IFAD Evaluation

profile

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Setting up a rural credit system in post-soviet Georgia: a rocky road to follow

The Agricultural Development Project in Georgia, co-funded by IFAD and the World Bank, was designed to address problems arising from the withdrawal of Soviet capital and collapse of the collective farming system. One major problem facing the country, therefore, was the lack 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 establishing a countrywide credit union network — virtually from scratch — initially involving 120 village-owned credit unions. This was a bold approach, because mechanisms for providing and utilizing credit were unknown in Georgia, but it is now entirely possible that the results may prove of lasting benefit to the country as a whole, despite the many difficulties encountered along the way.

This seven-year initiative has been a rocky road to follow: indeed, the project's early achievements in establishing village-managed credit unions came close to causing its downfall. The apparent success of the movement attracted the attention of aspiring politicians, which led to a surge of so-called credit unions consisting of little more than a list of members. Many of these institutions went bankrupt or were dissolved. Of 164 credit unions set up, only 40 are still in operation and a mere handful has shown promise of becoming self-sufficient over the short term. It is on this handful of credit unions that hopes for the future are pinned. Their managers have been toughened up by the difficulties experienced and have proved their commitment by surviving the lean years, often without pay. On their own initiative, they have set up an embryonic association that will eventually take over the supervision of credit unions and training of staff. The movement is now recovering from the bad publicity caused by the bankruptcies, and the goal of establishing a countrywide network is once again receiving government support.

Meeting of the Credit Union members

IFAD's loan also financed the piloting of a land registration scheme in two districts, as part of a multi-donor programme aimed at ensuring security of tenure for smallholders and the emergence of a land market in Georgia.

Key recommendations

- Future support for credit unions should concentrate on building up self-sufficient institutions with diversified lending portfolios, while maintaining strong links with parent villages.
- The Government must take action to support farmers unable to take advantage of new commercial opportunities.
- In any future cofinancing arrangements, IFAD must give careful consideration to the terms of its engagement if it is to exploit its comparative advantages.

PROJECT DATA

Project cost: US$26.3 million

IFAD loan: US$6 million

Co-financier: World Bank

Loan effectiveness: August 1997

Project Completion: June 2005

MAIN RESULTS

The project helped establish the basis for an emerging land market in Georgia. While the credit union component was subjected to political pressure and its implementation was hampered by a design that failed to highlight sustainability factors, 164 credit unions were set up in three years (against a target of 120 in five years). However, of these, only 40 were still in operation at project completion.

More than 12,000 rural people gained access to retail financial services for the first time since independence, and there now exists both a core of functioning credit unions and an embryonic apex association. In addition, one third of all loans have been used for medical expenses, education, home renovations, household goods and wedding expenses.

These positive results should, however, be considered against the large number of failed credit unions that indicate the overall poor efficiency of interventions in rural finance. Nonetheless, a more encouraging sign for the future is that the recent Rural Development Project, which is also cofinanced with the World Bank, continues to support initiatives under the Agricultural Development Project and may well contribute to consolidating the network of credit unions.

What of the future?

The chief lesson emerging from the project is that what matters is not a numerical target but, rather, practical training in management and loan appraisal. Successful credit unions have also learned that, to be sustainable, they must diversify their lending portfolios and attract urban clients such as traders and shopkeepers. Project coordinators are now contemplating a smaller network of regional credit unions with branches at the village level. While this makes good financial sense, care must betaken to preserve the links between credit unions and their parent villages, since it is precisely familiarity with local people and their interests that constitutes the unique strength of such institutions.

Credit is not enough

Post-soviet rural economies are burdened with the legacy of the *kolkhoz* system, which rewarded collective obedience rather than individual enterprise. The new opportunities created under free market conditions may suit entrepreneurial citizens, but large segments of the rural population could well be left behind owing to their reluctance to cultivate new crops, seek out different markets and take risks. The problem is compounded by the recent closure of Russian borders to Georgian goods, which renders diversification all the more essential. In addition, the progressive de-mechanization of agriculture as a result of Georgia's economic collapse means that much fertile land is left uncultivated. Donor agencies and government ministries should work together to determine what might be done to help the marginalized groups. Access to credit is important but not sufficient, because credit union loans will never be large enough to finance more expensive agricultural equipment. Collective measures under the IFAD-funded Rural Development Programme for Mountainous and Highlands Areas, which might well provide better alternatives, are fraught with difficulties — probably because 'cooperative' initiatives are tainted by negative past experience. Promising initiatives for the future centre on the processing and marketing of agricultural produce to promote diversification, and on the development of innovative financial products to allow for rebuilding stocks of agricultural production equipment.

Beneficiary received a loan from the credit union to buy fertiliser for his small rose farm in Giorgi Tsminda village.

Negotiating the terms of engagement

The Agricultural Development Project constituted IFAD's first investment in Georgia, and cofinancing the project with the World Bank allowed the Fund to participate in influencing policy. Joining up with the World Bank (when the project was already on its way to approval) certainly helped IFAD to launch its first intervention in the country. However, the Fund was unable to place its usual emphasis on reaching the very poor and activities under the land registration scheme did not work to its advantage. In any future collaboration of this type, careful thought should be given to the terms and conditions of IFAD's engagement.

Further information:

Georgia, Agricultural Development Project, Completion Evaluation Report #1853-GE, March 2007, Office of Evaluation, IFAD, Via del Serafico 107, Rome 00124, Italy. The full report and profile are available online at www.ifad.org/evaluation; email: evaluation@ifad.org.

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