



Investing in rural people

Republic of Georgia

Agriculture Support Project (ASP)

Supervision Report

Main report and appendices

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Currency equivalents

Currency Unit	=	GEL Georgian Lari
US\$1.0	=	1.66

Weights and measures

1 kilogram	=	1000 g
1 000 kg	=	2.204 lb.
1 kilometre (km)	=	0.62 mile
1 metre	=	1.09 yards
1 square metre	=	10.76 square feet
1 acre	=	0.405 hectare
1 hectare	=	2.47 acres

Abbreviations and acronyms

ASP	Agricultural Support Project
AWPB	Annual Work Plan and Budget
ERD	External Relations Department
GEL	Georgian Lari (currency)
IFAD	International Fund for Agricultural Development (United Nations)
M&E	Monitoring and Evaluation
MFI	Microfinance Institution
MOA	Ministry of Agriculture
PFI	Participating Financial Institution
RIMS	Results and Impact Monitoring System (IFAD)
RL	Rural Leasing
SSRI	Small Scale Rural Infrastructure
TA	Technical Assistance
UASCG	United Amelioration Systems Company of Georgia

Map of the project area



14-09-2012



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.

Map compiled by IFAD

A. Introduction¹

Overview

1. A Supervision Mission from the International Fund for Agricultural Development (IFAD) visited Georgia between 5 and 16 May, 2014. The purpose of the mission was to undertake an Implementation Support and Supervision Mission of the Agriculture Support Project (ASP) (IFAD Loan 802-GE/IFAD Grant 1160-GE), review the implementation progress specifically, physical and financial progress against Project Annual Work Plans and Budgets (AWPBs) and assess the performance of implementing partners. Before the project closing date, the mission also reviewed the potential of the project to achieve its objectives within the remaining timeframe and the need to make course corrections and reallocate funds between different components.
2. The Mission met with H.E. Mr Shalva Pipia, Minister of Agriculture (MOA), Mr. Ilia Kvitaishvili, Deputy Minister of Agriculture and held extensive discussions with the staff of the External Relations Department (ERD). Meetings were also held with the staff of the United Amelioration System Company of Georgia (UASCG) responsible for operation and maintenance of irrigation infrastructure, consulting firms in charge of detailed design studies and construction companies. Also, the Mission met with the EU delegation, to share experiences and lessons learnt and assess how best to coordinate and harmonise the implementation of their current and future programmes.
3. Field visits were organized together with representatives of the contractors in charge of the construction works in Metekhi scheme in Shida-Kartli Region, in Loma-Turtskhi scheme in Samtskhe-Javakheti Region and in Lami-Misaktsieli irrigation scheme (Stage IV) in Mtskheta - Mtianeti Region, where rehabilitation works are in progress. The mission visited also two potential schemes that would be considered, the Karaghadji scheme and the Dzevera-Tiripoli scheme both in Shida-Kartli Region. Sessions of discussions were organised with concerned local branches of the UASCG, local authorities and water users in each of the visited schemes, on their perception of the quality of the works undertaken and on the future organisation and involvement in schemes' operation and maintenance. During its field visits, the mission interacted and interviewed farmers expected to benefit from the proposed schemes. A special attempt was made to talk to women farmers. Moreover, a field visit was also undertaken to meet with Khareba wine producing company in Kakheti Region, which has borrowed funds from TBC under the Rural Leasing Component. The purpose of the visit was to assess the nature of the enterprise and the types of benefits likely to accrue to smallholder farmers, entrepreneurs along the value chain.
4. The mission would like to thank the representatives of the Government of Georgia for facilitating the mission, and for their continued support and availability. In addition, the mission would like to record its appreciation for the cooperation and hospitality extended to it by the Ministry of Agriculture, ERD and the UASCG. This Aide Mémoire reflects the mission's main findings and recommendations. The key issues and recommendations were discussed and agreed at a wrap-up meeting on 14th May 2014 chaired by the Deputy Minister of Agriculture. The decisions outlined in this document on behalf of IFAD are subject to confirmation by IFAD Management. A detailed supervision mission report will be submitted by the end of May 2014.

Project Background

5. The overall goal of the ASP is to increase incomes among rural people engaged in agriculture activities. The Project's objectives are: (i) to increase assets and incomes among actually and potentially economically active poor rural women and men willing to move towards commercial agriculture and associated rural enterprises; and (ii) to remove infrastructural bottlenecks which inhibit participation of economically active rural poor in the rural economy. The Project has two components which include (i) Rural Leasing (RL), (ii) Small-Scale Rural Infrastructure (SSRI) and provides support

¹ Mission composition: Dina Saleh, Mission Leader and CPM for Georgia; Abdelaziz Tabet, Water and Irrigation Specialist; Aziz Al Athwari, Finance Specialist, and; Vrej Jijyan, CPM/Technical Support to the CPM for Georgia (NEN).

for Project Management. The Project was declared effective on 8 July 2010 and Project completion is planned for 30 September 2014.

6. Project activities effectively started in November 2010 but the project lost valuable time due to changes in project's institutional context and implementation management arrangements within the Ministry of Agriculture. At Appraisal, Project costs were budgeted at US\$ 17.2 million, of which US\$ 8.5 million was to be financed by the IFAD loan, US\$ 200,000 from an IFAD grant, US\$ 5 million from a co-financier, as well as contributions from Government, Participating Financial Institutions (PFIs), and beneficiaries of the rural leasing and rural infrastructure components. Given that the co-financier did not materialise, IFAD approved an additional amount of US\$ 5 million as a supplementary loan upon a request from the Government of Georgia to fill the financing gap. The supplementary financing agreement was approved by IFAD in December, 2013 and signed by the Government on March 6, 2013. The Mid Term Review (MTR) for ASP was conducted in May 2013.

B. Overall Assessment of Project Implementation

7. There have been certain positive developments in the project since the MTR Mission. The Rural Leasing (RL) Component has shown some limited progress with the financing of thirteen projects for leasing of agriculture machinery and processing equipment with the total amount of US\$ 2,566,159 (IFAD loan of US\$ 1,41 million currently against US\$ 1,26 million in the MTR). The system of evaluating the projects based on the scoring matrix recommended by IFAD was upgraded and has served to better assess the extent to which the proposals are reaching the IFAD target group. Technical Assistance has been provided to the PFI, namely TBC Leasing in developing leasing products and training staff in risk assessment. Nevertheless, agro-leasing market in Georgia is facing certain structural constraints that hinder the broad based development of this sector. TBC Leasing is the only PFI that expressed interest to be involved in ASP and the Company has limited absorption capacity for this type of financial product. Thus, it is estimated that by the end of the project, TBC Leasing will fully utilize the amount allocated in the Subsidiary Loan Agreement (US\$ 2,5 million) and most probably will ask to extend its borrowing from the project by US\$ 0.5 million, in case the project completion date is extended by 9 to 12 months. The mission was pleased to note that cooperation between ASP and TBC Leasing is enhanced and the process for submission and approval of new leasing proposal is functioning smoothly.

8. During the period under review, the implementation of the activities planned under the SSRI Component has made substantial progress. Thanks to the tight cooperation and involvement of the UASCG's concerned Departments, noticeable progress has been made in the elaboration of detailed design studies. This has allowed the Project Management Unit (PMU) to accelerate the preparation of the bidding documents for tendering the civil works for those schemes that have been selected according to the outcome of the feasibility studies. At this stage of implementation, the works related to the rehabilitation of the off-farm and on-farm irrigation systems are being conducted in three schemes covering an area of about 6100 ha (Lami-Misaktsieli, Loma-Turtskhi and Metekhi). The rehabilitation of the main canal of the Doesi-Grakali covering a command area of 1535 ha, has been achieved and the evaluation of the bids for the rehabilitation of the tertiary canals (Stage III) is on-going. Due to some delays, the proper execution of the above mentioned works would necessitate an extension of the project completion date by nine to twelve months. It will also be the case if ASP plans the execution of two additional schemes (Kharaghadji and Dzevara-Tiripoli), covering about 2750 ha, that have been proposed by UASCG for financing.

9. While some progress has been made in the organisation of the supervision and control of the construction works to ensure construction quality, the mission considers that there is a need for essential improvements in the adaptation of the structures' design to local specific conditions. This would necessitate a tight and continuous monitoring of the progress of works performed by the Contractors through frequent visits by UASCG HQs' and PMU's civil engineers to support and expedite on-site decision making. Moreover, tangible progress has been noticed in the "hardware" part of component activities related to the civil works, however, the accompanying "software" measures related to the strengthening of capacity of UASCG's local branches to ensure efficient

operation and maintenance of the rehabilitated schemes are lagging behind expectations from UASCG HQs management, as has been recommended during previous supervision missions. While the organisation and the resources (equipment and budget) of the UASCG to properly perform the maintenance plans as proposed by the Local Branches have significantly improved, the capacity for developing an optimal water management and operation plan at each scheme level is still weak.

10. The total volume of funds which have been disbursed from the IFAD loan and grant up to May 12, 2014 is US\$ 4.3 million or 33% of the total including the supplementary financing. Meanwhile, the project was able to commit US\$ 7.5 million, 58% of total IFAD funds. The Supervision Mission reviewed the need for any changes to the original project time frame and allocation from the IFAD loan and grant and as recognised by ERD, the project completion date will need to be extended by additional 12 months (till 30 September 2015) and to reallocate the unallocated funds to the SSRI Component. Given the delays that the project experienced at initiation, this extension will allow for a proper and comprehensive completion of ASP, if a proper work plan is prepared, carefully monitored and supervised during implementation. The overall implementation progress of the ASP project is assessed as ***moderately satisfactory***.

C. Outputs and Outcomes

Component 1: Support for Rural Leasing

11. The Support for RL Component of ASP aims at encouraging the introduction of financial leasing to the rural market in Georgia. This aims to support the recapitalisation and consequent modernisation of Georgian agriculture, especially among smallholders and agriculture enterprises. This component includes capital to refinance leasing contracts of PFIs as well as funds for Technical Assistance (TA) and capacity building.

12. **Implementation Assessment.** The rural leasing operations were started in February 2012 after the approval of the operations manual which was considerably delayed pending approval by the MOA. Of the three Georgian leasing companies which had indicated their interest in participating in the project during design, only one, TBC Leasing, has been participating in the ASP. Alliance Leasing has not been considered because it is unlikely to pass the due diligence test due to repeated losses in the last financial years. Georgia Leasing is not interested in participating in the project due to its assessment of the risk in the rural leasing operations in the agriculture sector. The mission was pleased to note that an experienced International Consultant had provided TA to assist TBC Leasing in developing its agro-leasing portfolio.

