000 properties, for which 95,000 owners received registration certificates.

61. Prior to 2000, no normative guide to cadastral and registration activities was in existence. LRU and WB personnel therefore contributed to the publication of a Manual of Registration Processes and Procedures covering the theoretical and practical aspects of land registration and titling, much of which was based squarely on the example and experience of the Mtskheta and Gardabani offices.

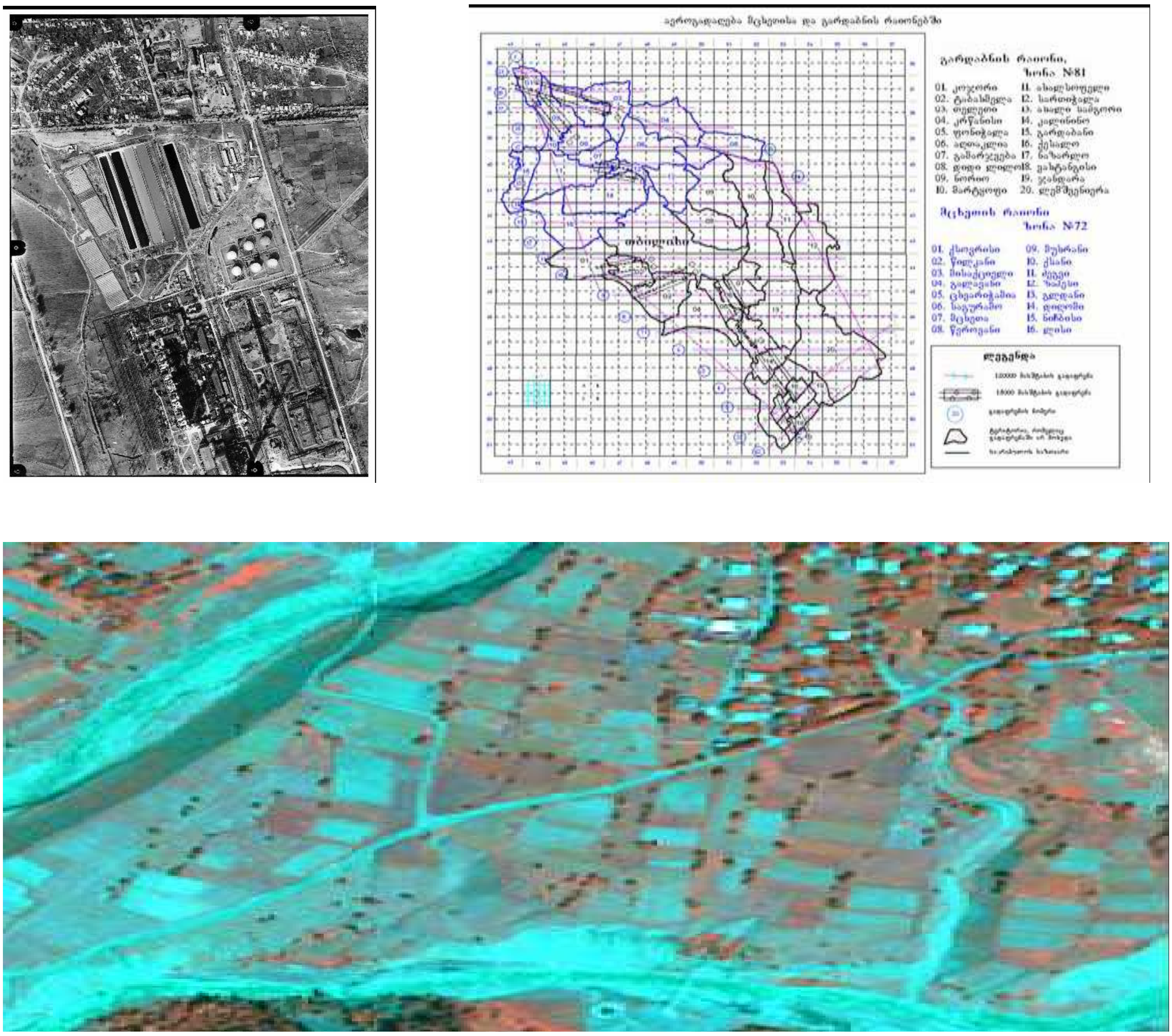
62. **Training Programmes.** ADP financed training programmes in various disciplines for staff involved in land registration procedures. During the course of the project, a total of 225 persons were trained in legislative, managerial and technical aspects of the land registration process, including the IT skills necessary for the preparation and utilisation of vector mapping. The result has been the emergence of a cadre of officials with geodetic and cartographic skills and experience. Some of the training was carried out in collaboration with SIDA.

63. **Institutional Development.** The component was implemented originally through the SDLM, set up in 1997 with training and technical assistance provided by the project. The SDLM has since been replaced by the National Agency for Public Registry (NAPR) in the Ministry of Justice, a transition physically and financially supported by the ADP. Following a request by the Government to assist with the establishment of the new agency, the WB and IFAD agreed to the allocation of unexpended ADP funds to support NAPR staff recruitment, training and study tours, and the upgrading and equipping of central and regional offices. The enabling legislation for the setting up of the NAPR was passed in late 2004. The new institution took over the duties of the former SDLM and the Bureau of Technical Information (BTI), with non-registry tasks being shifted to other ministries. The records kept by BTI have been transferred to the NAPR. The staff of the former SDLM and BTI were laid off and are now temporarily employed until formally rehired under the new structure.

64. NAPR is now legally enabled to charge and retain fees, and currently acts as an independent and self-financing land registration and cadastre agency coordinating 67 offices countrywide.[27] A total of 4 million land parcels have been registered in different parts of the country. A public awareness campaign run by NAPR was completed in April 2004. This included TV and radio programmes on national and regional channels, and regional seminars with participation from representatives of district land departments, notaries and banks. NAPR has also run a high profile publicity campaign to promote its purpose and functions.

[27] Even during its first year of operation, NAPR was almost entirely self-financing.

Vector Mapping



Top left: *Aerial photograph*
Top right: *Computerised map listing land parcels and residential plots*
Below: *Vector mapping*

65. **Credit to Enterprises.** Under this component, 48 loans were made for investment and working capital in agribusiness enterprises, to a total value of $8.56 million. Two-thirds of supported enterprises were made up of canneries, wineries, livestock farms and hazelnut processing plants, and the remaining one-third of other agro-processing plants. Thirty-five of the 48 sub-projects were export-oriented. The demand for medium and long-term credit was high, the lending programme was completed by October 2000 and the repayment rate was satisfactory. Repayments were placed in a revolving fund, from which additional loans were made until its transfer to the State budget.[28] Eight commercial banks participated in the ADP credit line. Despite the bankruptcy of two participating banks, the government eventually received US$2.8 million, a sum greater than the value of the initial credit line, with interest payments more than compensating for the deficit on principal. Due to the restructuring, sale or merger of many of the enterprises, full assessment of their performance after completion was found by WB to be problematic, but 94 per cent of sub-projects were calculated to have financial rates of return of around 25 per cent at mid-term, well in excess of the projected rate of 15 per cent. Five businesses of the eleven that had not by that time been significantly altered by mergers or production changes were analysed by the ICR mission and returns on capital were found to range between 18 and 26 per cent. Activities under the component were completed in 2004, by which

[28] The appraisal report envisaged the continuation of this revolving fund for a period of ten years, but this was not a contractual stipulation.

time average sales of supported enterprises had increased by 64 per cent and export sales by over 80 per cent.[29]

66. **Agricultural Services.** Studies were conducted in the areas of irrigation development and the restructuring of Georgia's agricultural research, extension and training system. Both studies were completed by mid-term. The irrigation study was assisted by FAO and the extension study by the International Service for National Agriculture Research. The studies were used as the basis for the design of two WB-financed projects, the Irrigation and Drainage Community Development Project (IDCDP) and the Agricultural Research, Extension and Training Project (ARET).

C. Attaining Project Objectives

67. **Development of an Agricultural Credit System.** The Credit to Enterprises Component fulfilled its main objective by successfully increasing credit flows to rural areas through the development of a rural commercial credit system using commercial banks. The loans made under the component constituted a significant increase in medium-term commercial bank lending to agriculture and agro-processing sectors, which essentially did not exist at the start of the project. The individual loans were made to agribusiness enterprises serving rural areas and most have been successful in providing rural employment, increasing agricultural output for export and achieving a higher than projected rate of return.

68. **Establishment of a Viable CU network.** Although there are many extenuating factors[30], the plain truth is that an extensive and viable CU network was not achieved under the project. The initial target of 120 viable CUs was reduced by more than half, and the WB Implementation Completion Report was able to report, in December 2005, that this revised target had been achieved. However, the real figure of viable CUs stands at around 15-20, 13-17 per cent of the original target or 27-36 per cent of the revised target. On the other hand, what has been achieved is a recognition within the relevant ministries[31] and the NBG, that sustainable village-owned CUs *are* both possible and desirable, given the appropriate management approach, training programmes and level of commitment. In other words, the existence of 2-3 successful CUs and a further 10-12 with reasonable prospects of sustainability, and the emergence of an embryonic CU association, together with the corpus of lessons learned at PCC/PIU level, mean that the component can by no means be written off as a failure. It should also be borne in mind that the financial, economic and political environments have altered significantly since the year 2000, at which time the implementation constraints in these respects were formidable.

69. **Increased Liquidity in Land Markets.** Former registration procedures had been disparate, expensive and time consuming. It has been calculated that clients were required to go through *over 60* steps for registration, a process taking up to two months and involving the payment of extra-legal charges. The procedure has now been reduced to six steps, which can usually be concluded in a single day on payment of the official fee only. There has been a marked increase in land transactions in the two pilot districts and land values have increased sharply. In Mtskheta, there has been an intensive development of the land market caused by the demand for summer residences among the urban population of Tbilisi. In Gardabani, some of the most desirable property is still not registered and further land titling awaits new regulations, but here too land prices have increased.

