Georgia

Rural Development Project
Project Performance Assessment

Executive Summary

1. The Rural Development Project (RDP) was designed and implemented in a critical transition period in Georgia. Following the 2003 Rose Revolution, the country experienced a set of fundamental and radical political, economic and social changes. These changes were reflected in the fluid policy agenda for agriculture, which was subjected to frequent revisions to accommodate fast-changing realities. In general, the Government has been supportive of agricultural development and rural poverty reduction, and particularly in recent years, agriculture is returning as a priority of policymaking and public investments.

2. However, Georgian smallholder farmers have been facing great challenges in reviving agriculture production, ensuring product quality, obtaining extension services, expanding small businesses and exploring markets. The lack of access to affordable credit has been a major constraint to development in rural areas, and with political disputes agricultural trade with Russia has almost completely broken down, leading to the loss of Georgia's traditional markets. Today, Georgia exports a limited amount of agroproduction. Wine, mineral water, citrus and hazelnuts are its leading export commodities.

3. **Project performance**. RDP was the second IFAD/World Bank cofinanced project in Georgia. In terms of project type, it was considered as credit and financial services by IFAD, and IFAD's loan and grant were invested mainly in the rural financial services component of this project. In complementary services, the World Bank's interventions were focused on supply-chain development and institutional development components.

4. The project was implemented from 2006-2011. The original project goal was to develop productivity and profitability of the private agriculture sector. After the project revision in 2009, the revised goal was sustained rural income growth and poverty reduction. Target beneficiaries comprised small- and medium-scale farmers, famers' groups, trade associations and enterprises involved in the marketing chain.

5. The planned budget was US$34.71 million, including an IFAD loan and grant of US$10 million (loan of US$9.2 million and grant of US$0.8 million), and World Bank loan of US$10 million. Three main components were rural financial services (74 per cent of costs), supply chain development (12 per cent), and regulatory and institutional development (9 per cent). Project investments dominantly supported rural financial services.

6. The investment in providing microcredits to farmers was deemed as a highly relevant and effective tool in reviving agricultural and livestock production, and ensuring food security. The project delivered financial services through microfinance institutions and commercial banks. Five microfinance institutions issued about 10,000 microcredits valued at US$9.54 million. Banks approved 27 sub-loans to 25 companies with total loans of US$5.7 million. The average loan size of all individual and group credits was around US$1,300, and the repayment rates close to 100 per cent.

7. The component of the agricultural supply chain activity was considered by the project performance assessment (PPA) as under-designed and underinvested, and it suffered approval delays and cancellation of some activities. The Competitive

Grant Scheme for supply chain development did not happen. The supply activities were conducted on a very limited scale (i.e. one enterprise and 43 farmers). Likewise, the Georgian Wine Strategy and Action Plan, developed within the project framework, was never adopted by the Government.

8. The institutional modernizationcomponent was implemented with differing levels of success. The interventions with regard to strengthening land registration activities and the National Agency of the Public Registry (NAPR) were successful. The project helped to develop a Continuously Operating Reference System and organize further training for NAPR staff. The activities related to strengthening food safety institutions were unfinished. The project contributed to the laboratory of the Ministry of Agriculture and Food Safety Agency through facility refurbishment. However, laboratory staff is unable to operate the equipment.

9. **Sustainability**. The prospects for sustainability of rural financial services, the major component of RDP, are considered favourable. Partner microfinance institutions (MFIs) have reported an increasing portfolio, with borrowers tripling for some MFIs in the period 2006-2012. The existing loan portfolio will allow MFIs to use reflow in the following years. It is anticipated that MFIs will remain the prime suppliers of rural credit and their rural outreach will expand.

10. Sustainability of the few supply chains supported under the project is uncertain, as there are no modalities in place to continue to provide farmers/associations with advisory or extension services post-project. Sustainability of the improved Food Safety Agency facilities is less secure, as they are not yet fully functional and continued government support is uncertain.

Main recommendations

11. **Expand rural finance services.** In future operations, IFAD should consolidate the progress made in rural financial services by RDP, and ensure the MFIs continue lending to small rural entrepreneurs in practical and efficient ways. MFIs still need capacity-building support to cater to the needs of farmers in remote areas, and also the growing businesses of on-farm and off-farm enterprises.

12. Future rural finance policy dialogue and interventions should consider enhancing support for financing supply chain development, as well as other off-farm production and services, such as storage, packing, transportation, trading, branding and marketing, which hold high potential to generate employment and income for poor households. The rural credit scheme could also be developed to complement the credit line launched by the Government.

13. **Enhance marketing interventions.** Future operations need to emphasize the importance of marketing and value chain development to rural poverty reduction in Georgia. The Georgia market is relatively narrow as there is no entry to Russian and European Union markets, and Georgian farmers are largely isolated in their neighbourhood markets. In this regard, future interventions should include a wide range of activities, such as: capacity-building in marketing, cold chain development, value chain development, market information, and technology transfer for micro, small and medium enterprises. These activities will increase opportunities to benefit from upgraded farming and exploring new markets.

14. **Continue strengthening food safety institutions** in terms of equipment provision and staff capacity-building. RDP has left unfinished work in terms of enhancing the capacity of food safety institutions, and food safety concerns will still be a challenge for Georgian agricultural products entering into foreign markets. In this respect, cooperation with other partners could complement IFAD's relatively thin experience and knowledge of this area. These services should be market-oriented or export-oriented, which means the services will enhance the market competitiveness of Georgian agricultural products, either in domestic or foreign markets.