13. Nonetheless, the RL Component is moving rather slowly. At present there is no potential for broad-based agro-leasing market in Georgia, since under the current conditions there are no clear financial incentives for companies/individuals to lease an agricultural asset instead of a bank loan. Moreover, there are also other obstacles for the development of agriculture leasing, mainly low capitalisation of many potential lessees; small size of most farming units; low culture of business and financial management among many small farmers; absence of developed secondary markets for agriculture machinery, and; exposure to crop failure with limited and expensive insurance available.

14. **TBC Leasing:** Under the RL Component, ASP has allocated TBC leasing an amount of US\$ 2.5 million under which thirteen projects have already been financed. These projects are valued at a total of US\$ 2.56 million. An amount of US\$ 1.41 million has been committed for these enterprises from the IFAD loan (55% of the financing), US\$ 649,990 from the private sector (25% of the financing) and US\$ 511,024 from TBC leasing (20% of the financing). The co-financing by the private sector and TBC Leasing is already more than double what it was envisaged at appraisal (9.6% for each of them).

15. The approved projects by TBC Leasing cover the main areas of agriculture production in Georgia, including wine making (6 projects - total US\$ 1,7 million), where the bulk of the investment is concentrated, followed by fruits and vegetables processing (3 projects - total US\$ 0.59 million), primary agriculture production (3 projects - total 0.24 million) and poultry (1 project - US\$ 22,963).

16. At the start of the project TBC Leasing has an undifferentiated business and marketing strategy for leasing, and it did not distinguish between economic sectors in its products, credit policy or sales process. For the purpose of the strengthening TBC Leasing capacity in agro-leasing sector the ASP recruited an International Consultant to provide TA through staff capacity building, product development and risk assessment. As a result, it is estimated that by the end of the project, TBC Leasing will be able to fully utilize the amount allocated in the Subsidiary Loan Agreement (US\$ 2,5 million) and most probably would ask to extend its borrowing from the project by US\$ 0.5 million, in case the project completion date is extended by 9 to 12 months.

17. **Technical Assistant for TBC Leasing:** From May till November 2013, an International Consultant was engaged by ERD to build the capacity of TBC Leasing on analysing the segments of Georgian agricultural market with reference to the pro-poor agenda of IFAD, and; defining a strategy and new products for agro-leasing, and supporting the implementation of a new strategy, with particular reference to product strategy, risk management and business processes.

18. The Consultant agreed with TBC Leasing on the definition of its new strategic objectives for agro-leasing and the elements of the strategy to reach these objectives. Moreover, the Consultant recommended that TBC Leasing considers developing small-ticket asset-based leasing and vendor leasing as new products. Also, TBC Leasing has been advised on the development of its operational capability to support agro-leasing; this includes credit policy and processes, asset management systems, website development. On November, 2013, a Final Report prepared by the International Consultant was share with IFAD and MoA. Early in the assignment the Consultant also helped MoA and TBC Leasing to improve the approval process for leases proposed for refinancing under the sub-loan based on the recommendations provided during the ASP MTR. The mission was pleased to note that, as a result of the TA provided to MoA/ERD cooperation between ASP and TBC Leasing is enhanced and the process for submission and approval of new leasing proposal is functioning smoothly.

19. **Participation of MFIs:** Although, the original project design had foreseen participation by MFIs, it was agreed by IFAD and Government in January 2012 to initially limit the programme to leasing companies, and reconsider the position of MFIs at a later stage. This component has been unable to attract additional partners because of MFI's lack of experience in this area and their inability to assess the associated risk.

20. On May 2013, the Mid Term Review Mission met some of the main MFIs to determine their interest in rural leasing. Two MFIs, namely Finagro and Crystal have indicated an interest in participation in the project. At the request of IFAD and MoA, and separately from TBC Leasing assignment, the above mentioned International Consultant conducted a rapid due diligence to review the financial condition/standing of FinAgro and Crystal and concluded that both organizations did not conform to several of the formal requirements for admission to the leasing programme.

21. **Management Aspects:** In line with IFAD recommendations, ERD is reviewing all proposals received from TBC Leasing and submitting for IFAD No-Objection those above US\$ 100,000 after approval by the ERD/MoA. The PMU will continue drafting a template covering letter for ERD with each proposal sent to IFAD for approval and will maintain a matrix of all projects which have been received by the MOA for approval and for tracking progress on them on a regular basis. The mission was pleased to note that ERD staff is undertaking site visits to meet the approved enterprises, and some of the field visits are jointly undertaken with the Monitoring and Evaluation Specialist who is participating in assessing the progress against the set targets. Thus far, overall performance under this Component is rated as ***moderately satisfactory***.

Table 1: Agreed Actions and recommendations on Rural Leasing Component

Agreed action	Responsibility	Agreed date
Closely follow up with TBC Leasing on developing a viable projects' pipeline that enable the smooth disbursement the allocated amount, and update IFAD regularly.	MoA/ERD	On-Going
Continue the close monitoring of the approved projects and assessing the benefits and the backward linkages to the smallholder farmers.	ERD	On-Going

Component 2: Small Scale Rural Infrastructure

22. **Implementation Progress:** During the period under review, the implementation progress of civil works is satisfactory in the sense that it is expected that, by project closure date, a significant number of physical rural infrastructure will be rehabilitated for the benefit of large segments of rural households. In addition to the three rural infrastructures implemented during the early stage of project implementation (two bridges and one domestic water supply system), the project would achieve the rehabilitation of four irrigation schemes totalling an area of about 7635 ha (102% of the Design target). If an extension of the implementation period by 9 to 12 months is granted, additional resources allocated to the component, and assurances given on timely execution of the construction works, two additional schemes, covering about 2750 ha, could be considered. The project would probably achieve by then the rehabilitation of about 10 440 ha (140% of the target), hence aiming to accomplish a comprehensive rehabilitation and modernisation programme that includes both higher and lower parts (off-farm and on-farm) of the irrigation system (Head-works, main, secondary and tertiary canals) with an average unit cost of USD 1130/ha.

23. Most of the activities planned during the AWPB 2014 have been or are being achieved. These cover the participatory identification of a third batch of schemes to be considered for financing, the launch of the feasibility and detail design studies, the bidding and contracting process for the construction works of two irrigation schemes and related contracts for the technical supervision and control.

24. **Feasibility studies and detail design sub-component:** *The feasibility studies* for the selection of a third and last batch of eligible investment proposals for project financing have been conducted for an agreed preselected list of 9 irrigation schemes totalling an area of about 4600 ha. An international consulting firm, commissioned by the PMU, conducted the studies and came up with a ranked list of eligible schemes in accordance with project criteria as agreed upon and presented in the SSRI Operations Manual. Of the top five ranked schemes and in agreement with the UASCG², two schemes have been retained for possible financing by ASP (Kharaghaji and Metekhi) while the rehabilitation of three others from the list have been already financed by Government budget³. The UASCG's management has proposed to the mission a new scheme, Dzevera-Tiriponi in replacement and for which the feasibility study has been performed through the Municipality Development Fund funded by USAID⁴. The visit performed by the mission to the scheme proposed and discussions held with the Consulting firm that elaborated the detail design as well as with the head of the Gori Local Branch of UASCG have shown that the Dzevera-Tiriponi scheme (2500ha) offers a large potential for

² Among the nine schemes, UASCG has already announced the financing of the rehabilitation investment for Gamardjeva, Chocheti and Sasireti schemes

³ Kharaghaji, and Dzevera-Tiriponi. This extension would allow as well the implementation of the rehabilitation of the on-farm irrigation system of Doesi-Grakali scheme (Stage III)

⁴ The Dzevera Tiriponi scheme (2 500) is a part of the large Tiriponi scheme covering an area of 8500 ha for the rehabilitation of which, the Government has been supported by USAID since 2011 through the Georgia Municipal Development Fund. A feasibility study has been conducted for the whole scheme and rehabilitation works have been performed on an area of 6000 ha. Due to shortage of funds, the remaining 2500 ha has been proposed for ASP financing. The Dzevera scheme has been designed as a self alone scheme with its own off-take structure that divert water from Didi-Liakhvi river for the benefits of about 1200 farmers.

irrigated agriculture development in particular fruits orchards (apples, cherries, peaches) and vegetables and is not subject to any major construction engineering constraint.

25. *Detail Design, Bidding Documents and Tenders.* The UASCG has commissioned during 2013, from its own resources, consulting firms to undertake detailed design studies and preparation of bidding documents for more than 30 irrigation schemes in all the regions of the country. All the schemes selected for ASP financing are among them. The engineering designs with drawings and bidding documents have been completed for all the selected schemes and those approved by IFAD have been tendered and bids are being evaluated (see Table 1). The review and approval of the quality of the detailed design documents was mainly conducted by the UASCG Engineers and conformity with country's norms inspected by an independent entity, the National Bureau of Expertise according to local regulations.

26. The mission noticed from a preliminary overview of a sample of detailed design reports and from visits to the construction sites, that, while major progress has been made in the quality of the design and of the drawings since the MTR, some aspects still need to be taken into consideration to simplify and ease the operation and management of the systems. In particular the search of the right and most adequate design and location of the structures that allow the control of water flow (head regulators), better control of water distribution (cross regulators), and the release of excess water from the canal system (escapes) for an optimal, efficient and reliable operation and management of the systems. This is particularly important in the case of the schemes for which the existing earth, main and secondary canals are designed to be replaced by new concrete lined canals⁵.

27. *Works execution supervision and quality control.* The project management has improved significantly its organization related to the monitoring, supervision and control of construction works through the adoption of common agreed standards for daily, weekly and monthly reporting on progress of works. Two Technical Supervision and Control (TSC) contracts have been signed with two consulting firms as well as Author Supervision Contracts with concerned Consulting Firms that have performed the detail design. During field visits and meetings with the consulting firms, it appears however that the monitoring of Contractors' schedule of works is weak and the participation to on-site design adaptations is partial. Due to the necessity of the multiple on-site decisions making that rehabilitation process requires, a minimum of twice a month visits of civil engineers from UASCG HQs and the PMU should be organised to agree on the changes proposed by the contractor, TSC and water users.

28. **Civil Works Sub-Component:** The implementation is progressing well with seven civil works contracts already awarded, four of them have been completed, and preparation of three other civil works' contracts is underway: These include the on-going implementation completion of: (i) four contracts that were awarded in 2012/2013 in Lami-Misaktsieli Scheme (three contracts for Stages I, II and III) and one contract for Doesi-Grakali Scheme (Stage II)⁶; and in Loma-Turtskhi scheme (1100 ha), (ii) two contracts awarded in 2014 one for Lami-Misaktsieli Stage IV and the second for Metekhi scheme (512ha), and (iii) the elaboration of the bidding documents and tendering announcement for three additional contracts: Kharaghaji, Doesi- Grakali Stage III and potentially Niabi, Debeda and Dzevera-Tiriponi⁷.