70. **Identification of Agricultural Development Programme. C**onsidering the limited budget (US$500 000), the objective of the component was expressed in large terms. In the event, studies were

[29] Information from the MTR and ICR (Implementation Completion Report) prepared by the World Bank.

[30] The MTR report contained a forceful summary: 'a climate of distrust of financial institutions as most people had lost their life's savings with the bank collapses following the dismemberment of the former Soviet Union, the lack of any credit culture during the Soviet period, a population drained of resources and thrown back into a subsistence existence, the change from a directive society to individual responsibility, the emergence of multitudes of individual private farmers with no experience in decision making and with no technical support, and the collapse of external markets for an agricultural sector dominated by cash crops' (IFAD MTR, 2000, p. 5).

[31] The Deputy Minister of Agriculture reported at the evaluation wrap-up meeting that the President of Georgia has expressed his support for the continuing development of the CU network.

conducted in the areas of irrigation development and the restructuring of Georgia's agricultural research, extension and training system which was effectively non-existent at the time of project start-up. The subsequent implementation of the WB-financed IDCDP and ARET projects is considered by the WB to constitute a satisfactory achievement under the component. What is certain is that the process initiated under the Agricultural Services component has strengthened the working relationship between the MOA and the WB and the first steps have been taken towards the creation of an extension service.

71. **Poverty Focus.** The CUs interviewed by the mission, agreed that the bulk of their membership was drawn from the two medial socio-economic categories of the community (Tables 7 and 8). Loans to better-off families were rare. The poverty categories were based on perceptions only, but the mission found them to be the subject of general agreement at focus group discussions where simple wealth ranking exercises were carried out. The two medial categories were usually described as 'average' and 'poor', with both groups possessing land and having some disposable income. 'Poor' households however tended to rely on small government pensions while 'average' households also had incomes from other sources, whether agricultural produce or other employment.[32] Typically, the two groups combined represented around 65-90 percent of village populations. In Chognari, 70 per cent of the CU membership was estimated to belong to 'average' or 'poor' segments of the community, and in Dimi 90 per cent, findings broadly borne out in other CUs. The MTR mission reported: 'CU membership typically comprises 5-10 from better-off households, 75-80 per cent from the medium poor and 10-15 per cent from the poorest', but these figures pre-date the shift in CUDC loan targeting policy.

72. During the hasty expansion of CUs in 1998-2000, the targeting criteria were entirely ignored, and the prescribed rural appraisals were never carried out. The early experiments with loans to the poorest, initially encouraged by the CDCU, were soon abandoned. Evidently it had been assumed by project designers that even the very poorest would be able to utilise small loans to cultivate their land and produce enough for repayment. This assumption ignored the high costs of mechanical cultivation (around 250 GEL per ha.), as well as the distance between dwellings and land, in many cases several kilometres. Large swathes of productive land still lie uncultivated outside the villages, and while the young and the dynamic are able to produce crops on this land – even at the cost of hoeing by hand or ploughing with animals – the incapacitated, elderly or demoralised are not. The reality is that credit committees of CUs are less likely to serve these groups in the interests of their financial viability, and managers believe that the CUs had to be guided by commercial, rather than 'charitable', principles. The general perception among the donor community, the microfinance sector and former project staff is that the membership of credit unions will necessarily be dominated by the economically active segments of the population, a reality apparently unforeseen at the time of project design. Difficulties in targeting the poorest are known throughout literature on rural finance and reflect the fact that for some segments of the markets microfinance is just not a panacea and other preparatory/alternative interventions are called for. Assumptions at project design were perhaps too optimistic.

[32] 'Average' households were sometimes described as 'economically active' and 'poor' households as dependent on subsistence farming.

Table 7. Poverty Profiles as Perceived by CU Members

Profiles as labelled by CU members	Profile description	Representation in CUs
Poorest	Not engaged in agricultural activities; have state pensions or charitable support as main source of income; elderly couples; landless or without labour capacity	0-30 per cent[33]
Poor	Engaged in minor agricultural activities, with land plots up to 1 ha; produce mainly for home consumption; little cash in form of state pensions/allowances; few livestock (one cow, pig or sheep)	together 60-90 per cent
Average	Engaged in small agricultural activities with land plots up to 1 ha; sell part of production for cash or in-kind exchange; have state pensions or allowances, limited livestock	
Better-off	Have stable salary or paid family members; financial support from relatives in big towns and abroad; engaged in commercial and agricultural activities; cultivate larger land plots; usually sell the greater part of production	5 per cent- 20 per cent

Table 8. Poverty Profiles by Percentage in Three CU Villages

Village/ Category	Mejinistskali		Chognari		Dimi	
	Population	Members	Population	Members	Population	Members
Better-off	30%	65%	20%	30%	5%	10%
'Average'			50%	50%	50%	80%
Poor	70%	35%	20%	20%	15%	10%
Poorest			10%	0%	30%	0%

Sources for Tables 7&8: OE Completion Evaluation field interviews and focus groups, 2006

D. Assessment: Relevance, Effectiveness and Efficiency

73. **Relevance.** The ADP was relevant to the needs of rural households in that the components intelligently addressed significant constraints to rural development, especially the lack of access to credit and of functioning agro-processing enterprises. The lack of integration of components, however, would seem to represent a basic flaw in design. The design of the IFAD-funded components was in line with IFAD's sub-regional and country strategies as expressed in the 1999 and 2004 strategy papers, which learned from and built on the ongoing ADP interventions, but the inclusion of land registration as a priority in the 2004 COSOP appears to be retrospective. There was no clear rationale in terms of IFAD's particular expertise and comparative advantages for IFAD's involvement in the Land Registration scheme, and although security of tenure for smallholders and the use of their land as collateral were included among the objectives, they were clearly secondary to the facilitation of land transactions. The relevance of the project (IFAD components) is rated 4.[34]

74. **Effectiveness.** The Land Registration scheme greatly accelerated the registration and titling process and substantially assisted in the emergence of an active market in land. However, the Credit Union component failed in its stated objective, even while setting important precedents and, eventually, influencing government attitudes. Based on the specific IFAD components, the effectiveness of the project is accordingly rated 3.

33 Borrowers in this category were mostly clients from the initial phase of the project and many of the loans concerned are delinquent. Most CUs gave a figure of 15-25 per cent of membership by the 'poorest', but one or two said there were none at all.

34 According to OE evaluation policy, ratings on a six-point scale are given for relevance, efficiency, and effectiveness, for each of the impact domains, for sustainability and innovation, and for the performance of the various partners. Scores can be interpreted as follows: 6- highly satisfactory; 5 - satisfactory; 4 - partly satisfactory; 3 - partly unsatisfactory; 2: unsatisfactory; 1 - highly unsatisfactory.

75. **Efficiency.** The initial stages of the Land Registration component were efficiently managed and projected registration costs per land parcel more than halved, allowing for the expansion of the project to new areas.

76. The efficiency of credit unions can be evaluated through the calculation of productivity and efficiency indicators. The former consist of two ratios - active borrowers per staff member and the same for active savers - which stood at 27 and 17 respectively, according to June 2005 data for 58 credit unions.[35] Benchmark indicators for these ratios recently provided by the MicroBanking Bulletin[36] are 141 and 355, indicating that the productivity of ADP-supported credit unions fall well below the recommended level. The reason for this substantial discrepancy is doubtless that the opportunities for Georgian CUs to achieve the required scale are severely limited by the scarcity of financial resources in terms of savings and refinancing.

77. Regarding efficiency ratios, it will be seen in Table 9 that the network's ratio of operating expenses/loan portfolio is more or less within the recommended range, although Georgian credit unions pay relatively low salaries and also rely on a significant amount of voluntary work, which keeps operating expenses lower than they might be. The ratio of total expenses to total assets is improving but significantly higher than the average for credit unions worldwide. This is a reflection of the high cost of funds in the absence of unsubsidised loans, high delinquency rates and loan loss provision expenses. In order to improve this ratio, credit unions need to refine their delinquency management practices and loan assessment procedures and develop their savings products to make them more attractive and less expensive.

Table 9. Efficiency Indicators for 15 CUs, 2004/5

Indicators	2004	2005	MBB Benchmark	Change 2004 - 2005
Operating expenses	100 683	138 330		+37%
Average gross loan portfolio	543 059	728 434		+34%
Operating expense/Loan portfolio	18.5%	19%	18.7%	+0.5%
Average total assets	630 685	821 584		+30%
Total expenses[37]	270 358	330 795		+22%
Total expenses/total assets	43%	40%	19.1%	-3%
Operating expenses/total assets	16%	17%	11.1%	+1%

Source: Completion Evaluation, 2006. [all amounts in GEL]

78. No component resulting in an implementation hiatus of nearly two years and 70 court cases can be considered efficient, and accordingly the efficiency of the CU component cannot be rated as higher than 2. The efficiency of IFAD components is rated 3.5, on the following component wise basis: Land Registration 5, Credit Unions 2.

E. Performance of Partners

79. **Performance of IFAD.** The goal of building a CU network virtually from scratch was courageous and may yet prove a sound development option. However, a more realistic approach to targeting and a clearer insistence on the elements of sustainability would have been advisable. Co-financing with the World Bank has been a useful means of obtaining a high-profile participation in major programmes, but IFAD presence on all supervision missions would have been desirable in order to emphasise those aspects of design and implementation which constitute the Fund's particular concerns, especially the matter of CU targeting and its implications. The MTR mission included two IFAD representatives, one of them a credit union specialist. The IFAD team published a separate report, which made useful recommendations to strengthen the capacity of CUs and the CUDC,

35 The figures are approximate. The number of borrowers and savers is estimated at 80 per cent and 50 per cent of total membership, and staff numbers calculated according to the data available.