29. During field visits to the three on-going construction work sites, the mission observed that the contractors are well organized and have the capacity to fully fulfill their tasks if adequate and quick responses are given to their queries regarding, on-site technical specifications adaptation that would improve the quality of construction. For example in Metekhi scheme, during the visit, a suggestion

⁵ In the case of Metekhi scheme there are very few water regulatory wells and cross regulator gated structures to control the amount of water diverted to farmers through off takes. In Loma-Turtskhi scheme, there is no escape structure upstream and a culvert structure that would protect the main canal aligned above the ground from overflow of excess water that could damage the pillars.

⁶ Stage I construction works comprising of 1.7 km of the main canal was financed by MOA/UASCG.

⁷ The mission noticed that Niabi and Debeda schemes would necessitate an in-depth review of the detail design and the conditions of execution to ensure that they are technically feasible and will fit in the timeframe of the extension period. The mission and UASCG agreed to replace them by the Dzevara-Tiriponi scheme

was proposed to use construction joints between the elements of the concrete construction of secondary canals to enhance their sealing performance and avoid cracks. In addition, the mission noticed that off-take structures need to be improved by adding cross regulators to ensure delivery of water to on-farm earth canals. In Loma-Turtskhi, the dismantlement and replacement of deteriorated elliptic canals has been proposed by the contractor and UASCG agreed to conduct a new inventory. In addition, in both schemes efficient operation of the system requires that the main and secondary networks be furnished with regulating structures, and emergency off-take structures.

30. It is obvious that with the main and secondary canal carrying capacities restored to design, and sometimes beyond the required levels⁸, and with the foreseen diversification of the cropping patterns that would necessitate new schemes' operation model for on-farm water distribution, it is necessary to verify the suitability of the location and install appropriate structures (if necessary). This would help to control water levels in the network and spill excess water from the system in order to avoid further deteriorations caused by *suspected* occurrence of overflows. At this stage, overall Component's activities implementation is assessed as **moderately satisfactory**.

Table 2: Progress in civil works construction for the rehabilitation of irrigation schemes and costs

Irrigation Scheme	Irrigable area (ha)		Cost million		Cost per USD/ha	Observation: Costs are based on
	before	after	GEL	USD		
On-going contract						
Lami-Misaktsieli (Stage IV)	600	4500	5.80	3.52	880	Contracts for Stages I, II, III completed and contract for stage IV on-going – Date of completion Sept 2014.....
Loma-Turtskhi	20	1100 ⁹	1.64	0.99	900	Works are proceeding with some delays- Date of completion Sept 2014 An amendment for extra works is being negotiated
Metekhi	100	512	1.7	1.08	1860	Date of completion Sept 2014
Sub-Total	720	6112 ¹⁰	9.14	5.56	910	
Planned						
Doesi -Grakali (Stage III)	700	1535	1.84	1.12	730	Contract for Stage II completed - Bids evaluation for Stage III on-going
Karaghadjji	50	295	1.12	0.68	2305	Bids evaluation on-going
Dzevara-Tiriponi	300	2500	7.6	4.4	1760	Tender and Announcement to be launched
Sub Total	1050	4330	10.56	6.20	1430	
TOTAL	1770	10 441 ¹¹	19.70	11.76	1126	

Key issues and recommendations:

31. *The remaining project implementation period of about four months will not allow the completion of the on-going construction contracts due to delays related to weather conditions and to the difficulties to work during the irrigation season. Completion of the probable remaining three schemes would necessitate an extension of the project period **from 9 - 12 months.***

32. *Staffing:* The issue highlighted during the MTR, related to the engineering capacity of the PMU to monitor, supervise and plan the preparatory activities for the execution of civil works as well as for the management of all the large number of contracts, is still a matter of concern. The current ASP irrigation engineer consultant is overloaded and needs to be assisted by a civil engineer that needs to be recruited as a consultant for at least 9 months contract or until completion of the works.

⁸ In Metekhi the design capacity of the main canal is 1250L/s while only about 550 l/s are required. The same for Kharaghaji. The reason given by UASCG, to overdesign these canals is in view of a future expansion of the irrigable area after the already planned construction of a storage reservoir upstream on the Tedzami River.

⁹ Last figure given by the Head of the UASCG Field Office in Akhalkalaki during mission's visit

¹⁰ This figure does not include the already rehabilitation of the main canal of the Doesi –Grakali scheme (1535 ha) for which an additional investment is planned to rehabilitate the tertiary canals (Stage III).

¹¹ The Supplementary Financing Design Mission has estimated that the project would target an area of 7500 ha to be rehabilitated.

33. *UASCG Local Branches Managerial Capacity.*, The mission did not notice any tangible progress¹² made on the previously highlighted necessary actions and measures that should accompany the rehabilitation process and that would ensure the adoption of an efficient and effective Operation and Maintenance Plan within the two concerned UASCG Branches. While the Management of UASCG is well aware about the situation and is planning to handle this issue at national level during the implementation of the World Bank newly financed Irrigation and Land Market Development (ILMD) project, the mission believes that priority should be given without delay to the schemes that have already been rehabilitated by ASP to ensure sustainability of the schemes.

34. *Validation of the rehabilitation scope and operation model by water users.* Building on previous experience in Doesi-Grakali, the ASP has extended the process of project beneficiary consultation and mobilisation through the organisation of workshops with the assistance of facilitator consultants in Loma-Turtskhi, Lami-Misaktsieli and Metekhi. Discussions held during field visits with water users and local authorities revealed that, while recognizing with satisfaction the quality of rehabilitation works, major concerns are still there on how to distribute water properly and equitably, how to use water properly, how to resolve conflicts, etc. As suggested in Loma-Turtskhi by Village Heads during the validation workshop, the possibility of giving to each village, on a case by case basis, the responsibility of water distribution during its weekly turn should be envisaged and modalities worked out. The Project Management should intensify the consultation with water users to find out how best they can participate and contribute to schemes operation/management.

Table 3: Agreed Actions and Recommendations on SSRI Component¹³

Recommendations and Agreed actions	Responsibility	Agreed date
As per last mission recommendation, ASP needs to recruit a local civil engineer to share part of the current heavy workload of ASP Engineer consultant.	PMU	June 2014
ERD will organise in collaboration with UASCG and Consulting Firms a review of the drawings of Metekhi, Loma-Turtskhi and Kharaghaji schemes to ensure that the location of appropriate structures for water flow regulation and control and that on-farm water distribution will be optimal.	ERD/UASCG/ Consulting Firms	June 2014
Validation of the rehabilitation works scope at the completion of the works before handover to UASCG	ERD	Continuing
Organise twice a month field visits to construction work sites to support on-site decision making for design adaptations.	ERD/UASCG	Continuing

D. Project Implementation Performance

35. **Project Management performance.** There have been positive developments in the overall implementation of project activities, and the project's management is being able to effectively engage in rural leasing and infrastructure rehabilitation activities and ensure the expected results. In particular, the project was able to build sufficient capacity to handle the process of tendering, contracting, implementing and supervising of the rehabilitation of the irrigation projects. The project's Rural Infrastructure Engineer is actively contributing to irrigation scheme design and supervision, as well as regularly liaising with UASCG in spite of a heavy workload. The performance of the Financial Manager and his team of accountants, as well as the Procurement Specialist continues to be decent, which ensure the smooth operation of project activities.

36. However, due to limited design capacity in the country, preparation of detailed designs is delayed and the capacity for construction of irrigation scheme is not as strong as it is in other countries. This delays the submission of bids and negatively impacts construction schedule. Moreover, the mission noted that there is a need for better coordination and cooperation between the

¹² Except the purchase of a new car for the heads of the Kaspi and Mtskheta UASCG Branches and computers

¹³ These recommendations assume that the project implementation period will be extended

Project Manager and the Financial Manager to ensure the smooth operation of the project day to day activities. The overall assessment of the quality of project management is **satisfactory**.

37. **Annual Work Plan and Budget.** The ERD has prepared and submitted the AWP&B 2014, including the Procurement Plan, on time. The AWP&B is relatively well structured, the outputs and time plan for the different components are clearly stated. The financial data is up to date and separated into different categories according to the guidelines. Though, in general, the project implementation is coherent with the AWP&B in terms of planned activities and expected outputs, nevertheless the project is lagging behind the schedule for certain civil works and rural leasing activities, which will not be accomplished by the current project completion date set as 30 September 2014. In view of this, the mission observed that the development objectives of ASP and the project's final targets mentioned in the AWP&B 2014 will not be fulfilled unless the Government of Georgia, represented by the Ministry of Finance request IFAD to extend the completion date of the project by 9-12 months. The overall rating for the AWPB 2014 is **moderately satisfactory**.

38. **Monitoring and Evaluation.** Monitoring and Evaluation have typically been problematic within the portfolio of IFAD co-financed projects in Georgia. In the absence of a Monitoring and Evaluation specialist in ASP, Progress and Impact reports have not been prepared adequately. During the IFAD Supervision Mission in November 2012, the ASP Monitoring and Evaluation system was established, in line with IFAD guidelines and policies. A staff member from the MOA was made responsible for the M&E function and was oriented in the use of the RIMS system. The M&E Specialist regularly collects the necessary data related to the outputs/outcomes for both SSRI and Rural Leasing Components, as well as conducts field trips to validate the data with the beneficiaries' in the project's target areas. The ERD has prepared/submitted the RIMS report for the first and second levels indicators on time and in accordance with IFAD's requirements.

39. The ASP Progress Report for 2013 provides a description of the physical progress and outputs per component, but the report lacks a deeper analysis of overall project progress. Since, the ASP Progress Report 2014 will be the last one, ERD should analyse whether the outputs that are being produced are actually leading to changes and benefits among the target group. Likewise external factors that influence the project, positive and negative experiences and performance, and progress towards achieving project objectives should be discussed.

40. In preparation for the project completion exercise, ASP should consider organizing an Impact Assessment and measure the achievements and result throughout the project implementation cycle. IFAD will support the project in designing the methodology and the questionnaire for the Impact Assessment, as well as in preparing the TOR to engage a specialized company to conduct the survey. The performance of the ERD M&E system is considered as **satisfactory**.

41. **Gender Focus.** The project does not have a direct approach to targeting women but specified a minimum target of 30% for women in all categories of project investments at appraisal. The participation of women is ensured due to the fact that the project is targeting the agriculture sector in which women play a key role. Georgian women are actively involved in the agriculture sector although this does not directly translate into egalitarian workloads or incomes. Rural women actively participate in many farm activities including weeding and harvesting of cereals, vegetables, animal husbandry and post-harvest and agro-processing activities. Approximately, 30% of the total households are estimated to be female-headed and this category of households is expected to particularly benefit through investments in irrigation infrastructure. Given that women are a key participant in the agriculture sector, the rehabilitation of irrigation schemes is likely to increase agriculture production and enhance household food security, consumption and agriculture incomes. The project has recently refined its targeting approach in some areas. The scoring matrix, which was adopted as part of the screening process for the selection of rural leasing enterprises, has added a score for women's participation. This is designed to encourage the selection of those enterprises which include women and can positively impact women either through employment creation for them or as suppliers of agriculture produce. The Impact Assessment will collect and report on gender-disaggregated data. This should be presented separately to enable an assessment of the differing perceptions of men and

women regarding project achievements, their roles and responsibilities, the current livelihoods, resource ownership patterns and the impact on key indicators over time. Gender focus of ASP is assessed as ***moderately satisfactory***.