36 Productivity and efficiency benchmarks are taken from the MicroBanking Bulletin (MBB) No. 11.

37 Including subsidy adjustment, loan loss provision and delinquencies.

although the crisis in the CU network had not yet revealed itself and the MTR prognostications for financial self-sufficiency proved over optimistic. It also drew attention to the undesirability of having one organisation (in this case the CUDC) as both promoter and regulator of the credit unions, a situation ultimately resolved in 2003.

80. No major problems with the disbursement of funds, procurement or contractual arrangements were noted, and the mission was informed by members of the PCC that IFAD was widely considered the most flexible and responsive of donors. The performance of IFAD is rated 4 chiefly on the grounds that it was the first intervention of IFAD in the country, that some of the challenging political and economic circumstances of the crisis period for CUs could not have been foreseen ex ante, and ultimately that IFAD supported an institutional innovation likely to result in a viable CU network.

81. **Government of Georgia**. A supportive legislative framework was established by the prompt enactment of a Land Registration Law in 1996, and of a Law on Credit Unions in 2002, both of which were largely in response to ADP activities, actual or planned. Despite frequent changes in personnel at the ministries involved, and a complete change of Government in 2003[38], official support for the project has been fairly consistent. However, the crisis in the credit union component which came to a head in 2000 provoked a negative reaction from the MOF which, by withdrawing its representative from the Credit Committee, caused the suspension of CU support. At that time, and for a while thereafter, the attitude of the MOF towards CUs was hostile, a not unnatural reaction given the number of bankruptcies and delinquent loans. In point of fact, the suspension of loans to CUs may have been an appropriate interim measure, but it was not accompanied by a determination to seek and remedy the causes of failure. The situation was exacerbated by conflict between the MOA and the PCU.

82. When it proved impossible for MOF to appoint an 'administrative bank', CUDC stepped in as on-lending agent. This was done without proper training in lending activities and without an appropriate legal basis. In fact, CUDC was not legally enabled to perform lending tasks until 2001, which served to delay legal action against defaulting credit unions by CUDC and weakened credit discipline overall. Both the MTR and the OE Thematic Evaluation (2003) recommended the transfer of the refinancing function to commercial banks, but without effect. The general impression is that a closer partnership between ADP and MOF would have been beneficial to the implementation of the project. The performance of the Government cannot be rated at more than 3, although it should be made clear that it is the performance up to 2003 that is faulted.

83. **PCU/PIU**. The performance of the original PCU was satisfactory in terms of the initial establishment of CUs, but the over-rapid expansion of the CU concept involved not only ill-trained CU management teams but fraudulent applications and illegitimate political pressures. The PCU was not itself responsible for this premature expansion, which appears to have originated in the unrealistic expectations of senior politicians and donor agency officials. The initial CUDC management team was overstaffed and was ill-equipped, in terms of qualification and experience, to address the resultant problems. The replacement of the PCU by the PIU in 2001 went some way towards addressing these, but it was not until the recruitment of a fresh management team in 2003 that real progress was made and a more positive and robust approach to the matter adopted. Since that time – according to WB and IFAD officials, but more importantly according to the evidence of the CUs themselves – the training sessions have been more relevant and better taught, the management decisions more thoughtful and helpful, and the performance of the remaining CUs much improved. The performance of the PCU is rated at 2 and the reformed PIU at 5.

84. **National Bank of Georgia.** ADP has been in efficient partnership with the National Bank of Georgia (NBG), which worked well during the process of designing the Law of Non-Banking Deposit Institutions and during the period after it came into force. NBG has provided training to credit unions in meeting prudential regulations, referred to by credit unions managers as useful and effective. Although NBG regulations and standards are demanding for many credit unions, they generally correspond to international best practices.[39] The 2002 Law is acknowledged to have certain defects,

[38] The 'Rose Revolution' which caused the overturning of the Shevardnadze regime in November 2003.

[39] For example the WOCCU PEARLS system.

among them the mandatory requirement for an external audit, a prohibitively expensive exercise. The relevant regulation has been suspended by NBG on this account. The cumbersome and expensive procedure of registering new members or de-registering leavers is also a subject of complaint. Applications have been made by the Association of Credit Unions, through the NBG, for these and other articles to be revisited in parliamentary committee, but the NBG has taken no action to date. However the bank has clearly overcome its earlier resistance to the CU concept and is to be commended for the useful and effective way in which it carries out its periodic supervisory visits to CUs. This is reflected in the mission's rating of 5.

85. **World Bank-IDA.** The collaboration between the WB and IFAD has been a feature of IFAD programmes in the region, continuing in the Rural Development Project (RDP) now underway. The benefits to IFAD are its involvement in larger programmes with greater resources and WB's strong influence in terms of policy dialogue, which is reflected in the close relation between ADP activities and the development of the legal and institutional framework.

86. Supervision of the project was regularly carried out by the WB, latterly with an IFAD representative on the team. Most of the emphasis of supervision was on financial aspects of supported institutions, with less attention to targeting, poverty impact and loan utilisation. The prescribed RRAs were not carried out, and the problems involved in insisting on loan quotas for the poorest were not addressed. As suggested above, the expectations in this respect may have been unrealistic; if so, the targeting criteria required revision. During the crisis period for the CU component, over 100 Credit Unions went out of business and for this the supervision missions of 1998-2000 must be held partly accountable, in that they were slow to identify the roots of the problem and to put in place the necessary preventive measures. The WB Implementation Completion Report of December 2005, a succinct and balanced document, itself levelled criticism at the lack of suitable exit strategies at design and the shortcomings of supervision referred to above.[40] The performance of the co-financier is rated 4, on the basis of 5 for design and loan administration, 3 for supervision.

87. **Other Donors.** In addition to IFAD and WB-IDA, six different donors have contributed to the cadastral, land surveying and registration works and to the emergence of a land market in Georgia: USAID (Land Market Development Project, 1997-2004); UNDP and EU (Land Management Project 1998-2004); KfW (Cadastre and Land Register Project, 2000-2006); GTZ (Urban Land Management Project, 2001-2004), SIDA (funding for capacity building in cadastre and registration). There appears to have been limited collaboration among the eight donors involved, who did not attempt a concerted harmonisation of their efforts before 2003. Different approaches were adopted in different regions; the development of a uniform system has been hampered accordingly and is still incomplete.

III. PROJECT IMPACTS

88. **The Nature of the Evidence.** The overall goal of the IFAD components was to reduce the poverty level and food vulnerability of rural households by mobilising resources to exploit available land and family labour and to boost food production and family income.[41] Two impact ('development') indicators only were selected for the IFAD-funded components: for the CU component, 'rural population with access to credit' and for the Land Registration component, 'ratio of land transactions on titled vs. untitled land'. The former was stipulated as appraisal as equivalent to the total membership of CUs; the latter entailed a single target, that the ratio should be >1 by project completion (initially 2002). There was accordingly no monitoring of food security or income levels among beneficiaries, or of changes in the utilisation of cultivable land, and no baseline survey for these indicators. Supervision reports did not address issues concerning the socio-economic status of members and the MTR only peripherally.

[40] ' Bank acquiescence to the rapid expansion of CUs without a sufficient savings base threatened the sustainability of the CU movement' ; 'The Bank's inattention to the rapid expansion and over capitalization of the CU program between 1998-2000 contributed to the failure of over 100 CUs' (WB Implementation Completion Report, pp. 10 and 12).

[41] IFAD post-Appraisal Report, p. 22.

89. Partially offsetting these omissions, there has been a series of informative studies and reports during and after project life. In 1998, a Rural Poverty study was carried out for IFAD containing information on household incomes, assets and agricultural production. In 2003, the Rural Finance Thematic Evaluation carried out by IFAD/OE utilised this study to compare with the findings of its survey of 40 CU households, which also included information on assets and liabilities, as well as perceptions of the benefits of CU membership and a number of interesting case studies.[42] The following year, the RDP formulation mission brought together data on agricultural production and profitability as well carrying out mini-surveys regarding credit availability and farmers' priorities. In 2000, the MTR had made an approximate calculation of the overall increase in incomes of CU borrowers. Regarding the impact of Land Registration, an independent survey of 1,500 households was carried out in March 2004.

90. The present mission conducted 34 household level interviews with CU members and non-members in ten villages of the central and western regions, and with a further 32 beneficiaries of the Land Registration scheme in the two pilot districts. The analysis below is therefore based on a triangulation of sources providing quantitative and qualitative evidence together with anecdotal evidence drawn from numerous documents and discussions, buttressed by regional statistics from household surveys carried out by the State Department of Statistics (SDS) where applicable.

A. Poverty Reduction Impacts

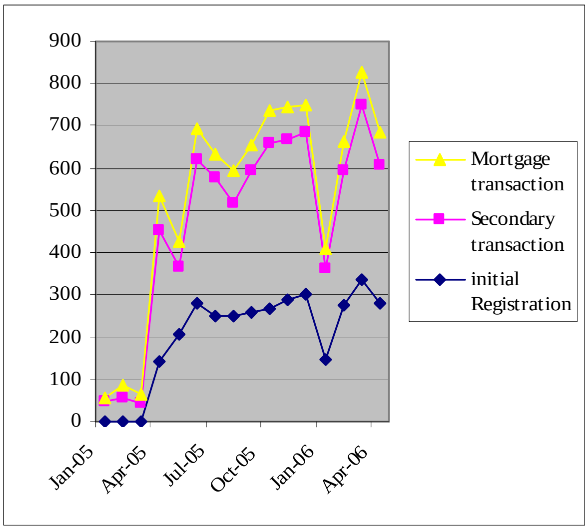
91. **Physical Assets.** The main impact of the project under this heading has been the increased value of land resulting from a more active land market in the areas covered by ADP. The previous systems, although slow and cumbersome - involving hand-written documents and lengthy procedures - did in fact provide titles, but the legal basis of the 'receive-and-delivery' documents was uncertain in the case of secondary and mortgage transactions. The establishment of digitalised registration and entitlement systems rapidly affected the liquidity of the land market in the project areas and land prices, seriously under-valued, were soon adjusted to more realistic levels. The first beneficiaries of this development were small landholders, who had previously been obliged to sell at knock-down prices, and were now able to get a fair return on the sale of unutilised land. The mission's survey of 32 households who had received land titles in the two targeted districts found that nine households had already sold their plots, and a further three had used them as collateral for loans. Fifteen households had their plots under cultivation and four were unable to do so due to lack of finance or labour.

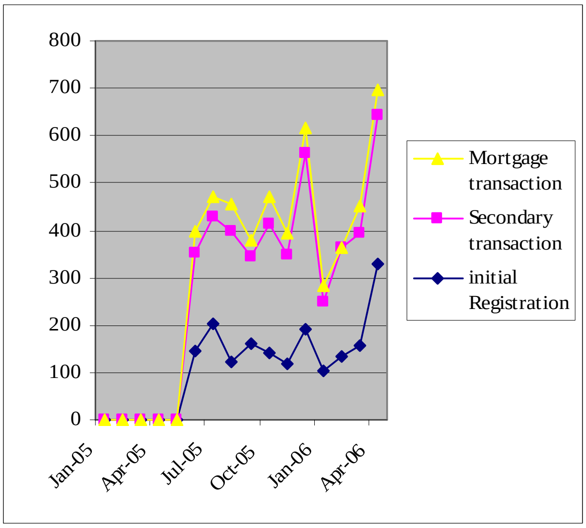
92. Increases in the price of newly-registered land were intensified in parts of Mtskheta and Gardabani, with plots close to the district capital in the latter district now selling at up to five times as much as three years ago. Prices in parts of Mtskheta have reached US$20 per square metre. It should be pointed out that particularly in such areas, the purchase price of land soon outstrips the means of local farmers, and the chief beneficiaries in the long-term are land agents and developers.

[42] Such is the variety in terms of loan utilisation and impact that only case-studies can fairly reflect the full range of activities funded by CU loans: music teaching, furniture making, small-scale greenhouse cultivation, pig-breeding, medical expenses, milling machinery, the setting up of small stores and many others.

Table 10. Recent Land Transactions Recorded in Mtskheta and Gardabani

Mtskheta **Gardabani**





Source: ADP Final Report, 2005

93. There is no conclusive evidence from any mission or survey (including the mini-surveys conducted in the context of the present evaluation) of a strong and uniform increase in household durable goods or fixed capital (implements, livestock). This could be in part the consequence of the limited number of CUs that survived the crisis time and their limited financial resources. Rating: 3.

94. **Agricultural Productivity.** During project life, an estimated 61 per cent of loans, with a total amount of US$1.36 m, were made by CUs for agricultural purposes. Even allowing for a proportion of loans (particularly in the 1999/2000 period) not utilised for the stated purpose, this represents a direct investment in agricultural inputs and cultivation in around 150 villages, at an average level of $7 000 - $10 000 per village. At a cost per ha of around $100-150 for seed, fertiliser and cultivation, 50-100 ha of new or revived cultivation per village may have been financed in this way. In the 2003 TE survey of 40 households, the cultivation of previously fallow land was not mentioned as a 'benefit', although around half of the respondents mentioned increased income or increased agricultural production as the main benefit of the loan.

95. The RDP formulation mission (2003) visited 11 credit unions and calculated that the annual gross yields on agricultural investments exceeded 100 per cent for livestock, grapes and wheat, although the report admitted that this figure would probably been less countrywide. The present mission encountered direct evidence for agricultural diversification resulting from CU loans in the shape of the cultivation of strawberries and greenhouse vegetables in areas where these crops were unknown on a commercial scale. Agricultural loans naturally tended to be concentrated in activities with good commercial potential and in some cases, this concentration of the loan portfolio proved detrimental to the credit unions concerned, as with chicken raising in Imereti, which as everywhere was badly hit by the avian flu scare, citrus fruits in Adjara, which have suffered severely from lack of markets, and water melons in one area of Imereti, where the crop was destroyed by floods.

96. No aspect of agricultural production was included as an indicator in the project logframe. One straightforward indicator would have been changes in land area under cultivation in CU villages. Anecdotal evidence suggests that this was indeed the case in several of the villages visited by the mission, but the statistical evidence is lacking. Countrywide, the sown areas of wheat, maize and vegetables all fell between 2000 and 2005, and were not compensated for by recorded increases in areas of other crops; only beans and potatoes showed a slight increase. Thus even modest increases within individual villages would have provided solid evidence of CU-inspired agricultural revival. Rating: 3.

97. **Food Security**. According to SDS figures, the overall food insecure population has been constant at around 30 per cent for the last 5-6 years. Among households interviewed during the OE

Thematic Evaluation of 2003, only one-third reported that home produce covered their food requirements for the whole year, with the remaining two-thirds reporting food insufficiency for up to six months. Villages visited by the mission gave unsupported figures of between 5 per cent and 25 per cent, therefore substantially below the national average for the most part. However, these figures cover home produce only, and the majority of households also receive small allowances or pensions from the state, which have recently doubled. As already noted, lending by CUs to the poorest category appears to have virtually ceased by mid-term. Some CUs have been able to make emergency loans to very poor households, but the impression is that families severely affected by food insufficiency still rely largely on relatives to feed themselves in the lean months. Some CUs visited described a proportion of the communities they served (up to 10 per cent) as 'hungry', but these households certainly did not constitute the target group of CUs after the first two years of the project.

98. Recent statistics from the Ministry of Economic Development showed a 10 per cent annual rise in food prices combined with a fall in real incomes. The report states baldly: 'All poverty indicators point to increase of poverty'. However, it also notes that the 'median calorie intake' per household increased by 28 per cent nationwide between 2000 and 2005 and by 35 per cent for households below the RPL, explaining this as the result of substantially increased consumption of home produce and describing agriculture as 'a sort of hedge against food insecurity'.[43] This highlights an important feature of rural poverty in most areas in Georgia: much land is uncultivated because the expected returns are not worth the expense and effort of cultivation, but it is inconceivable that land would be left uncultivated where it is a matter of being able to feed the family except in cases where there are insuperable constraints in terms of available labour.

99. Since IFAD's overall objective for the ADP included the reduction of food vulnerability for targeted households, it is a matter of some concern that no relevant indicator appeared in the logframe, with the consequent neglect in terms of monitoring and supervision. It should also be pointed out that despite the emphasis on food security in the design documents, in terms of the logical chain of the project the issue is rather far removed from the project entry points, namely land registration and credit unions. Rating: 3.

100. **Environment and Common Resource Base.** No negative impact on the environment and natural resources was observed, and the project made no investments in road building, irrigation or other schemes with potential for environmentally harmful effects. In the villages visited by the mission, organic fertilisers are still the norm for the majority of households. Livestock numbers increased in some villages as a result of CU loans, but shortage of fodder and forage is not a problem in well-watered regions with substantial areas of land lying fallow, which is the case in most regions of the plain. The land privatisation/registration process might have been expected to threaten the status of communal grazing rights, but villagers questioned on this issue denied that it had been the case. No rating is provided for this category.

101. **Human Assets.** The main impact of ADP in this respect has been the provision of loans for consumption and emergency purposes. The CUs provide the sole source of 'emergency' loans apart from prohibitively expensive informal sources. During the life of the project, at least 2,000 loans (and possibly many more in fact) were used for consumption purposes, with medical and educational expenses among the first priorities.[44] At Meore Sivri, 40 per cent of all CU loans were used for health and education purposes. Of the 40 households interviewed in the 2003 survey, 12 households utilised their loans to pay for immediate household needs such as medical treatment for children, educational expenses, house renovation, the purchase of household assets and wedding expenses.

102. Training was provided to CU staff in financial management, approaches to lending and loan appraisal, and accounting and book-keeping. Reservations were expressed by CUs about the quality of

[43] Ministry of Economic Development: Food Security Situation, Statistical Bulletin, Sept. 2005.

[44] It is likely that some loans, or a part of them, taken out for agricultural and commercial purposes were utilised for school fees and medical requirements but naturally this went unrecorded. Statistical evidence for health improvements are not available at village level and it was impracticable to obtain rigorous data through an evaluation survey.

this training in the years before 2003, but over the last two-to-three years the consensus is that the various training programmes are much improved in terms of relevance and delivery. Under the Land Registration component, the emergence of a core of well-trained staff in the refurbished and modernised registry offices has been a notable achievement of the project.
Rating: 4

Case Study. Battling Heart Disease in Meore Sviri

Ms. Nargiza Bogveradze lives in Meore Sviri village of Imereti region of Georgia. She has a big family, consisting of herself, her husband and the families of their two sons. Six years ago Nargiza started selling tobacco in the village. At that time the only cash income for her family was the small pensions she and her husband received from the state. With this sum (around 30 GEL) she decided to start a small trading business, buying tobacco in the district center and re-selling it in house-to-house in her village. Her total stock easily fitted in her old small bag. The amount she earned hardly covered her family's basic expenses.

In 1999 she learned that her 7-month-old grandson suffered from a dangerous heart disease. To save the child the family sold everything they could sell, and used their few savings and government allowances for the child to have a surgical operation. The family was left without sufficient cash for the business, so Nargiza decided to join the credit union that had just been established in the village. In 2000 she took her first loan of 100 GEL and restarted her tobacco business. With her second loan of 200 GEL, she increased the range of tobacco and added other goods such as chocolate, pastries, match-boxes and napkins. Since 2000, Nargiza has taken five loans from the credit unions, investing them mainly in her small business, but also making purchases for her house and paying for medical expenses. Nowadays she runs a small shop in the village, selling not only tobacco, but products like spaghetti, soft drinks, soaps and many other things for which there is a local demand.

Nargiza's grandson is now 7 years old, goes to school and wishes to become a 'big farmer'! Nargiza is very grateful to the credit union. "My business would never become this successful without the support that I received from the credit union," she said. "It's great to have something that can help poor families like ours."