42. **Poverty Focus.** The ASP will target vulnerable women and men living in poor rural areas of Georgia. The project envisages to target approximately 20,000 households through the provision of rural leasing and rehabilitation of small scale infrastructure, mainly irrigation schemes. The latter will enable to irrigate around 8,700 ha to 10 000 ha for the benefits of smallholder (less than 1 ha holding) of agricultural land in economically disadvantaged rural areas in Shida Kartli, Mstkheti Mtianeti, and Samtskhe Javakheti Regions.

43. According to the assessment that was done during the Baseline Survey, the regular access to irrigation water in the above mentioned areas will increase the income of the targeted population by an average of 40 percent (monetary/cash and non-monetary/in kind incomes together) compared to households which don't have any access to irrigation water. As a result, improvement of the irrigation system and the increase in the number of households which have regular access to irrigation will increase productivity and output, and will generate more income. The poverty focus of the project is rated as ***satisfactory***.

44. **Effectiveness of Targeting Approach.** The ASP was designed to have a three pronged targeting strategy which included (i) self-targeting; (ii) direct targeting and (iii) geographic targeting. Individuals and households were expected to self-select themselves for participation in the agriculture sector through increased use of financial services through the Rural Leasing Component and by more efficient use of the increased irrigation water made available as a result of the SSRI Component. The direct targeting approach of ASP relied on the fact that the Project focused on the agriculture sector in which a majority of the smallholders were subsistence farmers. Furthermore, an important criterion in the selection of irrigation investments was to ensure that those schemes are selected which benefit a large number of households. While the leasing component was open for both larger leasing companies, a major criterion in the selection of proposals submitted for leasing is their potential impact on employment creation for the poor and the potential for backward linkages to smallholder agriculture producers. At this stage, it is estimated that around 4,500 farmers are selling their products to those companies involved in rural leasing. The total value of these products is amounting to US\$ 22 million. In terms of geographic coverage, ASP has concentrated on those areas with the highest concentration of poor rural people in Eastern part of Georgia. ASP targeting approach can be considered as ***moderately satisfactory***.

45. **Knowledge Management and Innovation.** At appraisal, it was envisaged that the Project's knowledge products and learning processes will flow primarily from its provisions for Annual Stakeholder Review and Planning Workshops, ad hoc studies, reporting and monitoring and evaluation. Some key lessons from the experience of the ASP are just beginning to emerge. While some of these lessons are reported in the supervision mission reports as well as the progress reports, there is a need to document them more systematically for posterity. The first of these lessons is the importance of having a well-knit project management team which has clear reporting lines, autonomy and access to resources to be able to manage the project effectively. The changing management structure has led to long delays and the dual lines of accountability have led to poor staff performance. ASP has also learned that given the individualistic nature of the smallholder in this country it is unlikely that farmers would join together to take a group lease unless some of their concerns are handled through innovative arrangements. The SSRI component was designed as one which would assist in financing a broad range of small scale infrastructure investments. However, very quickly ASP learnt that this wide scope was leading to inundation of funding requests which would be spread across the country and would not be as effective as focusing on one single type of infrastructure which could help the project leverage its influence in terms of policy reform, institutional strengthening and impact on the ground. To generate knowledge management within a project requires strong capacity and clear responsibility for the task. ASP now has a dedicated person to report on the Knowledge Management and M&E aspects and is in the process of strengthening its staff capacity. In order to raise awareness about the impact of climate change, the benefits of sound

land/water management practices, the value of crop diversification and the real potential that each of these has to increase farmer incomes, the project should invite for an expressions of interest from Communications, Public Relations and Media companies including Media Non-Government Organizations to successfully deliver a communications outreach campaign that heightens awareness of sustainable agricultural practices among smallholder farmers in Georgia and highlight ASP interventions.

46. The main innovative feature is the Project's support to rural leasing as a flexible and more affordable financial instrument for reaching poorer rural people as compared to conventional credit operations. IFAD has implemented the leasing instrument only in very few projects which proved to be a critical vehicle in the development of the rural economy; particularly as it has provided a way to circumvent the problem that rural businesses face with collateral. TBC leasing has made a strong commitment to investing in the agriculture sector and has tried to understand and better manage the risks in the sector. Together with the technical assistance provided to it, TBC is in the process of considering certain potentially non-mainstream leasable assets such as livestock and fruit trees, greenhouses and drip irrigation equipment consisting mainly of valves and piping, but also of filters. ASP has also introduced some institutional innovations in the manner in which irrigation schemes are designed through participation of users. This process is expected to continue in the implementation of all the irrigation investments under the Project. ASP has offered to assist the UASCG to help strengthen its capacity to enhance cost recovery by introducing some innovations which enable the offices at municipality level to operate as separate cost centres. Discussions are underway with the UASCG management to assist them to design a system and provide technical assistance to assist in the process provided there is political will to recover irrigation costs. The innovation and learning from the project can be assessed as ***moderately satisfactory***.

47. **Partnerships.** The project has been collaborating with different stakeholders from the public and the private sector including the Ministry of Agriculture, Ministry of Finance, UASCG Company, design and construction companies, TBC Leasing, agro-processing companies, municipalities, donor agencies, NGOs and smallholders. ASP has been aiming to catalyse private sector entities to start leasing activities in the agricultural sector and in this way contribute to creating new business opportunities between the leasing company and private entrepreneurs. Within the SSRI component the project has created linkages between the UASCG Company and the local stakeholders in the project area like the municipalities and beneficiaries. The project is also enhancing the interaction and communication between the water company and the smallholders as users of the irrigation schemes.

48. The project has built up relations with the World Bank, European Union, USAID and UNDP for the purpose of information sharing and exchange of experience. There are also on-going collaboration with the European Union to strengthen the cooperation amongst small farmers and improve performance of the institutions engaged in agriculture in Georgia within the *European Neighbourhood Program* for Agriculture and Rural Development (ENPARD). IFAD has recently become a member of the Donor Coordination Group which aims to harmonize the donor activities within the country. Partnership in ASP can be rated as ***satisfactory***.

Table 4: Agreed Actions and Recommendations for Project Management

Recommendations	Responsibility	Agreed date
In order to ensure the proper accomplishment of project activities and targets, the Government of Georgia, represented by the Ministry of Finance will request IFAD for a 12 months extension of the project completion date.	ERD	May 31, 2014
The Annual Progress 2014 Report should include in depth analysis of overall project progress. The Report should analyse whether the outputs that are being produced are actually leading to changes and benefits among the target group.	Project Manager	December 31, 2014
In preparation for the project completion exercise, ASP should consider organizing an Impact Assessment and measure the achievements and results throughout the project implementation cycle.	Project Manager/ M&E Specialist	3 months before Completion
Invite for an expressions of interest from Communications, Public Relations and Media companies to deliver a communications outreach campaign.	ERD	As soon as possible

E. Fiduciary Aspects

49. **Financial management.** Financial Management has been rated *satisfactory*.

50. **Organization and Staffing.** There has been no change to ERD staffing and activities are split with responsibility for implementation, procurement and financial management headed by 3 separate individuals. Financial management responsibilities, rest with a Financial Manager and two Accountants all of whom have extensive experience working on donor-funded projects. The finance management function rests outside the MoA structure. Staffing in terms of experience, qualification and number is deemed very sufficient for the management of this project. In the future, certain changes in ASP structure and staffing are anticipated. The Government is discussing with IFAD the possibility of transferring the management of ASP from the ERD at MoA the Agricultural and Rural Development Fund.

51. **Budgeting.** The AWPB continued to be prepared by the Project Manager, in collaboration with other team members. Two budgets are presented; one is the AWPB with Procurement Plan and the other includes the project funds and presented as part of the reporting in the national budget with higher amount normally in comparison to AWPB to ensure that a sufficient fund is available in the state budget to meet any unforeseen and unplanned expenditures. During the year, the budget is amended 2-3 times, and it's possible to request reallocation between budget categories. With respect to receipt of counterpart funds, these are budgeted on an annual basis and released quarterly. Once a contract has been signed, it is entered into the Treasury system using a 3-level clearance system described in Internal Controls below. These contracts, once entered, commit funds on a quarterly basis. The budgets allocated for the AWPB have been consistently under spent due to the reasons outlined above. The project has achieved actual expenditures equivalent to 13% of the budgeted amount for 2014 indicating a low spending rate but with committed funds, this proportion is around 50%. ***A Joint revision by the three heads of programme, procurement and finance of the AWPB 2014 after this supervision is strongly recommended.***

52. **Funds flow and Disbursement Arrangements.** Funds flow from a single Treasury system to a USD sub-account designated for each financing source. All requests for payments against expenditures incurred are made through the Treasury's online system. Funds then flow to the beneficiary directly from the IFAD Loan/Grant account within 24 – 36 hours after a request for payment has been submitted. The project has used the Special Account for all eligible expenditures incurred in the project as the efficiency of the same is higher than requesting IFAD to make Direct Payments in local currencies to suppliers. Disbursement times have significantly improved. The Treasury execute all works, goods and services payments in Georgian Lari and in US\$ for leasing

payments if requested. An amendment to the Statement of Expenditures threshold was processed by IFAD and communicated to the Project earlier last year, allowing for all eligible expenditures to be submitted on the basis of SOEs. The mission examined supporting documentation related to 100% (value 85,946.04) and 54% (value 925,26.25) of the last applications submitted to IFAD under the Grant and the Loan respectively and found them to be in order. The mission is pleased that the Treasury code (9 digits) has been included separately to IBAN in IFAD's payment instructions from as per May 2013 supervision mission recommendation and that has led to an improvement in the timelines of the Fund Transfer and Receive.