Source: Completion Evaluation, 2006

103. **Social Capital and Empowerment.**[45] As financial institutions, the CUs must be judged primarily by their financial performance but unlike MFIs and commercial banks they are owned and managed by the communities, with a credit committee whose appraisals concern neighbours and acquaintances. In Georgia in recent times, there has been a demoralisation in many communities, the result of an abrupt change of regime, political disturbances, economic upheavals, the loss of employment opportunities and the dissolution of old certainties. Villagers questioned about the benefits of the credit unions declared that the CUs helped to support them during difficult times and give them a sense of hope for the future. This perception confirmed the findings of the TE survey of 2003, in which respondents' views of overall CU operations were 99 per cent positive, with the reiteration of such expressions as 'helpfulness', 'kindness', 'usefulness' and 'trust'.

104. Surviving credit unions are normally managed by well-known and respected villagers and often found at the heart of village life. The evidence is that they have the capacity to develop into strong self-help institutions. This might have happened earlier, and with greater impact, if the appropriate training had been given on the issue of ownership and its implications. Some uncertainty was noted by the mission on this issue, with a residual tendency among CU members to regard the credit unions as owned by donors, managers or government.[46]

105. In all CUs visited by the mission, there was evidence of impressive levels of enthusiasm and commitment among members and management committees. In Mejinistskali, seven CU members took the initiative to purchase a stock of chemical spray for the ailing citrus trees of the entire village (in a region where citrus fruits constitute the primary source of income). Many current CUs managers (including those of Chognari, Mejinistskali, Meore Sviri and Matkhoji) worked for months, or even years, on reduced or unpaid salaries in order to survive the bad times, inspiring their small staff and

[45] It should be emphasised that the positive findings under the impact section are based on visits to villages with CUs still operative, of which there are currently 20-30 out of the original 164.

[46] It was noted by the 2003 Thematic Evaluation mission that this perception arose partly as a result of the location of CUs in *sakrebulo* offices. This may be so, but the fact is that there is no practicable alternative.

working constantly toward the improvement of the poor image of credit unions created in the early years of the project.

106. Credit unions have been successful in reaching the female population. Women constitute an average of 50-55 per cent of the membership in CUs visited by the mission, and approximately the same percentage of borrowers. No gender disaggregated statistics are available at central level, but the figures collected by the mission confirm the findings of the 2003 Thematic Evaluation as well as those of the MTR and the ICR. In many of the CUs, women dominate the committees, and the managers are often women, including at Mejinistskali, one of the most successful CUs. This individual is also president of the association of credit union. The present mission conducted an additional analysis of 496 loans detailed by the TE mission and found that women commonly utilise loans for consumer and family purposes (60 per cent of borrowers in these categories are women), and trading/commercial activities (66 per cent). Men tend to be the borrowers for agricultural activities (60 per cent), livestock breeding in particular. According to credit unions managers and former staff of ADP, women are more reliable than men in terms of repayment, an impression mirrored in microfinance projects worldwide.

107. The majority of newly registered land parcels were in the name of the male head of the household, but this was not generally regarded as an issue by male or female respondents, with gender equity in the case of divorce or division guaranteed *de jure* and *de facto*. The mission survey of 32 households found that 25 plots were registered in the name of men and seven in the name of women. Rating: 4.

108. **Institutions and Services.** The impact of the CU component at policy level has been substantial. The Law on Credit Unions was drafted with the support of CUDC and adopted by the Parliament of Georgia in 2002. Despite the perceived defects of the law, this was a major step towards the proper regulation of CUs, which became subject to prudential regulation and supervision by the National Bank of Georgia through its specially created Non-Banking Supervision Department. New reporting systems and prudential standards for credit unions were introduced, and appropriate training provided.

109. The impact at the meso level is also noticeable. A total of 58 credit unions were operating at the end of the project, with varying degrees of sustainability, but still as separate functioning institutions. In 2002, the Association of Credit Unions was re-established and re-registered as a result of the initiative of a group of CU managers. Twenty-five credit unions joined the association, although only three-to-four are currently active and paying membership fees. The association is at the initial stage of its development, but is already performing an active role in lobbying for the interests of credit unions with parliament, the government and the National Bank of Georgia, particularly with regard to the amendment of the existing Law on Credit Unions. Under the leadership of a handful of CU managers, the association at present acts as a ginger group and spearhead for the CU movement[47], and hopes ultimately to assume some of the functions of the PCU/PIU, as envisaged by the MTR.

110. The picture of impact would not be complete without mentioning the unintended impact that the project had on people, institutions and the financial sector due to the failure of the credit union component in the early years of implementation. The consequences - negative credit culture and the poor image of CUs - still adumbrate those credit unions in operation, and the resistance among the public and among government officials is only slowly dissolving.

111. ADP impact on the countrywide system of titling and registration was significant, even if only as part of a multi-donor initiative. The establishment of land registration offices using modern surveying techniques and greatly streamlined procedures for the capture, storing and production of documents revolutionised an outdated and inefficient system of doubtful legality. From among a number of donor-supported alternatives, the Mtshketa/Gardabani system has been chosen as the model

[47] The president of the association attended the evaluation wrap-up meeting where she gave an articulate and informative account of the prospects and problems of the CU movement before an audience containing senior officials of the MOA and MOF. Such events constitute an important step in the restoration of the image of CUs in governmental circles.

of countrywide replication. The establishment of the NAPR was a direct result of ADP initiatives, and its setting up was supported physically and financially by the project.

112. The loans made under the Credit for Enterprises component gave a substantial boost to medium-term commercial bank lending to the agro-processing sector, which scarcely existed at the start of the project. The banking system is considerably stronger than it was when the project started, with total assets increasing more than five times between 1997 and 2004 and bank liquidity on the rise in recent years. The approval process for participating banks assisted the banking system as a whole by establishing a set of prudential standards for all banks. Several leading banks have recommenced lending to the rural sector and the strong interest expressed by Georgian banks in the forthcoming RDP agricultural credit line is indicative of their interest in rural lending and the growing maturity of this market. Rating: 5.

113. **Financial Assets.** More than 12,000 rural people gained access to retail financial services for the first time since independence. Many CU members have made use of savings and loan services several times over and continue to do so. Total savings of 2.8 m GEL were mobilized in rural communities and over 12.5 million GEL in rural lending was generated by CUs created by the project, financed by 3.6 m. GEL in project loans.

114. One hundred percent of credit union members surveyed in 2003 indicated that the CUs had been their only source of loan during the previous last 24 months. A total of 75 loans were utilised by the 40 households. Non-members of credit unions interviewed by the present mission, in villages with or without credit unions, give informal lenders (relatives, friends and neighbours) as their main source of borrowing or, as a last resort, private moneylenders charging an 8-10 per cent monthly interest rate on the loan, or double the credit union rate. Ten beneficiaries out of 13 stated that they would have not have been able to undertake their chosen activities without support from credit unions, having no alternative sources of financial support elsewhere[48]. The flexible nature of loans and loan conditions offered by CUs was especially appreciated by borrowers and potential borrowers interviewed by the Mission.

Table 11. Sources of Household Borrowing

Source	Villages with CUs: CU members - respondents: 13	Villages with CUs: Non-members - respondents: 6	Villages without CUs - respondents:15	Total
Commercial bank	2	1	1	4
Credit Union	13	0	0	13
Relatives, friends, neighbours*	10	5	9	24
Private lenders and traders	3	1	4	8
No borrowing at all	0	0	1	1
Total mentions	**28**	**7**	**16**	**51**

* *interest free*

Source: Completion Evaluation, 2006

115. The loans enabled borrowers to initiate new income generation activities or to re-start productive enterprises relinquished through lack of finance. According to around half of the borrowers interviewed by the mission, net profits of new businesses were usually re-invested in the form of working capital or the purchase of livestock or other assets. The household survey of 2003 showed that 28 out of 40 household used their loans primarily for business purposes, with an income increase recorded for 14 of them. Only one respondent reported a decrease. The range of income increase was very wide - from 17 per cent to 200 per cent - but never insignificant. On the basis of its interviews with CU members, the estimate of the MTR mission was that borrowers from CUs had increased their incomes by an average of 30-40 per cent. The RDP formulation mission estimated income increases of between 200 and 450 GEL per borrowing household. Rating: 4.

48 Informal lending is rarely used for business start-up, but rather for emergencies and very short-term needs.

Arcena Eliashvili received a loan from the credit union to buy fertiliser for his small rose farm in Giorgi Tsminda village.
IFAD Photo by Robert Grossman

116. **Markets.** The development of markets, as well as the necessary infrastructure in terms of improved roads and transportation, is essential to the improvement of incomes and welfare in the rural areas, but was effectively an area of non-intervention as far as ADP was concerned. Surplus produce is often wasted, notably where export markets have been affected due to political developments, such as the citrus market in Adjara and the tea market in western regions. In remote areas, roads are difficult and transport lacking. The mission spoke with the manager of one CU located in a highland area of Adjara where no transport existed for the conveyance of potatoes and fruit to markets. In lowland areas of the same region, large quantities of oranges and mandarins had been dumped in the fields. No rating is attributed to this domain, as it was not part of the project objectives. However, addressing market constraints should be a key element of future interventions.

B. Sustainability and Ownership

117. Project achievements in the spheres of land registration and credit for enterprise - both in terms of the actual enterprises supported and the strengthening of the banking sector - seem assured through the process of institutionalisation. The land registration scheme is also backed by a well-equipped and self-financing agency. Further donor funds to finance the expansion of the system nationwide will be forthcoming under the RDP and other donor-funded projects.

Table 12. Profitability/Self-Sufficiency of Credit Unions

	2003	2004	2005	Dynamics 2005/2003
Operating income	177 976	173 575	274 922	+54 per cent
Financial expenses	111 839	89 452	135 131	+21 per cent
Loan loss provision expenses	16 107	31 729	29 938	+86 per cent
Operating expenses (administration, salaries)	75 833	76 683	114 330	+51 per cent
Net operating profit	-25 803	-24 289	-4 477	+83 per cent
Operational self-sufficiency	87 per cent	87 per cent	98 per cent	+13 per cent
Subsidy adjustment [49]	26 881	72 494	51 395	+91 per cent
Adjusted net operating profit	-52 684	-96 782	-55 872	-6 per cent
Financial self-sufficiency (real)	77 per cent	64 per cent	83 per cent	+8 per cent

(*All amounts in GEL*)
Source: Completion Evaluation, 2006

[49] Adjustments made for inflation, subsidies and in-kind donations.