53. For the Small Scale Rural Infrastructure Component – The project pays up to 95% of the final amount of construction contract from IFAD and government sources contribution, while 5% beneficiaries contribution is kept as a retention until after the defect liability period and the beneficiaries outstanding amount at the time of the supervision mission is equal to GEL 439,618 (US\$ 248,246 equivalent). ***The mission recommends that 15% beneficiary contributions for civil works are closely monitored, followed up and received in full against each construction contract.***

54. For the Rural Leasing Component – the MoA provides a loan to TBC Leasing under a SLA at an interest rate of 6 month LIBOR+2% (February and August of each year), with a grace period of 2 years and repayment annually. In the accounting system, this is booked as a loan outstanding (receivables) from the MoA point of view and, as expenditure from the point of view of the project. The interest earned on the loan outstanding is not credited to the project account, it is credited to State Budget and not available for Project financing. ***The mission recommends that the repayments being received on the projects, by TBC, are continued to be monitored closely by the relevant staff to ensure that un-utilized balances of principal are returned to MoA, per the SLA.***

55. **Internal Controls: As stated, the Financial Management function is headed by the Finance Consultant/Manager.** Two accountants reports to the Finance Consultant/Manager. Budgeting is managed by the Technical Implementation Unit with input as required by the Finance Unit. The expenditures processed by the Finance Unit have the following controls – certification of satisfactory completion of activity for which the expenditure is being submitted by the Technical Implementation Unit; entered into the Treasury system by the Accountant; checked by the Finance Consultant/Manager; approved by the Deputy Head of the ERD. All contracts/vendors have to be created and approved in the Treasury system before expenditures may be submitted for payment. The document clearance process for entry into the Treasury System also contains 3 levels – 1st level is creation of the document by the accountant; 2nd level is the check of the document by the Finance Consultant/Manager; 3rd level is the sign-off by the Deputy Head of Division. To enable coverage at all times, the 2nd and 3rd levels are also able to cover the other level functions. There is no petty cash handled by the Project. Timely justification of advances, where approved, is observed. SSRI Component payments are paid upon supplying the necessary documentation on progress against bill of quantity signed and certified by Supervisor, Directors of Supervisor, Engineer and Representative of Beneficiary. A revalidation of the process was conducted by the mission and found to be in order.

56. **Accounting.** Accounts are maintained on an IPSAS modified cash basis and the Financial Statements are prepared on an IPSAS cash basis. The double entry accounting system was specifically created for donor-funded projects and is housed in the server of the implementing Ministry where it can be accessed by the Finance staff. Treasury systems allows them to enter the transaction from the USD account to the GEL account the following day, this has led to an improvisation in the accounting of the transactions to postpone entry by a day to not have a constant USD gain/loss.

57. **Financial Reporting and Monitoring.** Financial Reports are available from the system and can be customized to a great degree. These are not submitted to IFAD on a regular basis, but can be provided when required. The Finance Manager constantly monitors the sources and uses of the funds against state budget over the treasury system and project budget management and monitoring responsibility resides solely with the Programme Manager. ***Mission recommends joint systematic meetings between Programme Manager, Finance and Procurement Managers/Consultants to***

review Project Budget versus Actual including Forecast/commitment, identify any significant over or underspent and take necessary actions.

58. **Internal Audit.** While the MoA does have an internal audit department, the project has not yet been audited by the department. Provisions do exist for the unit to be audited by the Internal Audit of MoA.

59. **Disbursement.** Disbursement is rated as *moderately unsatisfactory*.

60. Since the last supervision mission, 5 withdrawal applications have been submitted to IFAD, 4 under the Loan for US\$ 1,720,927.06 and 1 under the Grant for USD 85,946.04 as an advance and justifying an amount of US\$ 73,702.40. So far, no WAs have been submitted under Supplementary Loan. As of 8 May 2014, the disbursement percentage, including the advance to the Special Account was 67.60% for the original Loan. Excluding the advance to the Special Account, the disbursement percentage was 49.34%. On including the amount of the supplementary loan, the percentages fall to 42.05% and 30.69% respectively. The disbursement percentage for the Grant was 97.69% including the advance to the Special Account and 44.40% excluding the advance. However, actual spent so far from IFAD original and supplementary loans is 33% and with commitment 58%.

61. **Counterpart funds.** A counterpart fund has been rated *highly satisfactory*.

62. Counterpart funds for the Project were budgeted at USD 169,000 in cash contribution, and USD 1,900,000 to cover taxes. The Project has received 96.17% of the cash contribution as of December 2013 audited accounts and 22.95% against taxes. Borrower counterpart funds, with respect to taxes, are also part of the single Treasury system and there have been no delays in receipt of the same. Since the reorganization, operational costs, except staff hired as consultants are billed to MoA. It is not possible to estimate the amount for operating costs (i.e. electricity, water, office space, vehicle usage) separately for the project as the Ministry of Agriculture does not account for this as a separate cost centre, however externally audited total amount of contribution up to December 2013 have been used.

63. **Compliance with loan covenants.** Compliance with loan covenants has been rated as *satisfactory*. The project provided IFAD with the physical and financial progress reports and submitted its current AWPBs within the timeframe stipulated in the Financing Agreement.

64. **Procurement and contracting.** A Procurement Officer (under consultancy contract) continued to handle all procurement related actions and acts as Secretary of the Procurement Evaluation Committees. Recently two members have been added to the evaluation committee (Amelioration Policy and Administrative Departments heads) and the key staffs of the ERD under consulting contracts continued to participate in evaluation committees, but are not permitted to sign off on evaluation reports. The mission is pleased to acknowledge that the information presentation in the evaluation reports have been improved and indicate better the proper sequence of the process and as advised by the MTR supervision mission. The overall quality of procurement is rated as *satisfactory*.

65. Since the last supervision in May 2013, a total of 24 contracts under IFAD financing were issued for a total value of USD 4,736,116 equivalent. The most significant is the three civil works contracts for Irrigation Rehabilitation of Loma Turtskhe, Lami Misaktsieli stage IV and Metekhi awarded to Optimus Group Ltd, Mamisoni and Grandi Ltd respectively under National Competitive Bidding valued at GEL 7,637,332 (USD 4,339,393 equiv.). Other procurement includes technical supervision and Author Supervision for the three Irrigation Rehabilitation contract above under Consultant Qualified Selection (CQS) and Single Source Selection (SSS) and valued at GEL 181,897 (USD 103,351 equiv.) and GEL 26,005 (USD 14,776 Equiv.) respectively, Feasibility Study for 9 schemes, of which 3 schemes were chosen out of 9 under Quality and Cost Based Selection and Value at USD 80,000, Hydrological Study for Lami Misaktsieli and Doesi-Grakali under CQS valued at GEL 27,228.50 (USD 15,471 equiv.). The contracts for the 9 project consultants up to Sep 2014 (Programme Manager, Finance Manager, Procurement Manager, 2 Accountants, M&E Specialist, Rural Leasing and Rural Officer and Coordinator and Rural Infrastructure Engineer were renewed,

with the last two up to 31 March 2014. External Auditors for 2013 under Least Cost Selection and finally, Newspaper extension and Website for 2014.

66. The mission is pleased to acknowledge that the majority of recommendations of the last supervision have been implemented. The contract register in large is up to date and includes all contracts approved by the project including the procurement plan approved, bidding documents have been modified and included 5% retention until the defect liability period is complete and a non-pricing criteria have been applied for civil works contract. On pre-qualification for civil works, it was not possible for project to implement this recommendation due to remaining short implementation period and such was mutually discussed and agreed with IFAD. The supervision mission has noticed that there are indications of cost overruns in few contracts under civil works ranging between 0.4% and 27% against amounts stated in IFAD no objection. It was explained that some of the overruns appear during implementation phase on the basis of quantities but at completion the total cost is within the contracted amount. ***Mission recommends that project to seek no objection for any deviation in the contract amounts above 15% as a result of any necessary amendments and the contracts register to be updated immediately to capture such amendment.***

67. **Quality and Timeliness of Audit.** Quality and Timeliness of Audit has been rated as ***highly satisfactory***.

68. **Financial statements for 2013 have been audited by BDO, a private audit firm which conducted** the audit using International Standards of Auditing (ISA) and project used WB external auditors TORs upon CFS team leader no objection.

69. They expressed an Unqualified opinion on the Financial Statements for Loan 802-GE and the component Grant 1160-GE. A separate opinion has been expressed on the Special Account and on the Statement of Expenditures. A management letter, expressing an opinion on the internal control systems, was also received as part of the report. The auditor has found the systems to be good i.e. all expected controls available; no significant issues arising; evidence shows control is working; and evidence is retained and documented. The audit was received 3 months before the due date and both the auditor performance and the financial statements were rated highly satisfactory.

Table 5: Agreed Actions and Recommendations for the Fiduciary Aspect

Recommendations and Agreed Actions	Responsibility	Agreed date
Financial Management staff will periodically visit the field.	ERD	On-going
Joint revision by the three heads of Programme, procurement and finance of the AWPB 2014.	ERD	31 May 2014
Joint systematic meetings between Programme, Finance and Procurement Managers/Consultant to review Project Budget versus Actual including Forecast/commitment, identify any significant over or underspent and take the relevant actions.	ERD	On-going
Monitor and follow up on timely receipt of 5% civil beneficiary contributions for civil works in full against each construction contract.	Programme and Finance Managers	On-going
Project to seek no objection from IFAD for any deviation in the contracts amounts above 15% as a result of any amendments.	ERD	On-going
Contracts register to be updated immediately upon amendments in contracts amounts.	Procurement Manager	On-going

F. Revised Budget and Cost estimates

70. At Appraisal, Project costs were budgeted at USD 17.2 million, of which USD 8.5 million was to be financed by the IFAD loan; USD 2.07 million by the Government (including USD 0.17 million for operating costs and USD 1.9 million for VAT); USD 0.47 million by Participating Financial Institutions (PFIs); USD 0.89 million by Project clients for the co-financing of enterprise investments and small-scale infrastructure investments; and USD 5 million by a co-financier to co-finance the SSRI component. Further financing was provided for under the World Bank (WB)/IFAD-financed Rural

Development Programme (RDP, USD 0.82 million) and the ASP Grant (USD 0.2 million) for technical assistance and training for rural leasing and SSRI components. Table 6 provides a summary of the Project costs and expenditures by component and financier at appraisal.

Table 6: Project Budget by Component and Financier (USD'000)

	IFAD Loan	RDP Grant	IFAD Grant	GOG	GIG Cash	Co- Financier	PFI	Beneficiaries	Total
1. Support for Rural Leasing	3,894	34.2	42.7				473	473	4,917
2. Small Scale rural Infrastructure	3,881			1,695		5,000		423.8	11,000
3. Project Management	725	47.8	157.3	205	169				1,304
Total	8,500	82.0	200	1,900	169	5,000	473	896.8	17,221

71. Based on the ASP needs, the mission, in consultation with MoA/ERD, proposes to make a reallocation in the IFAD loan categories to ensure efficient use of available funds. The Table below present the details on reallocation, where an amount of SDR 310, 000 from the unallocated category of the original IFAD loan and SDR 325, 000 from the unallocated supplementary loan have been shifted to the Civil Works category.