Table 13. CUs by Self-Sufficiency Profile, December 2005

#	Profile	Characteristics of the CU and trends for the last three years	Number and names of CUs	Assets and members
1	Leading CUs	Financial sufficiency ratio has reached 85 per cent, total assets are more than 100 000 GEL; loan portfolio and amount of savings are constantly increasing	**2:** Khutsubani and Mejinistskali	Assets: c. 500 000 GEL Members: 1 010
2	Growing CUs	Financial sufficiency ratio is stable at more than 65 per cent; total assets less than 20 000 – 65 000 GEL; loan portfolio and amount of savings are constantly increasing	**6:** Majkhoti, Meore-Sviri, Chognari, Meria, Likhauri, Dedophlistskaro,	Assets: c. 240 000 GEL Members: 1 016
3	Weak CUs and CUs with uncertain development trends	Financial sufficiency ratios less than 65 per cent or development trends not consistently positive; total assets less than 20 000 GEL or decreasing, savings mobilization not stable	**7:** Dimi, Qvilishori, Kukhi, Khvaliti, Pipleti, Siqtarva, Tamarasheni,	Assets: c. 85 000 GEL Members: 411

Source: Completion Evaluation, 2006

118. **Sustainability of CUs.** The Rural Development Project, now getting underway, continues WB/IFAD support to the credit component, with funds presently in the ADP Revolving Fund earmarked for further tranches of credit for selected CUs. However, the overall sustainability of CUs remains a concern. Detailed financial information about the 58 credit unions operating under ADP at project completion was not available, with only 21 credit unions regularly reporting to the National Bank of Georgia and the PPC. The mission was provided with the data on 20 credit unions, but for only 15 of these - which inevitably represent the better-performing CUs - was information detailed enough for analysis. It is important to note that credit unions' financial statements were self-reported and were never audited externally: the mission found inaccuracies and discrepancies, some of them significant. Table 12 below shows overall income and expenses of the 15 credit unions analysed, utilising CGAP standard indicators of operational and financial self-sufficiency. Adjustments were made to remove the effect of subsidies.

119. The performance of the remaining credit unions operating in 2005, cannot be accurately assessed. There is a consensus between former project staff and the Non-Bank Supervision Department at NBG that many of them were either unable to obtain a valid license or are defunct because of insolvency, lack of membership or delinquency problems. It can be concluded with a degree of confidence that the great majority of credit unions operating at the end of 2005 belong in the third category of the table above, 'weak or with uncertain development trends'.

C. Innovation, Replicability and Scaling-up

120. **Rural Credit.** Two kinds of innovation are discussed here: the introduction of CUs and small innovations in financial products developed by some CUs. Prior to ADP, there was no medium-term commercial bank lending to the agro-processing sector, which was initiated by the WB-funded Credit to Enterprises component and has since increased significantly. Equally, there was virtually no access to formal credit in rural areas before the advent of the CUs and consequently nothing that could be described as a 'credit culture'. The major innovation of ADP was in its attempt to set up a village-based network of financial institutions without precedent in Georgia. The means by which this was done, and the form of the CUs themselves was familiar to microfinance programmes in the region and elsewhere, but the establishment of viable community-owned and community-managed banks institutions offering loans and deposit accounts was a bold initiative in a country with a generally negative attitude towards cooperatives in the wake of the Soviet experience. With the benefit of the hindsight, the limitations of the project were to (i) underestimate the risks of developing financial institutional innovations under a volatile policy environment and (ii) provide limited technical assistance to support the development of CUs (the CU component was based on WB experiences in Albania, where the 'learning-by-experience' method had given positive results).

121. Smaller innovative initiatives undertaken by the credit unions themselves include:

- the introduction by Khutsubani CU of a range of savings options - long-term deposits up to five years, special deposits for children and pensioners, and deposits reserved for a particular purpose, all with flexible interest rates;
- the provision of collateral-free loans for emergency purposes;
- house-to-house mobilisation of savings in Meori Sviri and Meijinistkali;
- communal initiatives taken by members of the Meijinistkali CU;
- the re-creation of a CU apex association as a genuinely bottom-up initiative[50].

122. **Land Registration.** The model developed under ADP in Mtskheta and Gardabani has been selected as the basis for a uniform countrywide system. The collaboration between WB and the EU-funded pilot project was commendable and resulted in the development and refinement of appropriate software, which is at the heart of the survey/titling process. Equally, the land offices in Mtskheta and Gardabani, which offered what amounted to a brand new service, act as models for the setting-up of similar offices elsewhere in the country, and as a widely-used source of advice. In this way, the ADP activities in the two pilot districts have successfully acted as an example and spur for the countrywide coverage. This case provides an example of replicating an innovation by forging an alliance with a partner (EU) with practical experience and relevant technical expertise (through its former pilot project).

123. **Impact Ratings.** The mission awarded the following ratings for each impact domains, giving an average impact rating of 3.7:

Physical Assets		**3**
Food Security		**3**
Human Assets		**4**
Social Capital and Empowerment		**4**
Agriculture Productivity		**3**
Institutions and Services		**5**
Financial Assets		**4**
Markets	**-**	[not applicable]

The mission's ratings for sustainability and innovation were as follows:

Overall Sustainability Rating	**3**
Innovation, Replication and Scaling-up	**5**

IV. CONCLUSIONS AND RECOMMENDATIONS

A. Overall Assessment

124. ADP was a useful project implemented in difficult conditions. The Credit to Enterprises component, representing almost half of base costs, successfully met its major development objectives. The component was rapidly implemented, repayment rates and rates of return (where calculated) were satisfactory, and its role in stimulating medium term lending to agro-industrial enterprises is clear. The establishment of a functioning system of registration and titling, in the process of being replicated countrywide, was also a major achievement of the project.

125. However, the lack of integration between the components meant that the project was no more than the sum of its parts. If the credit unions had served to finance the production of milk, grapes, hazelnuts, citrus fruits which then provided the raw material for the agro-processing enterprises supported by ADP, the impact of the project as a whole might have been more impressive. In that case, a system of zonal targeting would have been required which was not apparently considered. Overall project rating: 4.

[50] The original formation of an apex association was undertaken at the behest of the CUDC. It failed.

Georgia is suffering from the wine embargo by Russia, making farmers really suffer.
IFAD Photo by Robert Grossman

126. **The Credit Unions.** The credit union component failed in its objective of establishing an extensive network of viable credit unions. Disturbing financial trends in CU development were overlooked by supervision missions and, when it came to the crunch, the MOF decided to withdraw its support rather than intensify a search for remedial measures. The results included insolvencies, legal proceedings and a severe setback to the reputation and prospects of the CU movement in Georgia, from which it is only now recovering. Yet the CU concept is very much alive, and now has support within the National Bank and the ministries of finance and agriculture, and even at presidential level. Plans under the RDP guarantee further support, with the benefit of lessons harshly learned during the near collapse of the CU movement. The achievement of the CU component, guided by a very active management team, in reversing the negative image following the collapse of 2000/2001 should not be underestimated.

127. It is the opinion of the mission that something of real value has been gained through the implementation of the credit union component. The emergence of community-based cooperative institutions with the capacity to provide loans not only for productive investments but for medical emergencies or seasonal shortages is a source for villagers, in their own words, of *hope*. The obstacles to sustainability are not insuperable. With the appropriate measures in place, a network of viable CUs can still be established. As financial institutions, credit unions have their unique advantages. They are user-owned and can serve needs of rural poor efficiently and cost effectively. They can operate in areas which banks and other microfinance providers do not serve and provide services to their members, including savings, from which other microfinance providers are barred. With sufficient savings and carefully controlled administrative costs, they are in a position to price their loans more attractively than other providers, as well as be more flexible in setting loan conditions and tailoring products to individual borrowers.

128. **Outreach.** The Land Registration component reached all sectors of the rural population in the selected districts, there being effectively no landless households in rural areas following the post-soviet distribution; the Credit for Enterprises component targeted only entrepreneurs, but also benefited wage-labourers, albeit on a limited scale; the Credit Union component aimed to include the very poor but failed to do so. The fault lay partly in design and partly in implementation. The targeting criteria at design were on the one hand unrealistic and on the other unverifiable. Initially, the loan conditions were inappropriate, and by the time this was rectified credit unions were wary of lending to anybody without secure means of repayment. Insufficient attention was paid to the issue during supervision missions. But it was probably the timing of IFAD involvement in what was originally a WB-designed project that lay at the root of the problem.

129. **Progress Made on IFAD's Strategic Objectives and the Millennium Development Goals**
As previously highlighted, the project was relevant to the third and second objectives of IFAD's Strategic Framework, respectively, (a) increasing access to financial services and markets; and (b) improving equitable access to productive natural resources and technology, through the rural finance and land registration component. Although few CUs are now operational and financially

viable, the project had a demonstration effect which contributed to changes in the attitude of policy makers. On the other hand, the land registration component improved the efficiency of the land market. However, this reports has signalled the limitation of the final impact on household physical assets and food security (which correspond to the MDG1 of halving extreme poverty and hunger), as a result of the problems suffered by most CUs and of the absence of a real agricultural development component.