Table 7: Reallocation of ASP Budget

Category	Loan Current Allocation (SDR)	Revised Loan Allocation (SDR)	Loan Allocation Movement (SDR)	Current Grant Allocation (SDR)	Original Supplementary Financing Allocation (SDR)	Revised Supplementary Financing Allocation (SDR)	Supplementary Loan Allocation Movement (SDR)	Total Original and Supplementary Loans (SDR)
I. Civil Works								
(a) Civil Works	1,920,000	2,230,000	310,000		2,640,000	2,965,000	325,000	5,195,000
(b) Feasibility, Studies, Design/ Supervision	220,000	220,000	0		285,000	285,000	0	505,000
II. Equipment, Goods and Vehicles.	30,000	30,000	0					30,000
III. Investment								0
(a) Capital Investment	2,380,000	2,380,000	0					2,380,000
IV. Technical Assistance	70,000	70,000	0	90,000			0	70,000
V. Interest Rate Rebate								0
VI. Training, Workshops, Surveys and Studies	420,000	420,000	0	40,000				420,000
VII. Recurrent Costs								0
VIII. Unallocated	310,000		(310,000)		325,000		(325,000)	0
TOTAL	5,350,000	5,350,000	0	130,000	3,250,000	3,250,000	0	8,600,000

G. Sustainability

72. *Institutional Sustainability:* There are several types of institutions that ASP is working with in the rural leasing and irrigation sector. On the financial side, ASP is working with well-established leasing company. Given that agriculture leasing is a relatively new area of investment for the financial sector, the project is also provided TBC Leasing technical assistance to strengthen their capacity for risk management and product development. In the irrigation sector, the Government is committed to sustainable fee-based operations of the rural water supply schemes. The UASCG is expected to put in place operation and maintenance systems which are sustainable. To further assist UASCG in strengthening its operation and maintenance capacity, the World Bank in its newly approved ILMD project will provide technical assistance to pilot test a system in which operations and maintenance arrangements are decentralised to the scheme level, allow for collection of user fees at the local level, paying for administrative costs, operation and maintenance costs as well as incentive payments in case of good performance. The impact of ASP on institutional building is assessed as **satisfactory**.

73. *Social Sustainability:* The target group that ASP is dealing with are smallholder farmers most of whom are subsistence farmers. The socio-economic profile of the households is relatively uniform and the project has not experienced any disapproval in the manner in which it is providing its leasing and irrigation investments. The irrigation investment involve the rehabilitation of existing schemes and does not involve the creation of any new diversions or access through lands which could generate potential conflicts. In fact the assurance that the system will have adequate water for distribution among the various users ensures the reduction of any social tensions caused by inequity in the availability of irrigation water. An opportunity for any dispute resolution is offered by the fact that during scheme design the views of the users are incorporated through a process of beneficiary consultations through which smallholders give their feedback. The leasing activities are not expected to cause any conflicts at the village level.

74. *Technical Sustainability:* The technical feasibility of the rural leasing proposals is undertaken by the private companies submitting the proposals for financing. The technical feasibility of these proposals is ensured by a two stage process. In the first stage, each of the private companies prepares its own plans and provides a significant share of the costs of the enterprise. Thus the private firms are highly invested in the proposals they submit. The contribution of these companies has so far been about 45% of the total cost of the scheme. In the second stage, TBC Leasing has put in place its own system of review and screening which ensures that the technical proposals are sound. As far as the irrigation schemes are concerned there is a detailed criteria to ensure the technical feasibility of schemes. First of all, these schemes are old schemes which are being rehabilitated and are technically feasible. Detailed designs are prepared for each of the schemes to ensure technical sustainability. These designs are adapted and modified as required during scheme construction. The quality of the schemes is supervised during construction and mechanisms are being put in place to ensure better supervision.

75. *Financial and Economic Sustainability:* Under the Rural Leasing Component, the financial and economic sustainability of the investment is enhanced by the fact that the proposals are submitted by private companies often very experienced in agriculture production, food processing and marketing. The close screening and scrutiny of the proposals by TBC Leasing and its internal risk management measures further examine the economic feasibility of the selected enterprises. As far as the irrigation schemes are concerned, there is ample documentation that Irrigation has contributed significantly to poverty alleviation, food security, and improving the quality of life for rural populations. The feasibility of each of the schemes financed by ASP is determined by an independent and qualified company with the requisite skills. However, there are several issues which could compromise the financial viability of the schemes. Access to water is widely still perceived as a universal right in Georgia according to the former Soviet system and not all the smallholders are ready to pay for the water service. Furthermore, UASCG and its branch offices have limited capacity to put in place an effective system of cost recovery. With the support of the World Bank UASCG is expected to provide technical assistance and pilot test models in this regard.

76. Environmental Sustainability: Enhanced financing of the agriculture sector through the rural leasing activities of the project are unlikely to have any negative impact on the environment. While, there are some large investments which are being made in food processing, wine making and poultry production and some of them require construction of new food processing facilities all of them are required to get the requisite clearance from the local authorities. The ASP investments in the irrigation sector are not causing any environmental degradation as they are simply rehabilitating schemes. In fact the availability of a supplemental source of irrigation is going to help the smallholder farmers better cope with the risks of low rain fall and deal the uncertain weather patterns which have been in evidence in recent years in the country. The agriculture practices used by the smallholders are generally very environmental friendly with limited use of chemical fertilisers or harmful pesticides. A positive environmental impact of the Project has been that the non-functional channels which were being used by people to dump waste materials are no longer used for this purpose. The Environmental focus of the project can be considered as **moderately satisfactory**.

77. Exit Strategy: The emphasis of the Project on the strengthening of the financial institution interested in rural leasing services and providing technical assistance in developing new leasing products, improved appraisal and risk management techniques is an essential element of ASP's exit strategy. It is hoped that once the potential for agriculture leasing is demonstrated, it will encourage financial institutions in the Georgian market to develop business plans for further expansion of agriculture financing. TBC has already decided to establish specific targets for agriculture leasing on an annual basis. The exit strategy for the irrigation component comprises of putting in place a system which is effective, efficient and sustainable. The rehabilitation of irrigation schemes is the initial step in ensuring that these schemes become functional, recover water use charges and are able to be maintained by the UASCG as currently mandated by a Government decree, and the Company budget allocation is on the increasing (US\$ 59.8 million in 2013 and US\$ 66.1 million in 2014). The World Bank is strengthening the capacity of irrigation sector institutions to enable them to put in place effective operation and maintenance plans and pilot test some ideas in this regard. The exit strategy of the project is **satisfactory**.

H. Impact

78. At appraisal, the Project was expected to lead to greater incomes among poor, small-scale commercially oriented farmers and rural entrepreneurs. The benefits from the project were expected to derive from investments in rural leasing and infrastructure schemes such as irrigation, rural roads, bridges and domestic water supply. However, given that the project will focus only on rural leasing and irrigation projects, the benefits that were expected from other types of rural infrastructure will no longer accrue and those that are expected are likely to be linked more to crop intensification, increased production of high value products, increased productivity, reduction of crop wastage and production costs through improved mechanisation and availability of modern equipment.

79. An assessment of the likely magnitude of benefits, reveals that these maybe somewhat less than projected and that at appraisal there may have been an overly optimistic assessment. Based on the First and Second Level RIMS indicators that was shared by the project, the number of smallholder families that are expected to benefit from the two project components would reach 20,000 and the land irrigated around 8000 ha. However, the impact from improving the access to irrigation system will not be visible immediate. Based on the Survey estimation, only 20 percent of presumable financial effect from scheme rehabilitation will be achieved within the first year, and this rate will increase by 20 percent every year. It means that the full effect of rehabilitation work will be visible only after 5 years. These assumptions will be verified during the Impact Assessment Survey that will be conducted close to the completion date of the project.

80. At this stage, it is estimated that around 4,500 farmers are selling their products to those companies involved in rural leasing. The value of these products is reaching US\$ 22 million. Moreover, the project will be able to provide secure access to water to around 13,000 farmers, of which it's expected that 11,000 will report production and yield increase. In preparation for the project completion exercise, ASP would organize an Impact Assessment to measure the achievements and

validate the above mentioned data. IFAD will support the project in organizing the Impact Assessment and collecting the relevant data that indicate the project's impact throughout the course of its implementation.

I. Main Conclusion

81. The project lost valuable time in its implementation due to frequent reorganization of the implementation arrangements following the liquidation of the Agricultural Development Project Coordination Centre. In order to compensate for the time lost and to meet project's targets in rural leasing and infrastructure rehabilitation, there is a need to extend the completion date of the project by 9 months, till 30 June 2015. The project is now faced with a considerable challenge. By May 12, 2013, the project had completed 90% of its implementation period and disbursed and committed 33% and 58% of the IFAD funds, accordingly. It is still possible for the project to achieve its overall objectives provided the project implementation team is properly supported and the performance of the implementing partners is carefully monitored and follows the schedule of activities which has been prepared for the two components. There is an urgent need to develop a viable pipeline with TBC Leasing for potential leasing project that can meet IFAD requirements and enable TBC Leasing to utilize the total allocation in the SLA. Though the project's management has improved significantly its organization related to the monitoring, supervision and control of construction works, however monitoring of Contractors' schedule of works is weak and the participation to on-site design adaptations is partial. The mission believes that strong supervision and strengthening capacity through technical assistance and a more proactive approach to project implementation is needed. If this support is forthcoming, the project is expected to meet most of the objectives identified for it at appraisal.

Appendix 1: Summary of Project Status and Ratings

Basic Facts

Country	Georgia			Project ID	1507	Loan/DSF Grant No.	802
Project	Agricultural Support Project					Top-up Loan/DSF Grant	802
Date of Update	06-Jun-2014						
Supervising Inst.	IFAD/IFAD						
No. of Supervisions	3	No. of Implementation Support/Follow-up missions	5				
Last Supervision	5-16 May 2014	Last Implementation Support/Follow-up mission	23-Feb-2013				

					USD million	Disb. rate %
Approval	17-Dec-2009			Total financing	22.14	
Agreement	08-Jul-2010	Effectiveness lag	6.8	IFAD Total	13.70	
Entry into force	08-Jul-2010	PAR value	-----	IFAD loan	13.50	73
First disbursement	17-Dec-2010			DSF grant		
MTR	07-Jun-2013	Last amendment		IFAD grant	0.20	61
Original completion	30-Sep-2014	Last audit	30-May-2014	Domestic Total	3.44	
Current completion	30-Sep-2014			Beneficiaries	0.90	0
Original closing	31-Mar-2015			Government (National)	2.07	0
Current closing	31-Mar-2015			Domes. Fin. Inst.	0.47	0
No. of extensions	0			External Cofinancing Total	5.00	
				To be determined	5.00	0

Project Performance Ratings

B.1 Fiduciary Aspects	Last	Current	B.2 Project implementation progress	Last	Current
1. Quality of financial management	5	5	1. Quality of project management	4	5
2. Acceptable disbursement rate	6	3	2. Performance of M&E	5	5
3. Counterpart funds	6	6	3. Coherence between AWPB & implementation	4	4
4. Compliance with financing covenants	5	5	4. Gender focus	4	4
5. Compliance with procurement	5	5	5. Poverty focus	4	5
6. Quality and timeliness of audits	6	6	6. Effectiveness of targeting approach	4	4
			7. Innovation and learning	4	4
			8. Climate and environment focus		