130. **Benchmarking.** A rough guide to overall project performance can be obtained through the comparison of the present evaluation ratings with the mean performance scores of projects and programmes evaluated by OE in 2005, as set out in Table 14. Several ratings are lower than averages of the Annual Report on Results and Impact of IFAD's Operations (ARRI), with the exception of innovation (higher). The reasons have been explained above.[51]

Table 14. Comparison of Ratings with 2006 ARRI Mean

Heading	**ADP**	**Mean 2005 ARRI**
Relevance	4	5.1
Effectiveness	3	4.2
Efficiency	3.5	3.9
Impact*	3.7	4.12
Sustainability	3	3.6
Innovation, Replication, Upscaling	5	4.2
Performance of IFAD	4	*3.84 (2004)*
Performance of CI**	4	*4.12 (2004)*
Performance of Government***	3.3	*4.06 (2004)*

* Average of ratings for individual impact domains
** The World Bank acted as co-financier as well as undertaking the functions of Co-operating Institution
*** Average of ratings for the relevant government ministries and the PCU/PIU

B. Key Issues for the Future

131. **The Road to CU Sustainability.** As indicated in the previous chapter, only a handful of credit unions show prospects for sustainability in the relatively short-term. Future loans to CUs must be linked with performance, and pressure must be exerted on CU management to adopt strategies designed to establish financial self-sufficiency, including strict monitoring of delinquent loans and appropriate incentives for savings mobilisation. The key factors in achieving sustainability can be summarised as follows:

- Strong management and governance of credit unions, aimed at the creation of viable financial organizations prepared for the eventual exit of supporting projects;
- The building of a savings culture through savings mobilization, including very small savings;[52]
- Economy of scale through mergers, involving a move to trading centres where feasible;
- Loan portfolio diversification;
- Proper capacity analysis of potential borrower through a combination of character-based lending with capacity-based lending;
- Individually tailored repayment schedules;

[51] However, little can be said beyond simple description, given the fact that the ARRI sample is not necessarily representative of the overall IFAD portfolio, nor is a representative regional sample available.

[52] Often referred to as the 'start small/think big' approach.

- Close monitoring of all loans, particularly delinquent loans, with appropriate control mechanisms in place;
- Loan refinancing and rescheduling applied rarely and selectively.

132. **Future of Credit Unions.** The best performing credit unions have diversified their portfolios, sought their clientele over areas wider than a single village, placed less emphasis on agricultural loans, accept only members with strong repayment capacity, and are considering moving their headquarters to trading centres (in one case, Khutsubani, the move has already been accomplished). These trends point the way to a credit union concept far removed from the village-based institution concentrating on agricultural loans and with a particular brief to target the poor. The PCC, which as the successor to the CUDC/PIU embodies the institutional memory of CU experience as well as the crucial link between ADP and RDP, favours the emergence of a limited number of regional credit unions, urban-based where possible, an approach that would allow for the mobilisation of savings in trading centres.[53] The risk is that these institutions might turn away from the countryside, focusing on the more attractive urban loan market, and progressively lose touch with the poor in rural areas. The comparative advantages of village-based institutions, and with them the rural poverty focus which constitutes IFAD's core priority, might thereby be put in jeopardy.

133. **Marginalized Groups.** Particularly at risk would be those groups lacking in entrepreneurial initiative and sound business plans, and unable to meet collateral requirements. The Government of Georgia has set a course which emphasises the development of private enterprise; meanwhile the early experiences of CUs have resulted in the abandonment of pro-poor quotas. The current policy mantra is that those farming households which lack labour capacity or the ability to rise to the challenge of exploiting their land in a businesslike way can only be reached by direct assistance through welfare programmes, but there is little evidence at present of a determination to identify and finance such measures.

134. Much depends on the way in which such marginalized groups are perceived. The mission's discussions with CUs and project officials indicated little confidence in the possibility and opportunity to serve very poor groups. But there is a tendency to lump together all marginalized groups, ignoring the fact that included among them are the aged, families whose offspring have migrated to towns or foreign countries, women-headed households, farmers who have failed to make the transition from the securities of a collective system that spanned half-a-century, and individuals whose harsh experiences of the 1990s have resulted in profound disillusionment. It is all too easy to regard 'idleness' as an endemic condition without considering the alternative: that it may be the despairing reaction to circumstances beyond local control.

135. **Alternative Approaches.** The combined implications of the 'urbanising' trend within the credit union network, the unacceptable financial risks of quasi-charitable loans to the very poor, and the lack of government welfare schemes make it imperative for IFAD to explore the various possibilities of reaching very poor groups in rural communities. Directions have been taken under RDPHMA, both in terms of targeting and component design, but these initiatives have so far met with little success and are restricted to mountainous regions[54]. The main emphasis of RDP is on 'those farmers interested in commercially-oriented farming', with the client group envisaged as being 'largely self-determined' and targeting to be achieved 'through the nature of the supply-response to client-determined investment plans'. There is mention of 'specific targeting mechanisms to ensure that the poorer sections of the rural population are able to participate in commercial agricultural activity' as well as 'the enhancement of female economic activity' through special training schemes. These mechanisms include farmer-to-farmer and group-based approaches, but the impression persists that participation in the project will depend on a level of commercial initiative and forward-thinking which might prove beyond the marginalized groups mentioned above.

---

[53] In the words of one WB consultant: 'The purpose is to get the towns to finance the countryside.'

[54] The mission observes that IFAD approaches in the region effectively equate 'mountainous' with 'very poor' regions, no doubt justifiably. What this means is that an upland project tends to maintain 'pro-poor' approaches which are gradually being abandoned elsewhere (not only in Georgia but elsewhere in the world).

136. There is no easy answer to this dilemma, which is by no means restricted to Georgia, or to the CEN region. An immediate objective must be to ensure that all cultivable land is productively utilised, and one suggestion in particular was reiterated by farmers themselves: the need for cheaper and easier access to mechanised cultivating equipment - tractors, ploughs, mini-tractors, rotovators - through the establishment of local hire centres. The RDPHMA is setting up a number of so-called 'Farmer Houses', designed to provide access to inputs and machinery, but their implementation is reportedly problematic. It will be argued that even if the necessary equipment and inputs are made available at reasonable prices, it will still be the more active farmers who will take advantage of them. For this reason, general training programmes at a village level may be necessary to expound the implications of commercialised private agriculture, outlining the opportunities available, the necessary investments and how to finance them, and the preparation of simple business plans, with courses designed for the entire farming population.[55]

137. The other pressing issue, not directly addressed by ADP, is that of markets. The repercussions of the ban on exports to Russia are being energetically pursued by the Government, but the solutions will undoubtedly take time to put in place. Private initiatives are being undertaken to set up new fruit and vegetable processing plants in rural areas, for example for citrus fruits in Adjara, but these are still isolated examples. Meanwhile, the issue of access to urban markets within Georgia needs to be urgently addressed. In remote and mountainous regions, road improvement is one aspect of this problem, but there are also indications that large urban markets, particularly Tbilisi itself, are controlled through unofficial monopolies. The paucity of fresh fruit and vegetables inside the capital is very disappointing in a country with an abundance of such produce.

138. **Partnership with the World Bank.** This report has stressed the advantages of partnership with WB in Georgia, while also drawing attention to its problematic aspects. The latter include some difference of attitude to the importance of targeting and a consequent neglect of poverty impact in supervision. There were two appraisal reports stating separate objectives, and the targeting criteria for the CU component, which might have been more carefully thought out had they been part of the original design, were by nature of an addendum. There are also indications that IFAD was drawn away from its area of expertise by agreeing to co-finance the Land Registration component - and indeed by including land registration as a priority issue in the 2004 COSOP. IFAD's involvement in this ADP component was the outcome of negotiation, but the selection of two districts notable for their proximity to the capital and their attraction for urban buyers of vacation properties is probably not an option that IFAD by itself would have countenanced. The emphasis on security of tenure and the use of titled land as collateral is subsidiary to the main objective of the component, which was one of administrative efficiency and the creation of an active land market. Perhaps the shortcomings of design from IFAD's particular viewpoint, and especially the absence of poverty impact indicators, were a corollary of the timing of the negotiations, in other words of IFAD's involvement at a point when the main elements of the project had already been decided. These considerations are certainly not intended to deter the Fund from future collaboration with the Bank, but nevertheless deserve some careful thought in terms of the necessary conditions for effective partnership.

C. Recommendations

139. IFAD should clarify its priorities and conditions for involvement in co-financed projects. In particular, the Fund should ensure the inclusion of appropriate impact indicators connected with its especial concern for very poor and marginalized groups. It should maintain a regular presence on supervision missions in co-financed projects.

140. The Government of Georgia has opted for the growth-oriented approach to poverty alleviation. In this case, urgent measures will be required to provide safety nets for those households unable to take advantage of measures aiming at agricultural commercialisation.

[55] It should be noted that there exist in Georgia two resources to make such interventions possible: the positive legacy of the comprehensive Soviet educational system, and the fact that the great majority of households possess at least 0.75 ha of cultivable land, even if located at some distance from the village.

141. The lesson of the CU experience is that credit unions can be part of the solution to rural poverty but not a panacea. Strategies must be devised to strengthen the economic tissue of rural areas and increase the number of potential clients both interested in, and eligible for, borrowing. These should include measures to enhance the production capacity of poorer rural households, such as:

(i) more direct solutions to the problem of uncultivated arable land, based on access to mechanised equipment for example through customised financial services;

(ii) improved marketing methods for agricultural products, including attention to post-production phases such as storage, packaging and processing;

(iii) reflect on marketing and value chain issues, including access to urban markets, need to identify organisations (NGOs or international agencies donors) with relevant experience in Georgia or in the region.

142. Future microfinance projects in Georgia should learn from the principal error made under ADP, which was to allow the numerical target to become the predominant indicator. The aim should be for rural finance components to match the best practices internationally and to reflect the priorities of IFAD's rural finance policy. Project designs must recognise that the sustainability of CUs depends on high repayment rates, and find appropriate ways of reaching the poorest members of rural communities.