B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. 1. Support for Rural Leasing (29%)	4	4	1. Institution building (organizations, etc.)	4	5
2. 2. Small-scale Rural Infrastructure (64%)	5	4	2. Empowerment	4	4
3. 3. Project Management (7%)	4	4	3. Quality of beneficiary participation	4	4
			4. Responsiveness of service providers	4	4
			5. Exit strategy (readiness and quality)	4	5
			6. Potential for scaling up and replication	5	5

B.5 Justification of ratings

The quality of financial management has been rated satisfactory or highly satisfactory because of the existence of proper systems and staff dealing with fiduciary aspects. Though project management has suffered as a result of frequent institutional changes in the management structure, however ASP was able to pick up speed to meet the envisaged targets. M&E capacity has been strengthened and the project is able to provide proper reporting. The AWPB and implementation is moderately satisfactory as the project has been move ahead with major infrastructure contracting and works. The actual disbursement rate is moderately unsatisfactory, and though the project is in the process of committing most of the existing funds, granting a 9-12 months extension will enable the project to meet its development objectives. The justification of the ratings is indicated in detail in the Supervision Report. The components are poised to make rapid progress provided that proper support and technical assistance is secured and an extension of 9-12 months is provided. This is why the components have only been rated as moderately satisfactory. The implementing institutions are being provided technical assistance to strengthen their capacity which will lead to greater sustainability and provide an effective exit strategy for the project. While the extent of beneficiary participation has been improved there is need to increase their involvement during rehabilitation works. The potential for scaling up exists provided the capacity of institutions in the irrigation and rural leasing is strengthened and Government policy is designed to support the institutions and not undermine their functioning. A new World Bank project approved on 23 May, can be considered a scaling up of the ASP on the irrigation rehabilitation works.

Overall Assessment and Risk Profile

	Last	Current
C.1 Physical/financial assets	4	4
C.2 Food security	4	4
C.3 Quality of natural asset improvement and climate resilience		
C.4 Overall implementation progress (Sections B1 and B2)	4	4

Rationale for implementation progress rating

Though ASP had progressed well during the last year and it is poised to speed up implementation, however the project is lagging behind the implementation schedule of both Rural Leasing and the Small Scale Infrastructure Rehabilitation Components. In order to meet the project's development objectives there is a need to grant the project 9-12 months extension and a strict activity schedules should be prepared and followed.

C.5 Likelihood of achieving the development objectives (section B3 and B4)	5	4
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Rationale for development objectives rating

Despite implementation delays, the Project's development objectives and components are still highly relevant. The Supervision Mission in May 2014 identified, in conjunction with Government, a number of tasks and agreed upon the required timeframe for their implementation. Future ASP implementation performance, and therefore likelihood of achieving the development objectives, will largely depend on the government support to ERD and implementing partners to execute key tasks and activities related to the Project.

C.6 Risks *Short description of major risks for each section and their impact on achievement of development objectives and sustainability*

Fiduciary aspects	There is no specific fiduciary risk for the Project on the side of the Government.
Project implementation progress	If field support is withdrawn and/or further disruptions to the implementation arrangements.
Outputs and outcomes	The outputs and outcomes expected from the project are beginning to emerge and have been identified in the log-frame. The number of beneficiaries from the two components has been identified and matches closely the targets envisaged at appraisal. If the 9-12 month extension is not granted, the project will be at risk for not achieving its objectives fully.
Sustainability	The sustainability of the SSRI investments would depend upon the extent to which UASCG is able to efficiently and effectively undertake the operations and maintenance of irrigation projects and recover the costs from users.

Proposed Follow-up

Issue / Problem	Recommended Action	Timing	Status
ASP should closely follow up with TBC Leasing on the Rural Leasing Component	Develop a viable projects' pipeline that enable the smooth disbursement of the allocated amount in the Rural Leasing Component.	End of September 2014	on-going
ASP should validated the rehabilitation works of the Irrigation with project's beneficiaries	Project management in consultation with UASCG will organize validation workshops with project beneficiaries at target areas before handover the rehabilitated irrigation schemes to UASCG	End of September 2014	on-going
The project will not meet its development target by the completion date, i.e. September 2014	In order to ensure the proper accomplishment of project activities and targets, the Government of Georgia, represented by the Ministry of Finance will request IFAD for a 12 months extension of the project completion date.	End of June 2014	done

Appendix 2: Summary of key actions to be taken within agreed timeframes

Rural Leasing

Agreed Actions and Recommendations	Responsibility	Agreed date
Closely follow up with TBC Leasing on developing a viable projects' pipeline that enable the smooth disbursement the allocated amount, and update IFAD regularly.	MoA/ERD	On-Going
Continue the close monitoring of the approved projects and assessing the benefits and the backward linkages to the smallholder farmers.	ERD	On-Going

Small Scale Rural Infrastructure Component

Recommendations and Agreed actions	Responsibility	Agreed date
As per last mission recommendation, ASP needs to recruit a local civil engineer to share part of the current heavy workload of ASP Engineer consultant.	PMU	June 2014
ERD will organise in collaboration with UASCG and Consulting Firms a review of the drawings of Metekhi, Loma-Turtskhi and Kharaghaji schemes to ensure that the location of appropriate structures for water flow regulation and control and that on-farm water distribution will be optimal.	ERD/UASCG/ Consulting Firms	June 2014
Validation of the rehabilitation works scope at the completion of the works before handover to UASCG	ERD	Continuing
Organise twice a month field visits to construction work sites to support on-site decision making for design adaptations.	ERD/UASCG	Continuing

Project Management

Recommendations	Responsibility	Agreed date
In order to ensure the proper accomplishment of project activities and targets, the Government of Georgia, represented by the Ministry of Finance will request IFAD for a 12 months extension of the project completion date.	ERD	May 31, 2014
The Annual Progress 2014 Report should include in depth analysis of overall project progress. The Report should analyse whether the outputs that are being produced are actually leading to changes and benefits among the target group.	Project Manager	December 31, 2014
In preparation for the project completion exercise, ASP should consider organizing an Impact Assessment and measure the achievements and results throughout the project implementation cycle.	Project Manager/ M&E Specialist	3 months before Completion
Invite for an expressions of interest from Communications, Public Relations and Media companies to deliver a communications outreach campaign.	ERD	As soon as possible

Financial Management & Procurement

Recommendations and Agreed Actions	Responsibility	Agreed date
Financial Management staff will periodically visit the field.	ERD	On-going
Joint revision by the three heads of Programme, procurement and finance of the AWPB 2014.	ERD	31 May 2014
Joint systematic meetings between Programme, Finance and Procurement Managers/Consultant to review Project Budget versus Actual including Forecast/commitment, identify any significant over or underspent and take the relevant actions.	ERD	On-going
Monitor and follow up on timely receipt of 5% civil beneficiary contributions for civil works in full against each construction contract.	Programme and Finance Managers	On-going
Project to seek no objection from IFAD for any deviation in the contracts amounts above 15% as a result of any amendments.	ERD	On-going
Contracts register to be updated immediately upon amendments in contracts amounts.	Procurement Manager	On-going

Appendix 3: Status of previous missions' recommendations

Rural Leasing Component

Agreed action	Responsibility	Agreed date	Actions Taken by May 2014
Add a narrative section to the scoring matrix to elaborate the scores.	Rural Leasing Consultant	June 15, 2013	Prepared and implemented
Report on both the narrative and quantitative scores when submitting proposals for approval.	Leasing companies and PFIs.	On-Going	Prepared and implemented
Develop a work plan and ensure that progress is monitored and reported on a weekly basis.	ERD/RFC	June 4, 2013 On-Going	Prepared and implemented
Develop a matrix to monitor proposals submitted, approved and disbursed together with the information reported in the applications regarding employment generated and backward linkages created.	ERD/RFC	June 4, 2013 On-Going	Prepared and implemented
Prepare an SLA for the participation of Finagro	ERD/RFC	June 30, 2013	After through assessment, Finagro is not considered eligible to participate in the Project.
Undertake due diligence for Crystal, if it indicates its interest in participation in ASP.	ERD/TA	June 30, 2013	After conducting a quick due diligence, Crystal, is not considered eligible to participate in the Project
Conduct regular follow-up meetings with all partners on a fortnightly basis to expedite approval and resolve implementation issues.	ERD/PM/RFC	On-Going	Regular follow meeting is organized with partners.
Prepare a template covering letter for ERD to send to IFAD with each proposal sent for approval.	Rural Leasing consultant	June 7, 2013	Prepared and implemented
Ensure that each party which submits a proposal is visited by the RFC to further assess that the proposal meets project objectives.	ERD/PM/RFC	On-Going	Visits are conducted to the Rural Leasing applicants
Visit the enterprises which have received financing and assess the impact of the projects on the IFAD target group and prepare case studies on each.	ERD/RFC/M&ES	On-Going	Monitoring visits are organized to the Rural Leasing beneficiaries
Monitoring the amount of funds which are lying utilised in the account of TBC Leasing and if it exceeds USD 1 million for more than 8 months.	ERD/RFC/RFC	On-Going	Implemented

SSRI Component

Recommendations and Agreed actions	Responsibility	Agreed date	Action Taken by May 2014
Project management in consultation with UASCG will develop a process for reviewing and clearing all the feasibility and detail design studies as well as tender documents for all the irrigation schemes that will be financed under ASP. If needed, further assistance could be sought from local or international experts under short contract basis	ERD/UASCG	As soon as possible	ASP engineer was involved in design process as much as it was possible. He was participating in all detailed discussions with design companies about technical solutions held in UASCG . Draft feasibility studies was reviewed by UASCG and Amelioration Dep. of MoA
Strengthening the capacity of the ERD for civil work contract management, construction works, supervision and control through the recruitment of a local Civil Engineer/ Independent Consulting firm.	ERD	As soon as possible	A ASP recruited consulting/engineering company for everyday technical supervision for all ongoing construction works
ASP need to consider providing national or international technical assistance, training and equipment to assist UASCG in developing an efficient and effective operation and maintenance plan The assistance would be cover capacity building and training needs assessment as well as the elaboration of an Action Plan that would enhance water service quality and water charges recovery. The plan will be first developed for the two already rehabilitated schemes (Lami-Misaktsieli and Doesi Grakali)	ERD/UASCG	July 2013	UASCG completed general guidelines for operation and maintenance activities, which also envisages development of the tariff methodology. The mentioned document will be given legal status. Currently UASCG is working on the estimation of the cost of O&M cost for 3 systems. UASCG prepared O&M plans for the systems rehabilitated under ASP. WB new GILMP envisages strong support for the preparation of the strategy, O&M plans for the whole system,
Strict monitoring and assessment by ERD of the progress in the elaboration by the Consulting Firms commissioned by USACG of the detail design, drawings and bid document for the nine pre-selected irrigation schemes (Annex 5) is of foremost importance to ensure timely execution of the SSRI targeted work plan during the remaining project period.	ERD/UASCG	July 2013	All designs for the pre-selected systems were completed and submitted to ASP in January 25. Only design of Does-Grakali III stage was submitted to ASP on March 21,
ERD will organise in collaboration with UASCG a survey of the quality of the completed rehabilitation works and identify corrective actions that would improve water reliability and system performance. Emphasis should be given to the adaptation of the off-takes and emergency spillways to the elevation and other aspect on the ground.	ERD/UASCG	June 2013	It was done, more-over contractor company already corrected the defects.