143. Specific recommendations for future interventions to support credit unions include:

- Greater focus on building the capacities of credit union management rather than on the injection of fresh loans and grants;
- Avoidance of 'disbursement pressure'; easy access to external funds may threaten the motivation of credit unions to work towards long-term stability; initial funding to the apex organisation and to credit unions should be restricted, with incentives for its eventual increase;
- Support for savings mobilization activities and the linkage of overall support to the volume and quality of savings;
- Setting of high performance standards for credit unions wishing to benefit from future projects, including quantitative indicators such as financial ratios and efficiency measures, and qualitative indicators such as management commitment to serve the needs of the poor, the degree of community participation, and internal control and business planning practices;
- Commitment to the goal of building financially sustainable organizations utilising internationally accepted benchmarks; monitoring of financial performance but also of social performance, with the application of the 'social performance management' (SPM) system as one option;

144. Regarding land registration, the mission recommends devising measures to protect the rural population from the effects of land speculation in areas where the demand for residential property is likely to catapult land prices beyond the means of local farmers. The priority given to village residents in the original distribution of land was aimed at guaranteeing the basic livelihoods of those depending on the land for their survival and this aim should not be jeopardised.

The Road to Recovery for Dedophlistskaro CU

The credit union of Dedophlistskaro village in Kakheti region was established in 1997 and received a license from NBG in 2003. By June 2005 it had 143 members with share capital of GEL 11,563. The Supervision Committee consists of three people and holds meetings quarterly, in which it discusses general management issues. The Credit Committee performs loan approval, loan restructuring and supervision of lending procedures. The full-time staff includes the manager, accountant and one loan officer, who between them are responsible for day-to-day operations.

The credit union faced serious problems in 1999-2002, mainly caused by the severe drought in the region. At this period the majority of the loan portfolio was with agricultural loans, specifically with wheat; as a result of the drought the portfolio became non-functioning. The credit union applied to CUDC for restructuring of its debt to the project, but during this period the central Credit Committee lacked an MOF representative, and the CUDC was thus unable to offer support. The credit union almost ceased operations in 2001-2002, reaching a low point of only GEL 10,000 in total assets.

In 2003, after re-activation of the credit line and the declaration of Kakheti as a disaster area by presidential decree, it was decided to freeze the penalties and interest on the non-performing part of the portfolio (around GEL 21,000) and extend the terms of the CUDC loan. Additionally, the project issued a new loan. From 2003, the credit union renewed its activities. Its performing assets have increased, and as of June 2005 the credit union already has more than GEL 70,000 in loan portfolio, with 59 per cent of it in agriculture, 25 per cent in consumer loans and 16 per cent in commercial loans. Repayment rates have improved. The savings base of the CU is still only 15 per cent of the total debt, and is mainly comprised of current deposits, but an upward trend is observable over the last three years. The management of the credit union is committed and works hard to achieve long-term success. As of end of 2005, Dedophlistskaro had reached 65 per cent of financial self-sufficiency.

Source: adapted from WB/IFAD Agricultural development project, Georgia, Final report 2005

APPENDIX 1

Persons Met during the Evaluation

Organization	Name	Position
1. Government		
Ministry of Agriculture	Mr. Mirian Dekanoidze	Deputy Minister
Ministry of Finance		DeputyMinister
Ministry of Finance		
National Bank of Georgia	Ms. Mzia Tepnadze	Head of Non-Banking Supervision
National Agency for Public Registry	Mr. David Begiashvili	Head of NAPR
National Agency for Public Registry	Jaba Ebanoidze	Manager APLR
National Agency for Public Registry	Ms. Tea Dabrundashvili	Deputy Manager
National Agency for Public Registry	Mr. Mamuka Jakeli	Finance Officer
Gardabani Registry Office	Mr. Ucha Khutsishvili	Head of Office
Gardabani Registry Office	Mr. Kakha Qareli	Deputy Head of Office
Mtskheta Registry Office	Mr. Firnai Kirvalidze	Head of Office
2. Projects		
ADP	Ms. Lali Durmishidze	Former ADP project director
ADP/CUDC	Ms. Natia Jorjika	Former Head of CUDC
ADP/CUDC	Mr. Temur Kuprava	Former Head of CUDC
ADP/CUDC	Mr. Tristan Nikoladze	Former CUDC Loan Officer
ADP/CUDC	Mr. Ambako Vacharadze	Former Regional Representative
ADP/CUDC	Mr. Mamuka Tsetskhaladze	Former Regional Representative
RDPHMA	Mr. Mamuka Cheishvili	Programme Director
3. Banks and MFIs		
Constanta Foundation	Mr. Levan Lebanidze	Executive Director
Credo/VF	Mr. Gerloff de Korte	Executive Director
Credo/VF	Mr. Zaza Pirtskhelava	Deputy Director
Credo/VF	Mr. David Kvantaliani	Regional Manager, Kutaisi
Georgian Rural Development Fund	Mr. Giorgi Chionishvili	Director
Pro-Credit Bank	Mr. Paata Khunjilia	Kutaisi Outlet Manager
Pro-Credit Bank	Mr. Zviad Berikashvili	Kutaisi Senior Lending Officer
People's Bank	-	Zestapony branch manager
Bank of Georgia	-	Deputy Director of Kutaisi Branch
4. Donors		
World Bank	Ms. Tatyana Kandelaki	World Bank Programme Officer
World Bank	Mr. Gary Smith	Consultant, ADP
IFAD	Mr. Andrew MacPherson	Consultant, RDP
USAID, Georgia	Mr. David Gosney	Director, Economic Growth Office
EC Food Security Programmed	Mr. Seamus O'Grady	ECFSP Consultant
EC Food Security Programmed	Mr. Rati Shavgulidze	ECFSP Policy Analyst
IFMC	Mr. Humphrey Abbott	
*5. Credit Unions**		
Chognari CU	Ms. Nana Basiladze	Manager
Dimi CU	Ms. Mariam Maglakelidze	Manager
Kedlebi CU	Mr. Ruslan Shavadze	Manager
Khutsubani CU	Mr. Mamuka Tstetskhladze	Manager
Kukhi CU	Mr. Ambako Vacharadze	Manager
Kvaliti CU	Mr. Kukuri Gabrichidze	Manager
Mejinistskali	Ms. Tciala Surnmanidze	Manager/ President of CU Assoc.
Meore Sviri	Mr. Oleg Tutarashvili	Manager

***** The mission also met committee members, accountants and members of the CUs listed, as well as villagers from these villages without CUs: Zeniti, Alambari, Mukhaistati, Supsa, Chochkati.

APPENDIX 2

Bibliography

Monnie, Biety: Business Plan for Three Regional Credit Unions, September 2004

CGAP: Format for appraisal of microfinance institutions, 1998

CGAP: Microfinance gateway, Regulation database, Georgia, 2005

CGAP: Managing Risks and Designing Products for Agricultural Microfinance, 2005

CGAP: Donor brief #25, Working with Savings and Credit Cooperatives, 2005

CGAP: Apex Institutions in Microfinance, 2002

CGAP, MFC (Microfinance Centre): The State of Microfinance in SEE and NIS, 2003

Jesus Chaves: Training Materials for CUs, 2004

Danile Danielson: Business Plan for Registration System of Immovable Property, December 2003

EBRD: Microloans in Rural Development

The Economist Intelligence Unit: Georgia Country Profile, 2005

GEPLAC: Georgian Economic Trends, March 2006

GORBI: Land Market Research Survey, 2004

Government of Georgia: Basic Data and Directions for 2007-2010

Government of Georgia: Law on Privatization of Agricultural Land in State Ownership (2005)

IFAD: Georgia ADP Post-Appraisal Report (Main Report and Annexes), January 1997

IFAD: Loan Agreement between Georgia and IFAD, May 1997

IFAD: Report and Recommendation of the President to the Executive Board on a Proposed Loan to Georgia for the Agricultural Development Project, April 1997

IFAD: OE Thematic Evaluation on Rural Financial Services in Central and Eastern Europe and the Newly Independent States, September 2005

IFAD: Regional Strategy Paper for Central and Eastern Europe and the Newly Independent States, March 2002

IFAD: Country Strategic Opportunities Paper (COSOP), December 2004

IFAD: Subregional Strategic Opportunities Paper (Azerbaijan and Georgia), March 1999

IFAD: Georgia Country Programme Issue Sheet 2005

IFAD: ADP Mid-Term Review Report, November 2000

IFAD: Rural Finance Policy

IFAD: RDP Formulation Report, December 2004

IFAD: RDP Project Appraisal Report, April 2005

IFAD-MIX: Mission to Georgia Report, 2006

Imp-Act and MFC: Social Performance Management Guidelines, 2005

Dean Mahon: Prudential Standards for Credit Unions and Monitoring Systems for CUs, 1998

Peter Marion: Rural Credit Unions: Technical Consultant Report, May 2004

MIX: The MicroBanking Bulletin No.11, 2006

Microinsurance Centre and MFC: Demand for Microinsurance in Georgia, Study Results, 2005

National Bank of Georgia: Main Macroeconomic Aggregates and Annual Inflation, 2005

PIU/ADP: Financial and Lending Data of Reporting Credit Unions, 2003-2006

David Sharp: Land Registration System and NAPR, Mission Reports, April 2004 and May 2005

Dora Turrula: Operational Manual for CUs, CUDC project documents, 2002

USAID-AMAP: Assessment of Financial Regulation and Access for the Poor in Georgia, 2005

USAID-GMSE: Summary Analysis and Report of the USAID Georgian Microfinance Stabilization and Enhancement Microfinance Demand Survey, 2004

WOCCU: A Technical Guide to PEARLS (performance monitoring system)

WOCCU: Strengthening Credit Unions

World Bank: Agricultural Development Project, Staff Appraisal Report, February 1997

World Bank: ADP Project Status Reports, from sequence numbers 3-20, March 1998 to March 2005

World Bank: Proposed Amendment of the Development Credit Agreement, March 2002

World Bank: ADP Supervision Reports and Aide Memoires, 1997-2005

World Bank: ADP Annual Project Reports and Implementation Completion Report, December 2005

World Bank: Irrigation and Drainage Community Development Project Annual Report, 2005