Water users involvement should start at the beginning of the design process particularly with regard to the most appropriate adaptation of the off-takes to ground realities in keeping with farmer requirements.	ERD	June 2013; start with Loma Turtskhe	The design was already prepared before ASP started its activity. But before contracting constructor company ASP conducted validation workshop with farmers and water users and the relevant report was sent to IFAD
Launch discussions and contracting process with specialized Universities and NGOs for the elaboration of a water balance study in Lami-Misaktsieli and Dosei-Grakali Irrigation systems.	ERD/UASCG	June 2013	ASP recruited consulting company that prepared hydrological study for Does-Grakali and Lami-Misaktsieli irrigation systems.
Follow-up the issue of completing the hydro-mechanical equipment of the Doesi-Grakali Headwork	ERD/UASCG	July 2013	Done- Hydro-mechanical equipment was installed
An operation and maintenance plan for the drinking water supply will be elaborated by the beneficiary Municipality and submitted to the ERD. This should be followed up by the engineer of ERD>	Local Municipality/ER D/Civil Engineer	On-going	Not done yet. As Ambrolauri Municipality has problems regarding this system.
Prepare bidding documents for tendering the construction works for the rehabilitation of Lami-Misaktsieli (Stage IV) and Doesi-Grakali (Stage III) irrigation scheme as soon as the detail design and drawing are reviewed and cleared	ERD/UASCG	July 2013	Lami-Misaktsieli IV stage has been already contracted, tender for Does-Grakali Stage III has been announced, deadline of submission of proposals is May 15.

Project Management

Agreed action	Responsibility	Agreed date	Actions Taken by May 2014
Preparation of detailed work plans for both ASP components in collaboration with the implementing agencies.	Deputy Head of ERD and Project Manager	June 5,2013 and revised on an on-going basis	Prepared and Implemented
Weekly management meeting within ERD to monitor progress, assign tasks and follow-up on actions and prepare a record of the minutes	Project Manager	Weekly	Implemented
Weekly meetings between ERD and UASCG for ensuring timely preparation of detailed design of selected schemes, preparation of tender documents, supervision plan and O&M plan and construction schedule.	Project Manager and both Infrastructure Engineers	Weekly	Implemented
Monthly meetings between ERD and participating financial institutions to discuss project pipeline, undertake joint field visits, timely approval and a monitoring and evaluation plan	Project Manager and Rural Finance Coordinator	Monthly	Not applicable, since there is only one participating financial institutions, with whom ERD is conducting regular meetings

Submission of a monthly progress report documenting the progress of each component a copy of which will be sent to the MOA and IFAD	Project Manager	Monthly	Prepared and Implemented
Field visits by all relevant staff to the field to acquaint themselves with infrastructure schemes and enterprises support by the rural leasing component on a regular basis	Project Manager, Financial Manager, Procurement Specialist, M&E Specialist.	On-Going	Regular field visits where organized.
About 70% of the time of the two civil engineers will be spent in the field	Civil engineers	On-Going	The civil engineer is conducting regular visit to the project sites.
The Rural Finance Coordinator will visit each enterprise to document progress and prepare a case study together with the M&E Specialist	RFC	On-Going	Visits are organized to the beneficiaries of the Rural Leasing Component.
Preparation of a field plan for the use of vehicles by all staff on a monthly basis to be prepared and submitted to the MOA one week before the start of the relevant month.	All Staff supervised by Project Manager	End of each month	Implemented

Fiduciary Aspects

Recommendations	Responsibility	Agreed date	Actions Taken by May 2014
Relevant staff are apprised of the supervision and payment procedures of the SSRI Implementation Manual	ERD	ASAP	
Financial Management staff will periodically accompany staff to the field to familiarize themselves with field operations.	ERD	June 2013	The FM staff did not have the time to participate in field visits
Amend the rating from Satisfactory to Highly Satisfactory for the Financial Statements submitted to IFAD for the fiscal year ended 31 December, 2012	IFAD	June 30, 2013	Implemented
The information in the evaluation reports will need to be better presented to show the proper sequence of the process	ERD Procurement Officer	For all future evaluation reports	Implemented
Regional Competition is encouraged and recourse to Single Source Selection should be avoided to the extent possible.	ERD/ Procurement Officer	In procurement planning	In process
Contract register to include procurement method and deviations from procurement plan; submit updated register to IFAD for records	ERD/ Procurement Officer	Update by 30 June 2013	In process
5% will be retained on all future contracts until the defects liability period is complete and the final acceptance certificate is issued; SSRI Manual and bidding documents modified to reflect this change	ERD	On all future contracts; documents updated immediately and for all future bids	Implemented

A prequalification process will be undertaken for civil works contractors	ERD/ Procurement Officer	By 30 June 2013	Not implemented and the project is using a standalone bidding process for each civil works contract.
For tender evaluation of civil works contracts, a non-pricing criteria will be applied	ERD/ Procurement Officer	For all future tender evaluations for civil works	Implemented
Use of the IFAD TORs for audit of financial statements for 2013	ERD	When hiring auditor for 2013 audit	Implemented

Appendix 4: Financial Progress

Table 1: Financial performance by financier

Financier	Appraisal (USD '000)	Current (USD '000)	Expenditures (USD '000) as at April 30, 2014	Per cent
IFAD loan	8 500	8 500	4 506	53%
IFAD Supplementary Loan	0	5 000	-	0%
IFAD grant	200	200	127	64%
RDP grant ^a	82	19	19	100%
Co-financier	5 000	0	-	0%
Government ^b	2 069	2 069	599	29%
PFIs ^c	473	473	511	108%
Beneficiaries ^d	897	897	718	80%
Total	17 221	17 158	6 480	38%

- a. ASP received a grant USD 19,000 from an earlier IFAD project, the RDP Grant. No further funds are anticipated from this source and therefore it is considered as 100% disbursed in this calculation.
- b. Government contribution consists of tax contribution fully and audited contribution (as it is paying for MOA staff and operations related to the ASP) as of December 31, 2013.
- c. The contributions from the PFIs of rural leasing component are much higher than expected at appraisal and already exceeds the project amount.
- d. Beneficiaries' contribution for the civil work and rural leasing are \$75,244.32 and \$642,990.45 respectively.

Table 2: Financial performance by financier by component April 30, 2014 USD'000

Component	IFAD Original and Supplementary loans			IFAD grant			Co-financier/RDP			Government			PFIs			Beneficiaries			Total		
	Appr.	Act. As at Apr 30, 2014	%	Appr.	Act. As at Apr 30, 2014	%	Appr.	Act. As at Apr 30, 2014	%	Appr.	Act. As at Apr 30, 2014	%	Appr.	Act. As at Apr 30, 2014	%	Appr.	Act. As at Apr 30, 2014	%	Appr.	Act. As at Apr 30, 2014	%
Rural Leasing																					
Invest. Capital	3784	1,412.14	37.32%	-	83.94		-	-		-	15.09		473	511		473	642.99		4730	2,665.16	56.35%
Int. TA	-	-		23.3	-		23.1	18.6	80.52%	-	-		-	-		-	-		46.4	18.60	40.09%
Train. & Exchange Visits	-	-		19.4	-		11.1	-		-	-		-	-		-	-		30.5	0.00	0.00%
Inter. Cost Rebate	110	-		-	-		-	-		-	-		-	-		-	-		110	0.00	0.00%
Rural Infrastr.																					0.00
Civil Works	7613	2,583.59	33.94%	-	-		-	-		1525	368.37	24.16%	-	-		423.8	75.24	17.75%	10000.1	3,027.20	30.27%
Feas., Des. & Sup.	1268	211.93	16.71%	-	40.27		-	-		170	42.42	24.95%	-	-		-	-		1000	294.62	29.46%
Project Manag.																					0.00
Vehicles	33.4	-		-	-		-	-		6.8	-		-	-		-	-		40.2	0.00	0.00%
Office Equip.	15.5	1.96	12.65%	-	-		-	-		3.4	0.35	10.29%	-	-		-	-		18.9	2.31	12.22%
TA, Studies & W/S	-	0.62		157.3	2.87	1.82%	47.8	-		27.6	0.16	0.58%	-	-		-	-		232.7	3.65	1.57%
Salaries	482.1	267.23	55.43%	-	-		-	-		406.4	167.59	41.24%	-	-		-	-		726	434.82	59.89%
Other Oper. Costs	194	28.24	14.56%	-	-		-	-		92.2	4.68	5.08%	-	-		-	-		286.2	32.92	11.50%
Total	13,500.00	4,505.72	33.38%	200	127.08	63.54%	82.00	18.6	22.68%	2,068.90	598.66	28.94%	473	511	108.03%	896.8	718.23	80.09%	17,221.00	6,479.29	37.62%

Notes:

1. The co-financing from other sources did not materialise as planned and IFAD supplementary loan of US\$5m replaced that. The US\$5m was allocated to civil work including unallocated amount and feasibility studies.
2. The government contribution audited actual expenditures through MOA as of 31.12.2013 for salaries and business trips included under salaries sub-component in the above table.

Table 3: IFAD loan disbursements (SDR, as at April 30, 2014)

Category	Original Allocation	Revised Allocation	Supplementary Loan	Disbursement	Balance (of original loan)	Per cent disbursed (of original loan)	Per cent disbursed (of original and Supplementary loan)
I							
Civil Works							
(a) Civil Works	1 920 000	1 920 000	2 640 000	1 480 120	439 880	77%	32%
(b) Feasibility Studies, Design and Supervision	220 000	220 000	285 000	133 079	86 921	60%	26%
II							
Equipment, Goods and Vehicles	30 000	30 000		1 272	28 728	4%	4%
III							
Investments					0		
(a) Capital Investments	2 380 000	2 380 000		860 593	1 519 407	36%	36%
(b) Interest Cost Rebate Scheme	70 000	0		0	0	0%	
IV							
Technical Assistance	0	70 000		0	70 000	0%	0%
VI							
Recurrent Costs	420 000	420 000		164 692	255 308	39%	39%
Unallocated	310 000	310 000	325 000	0	635 000	0%	0%
Authorized Allocation				976 741	-976 741		
Total	5 350 000	5350000	3 250 000	3 616 497	1 733 503	67.60%	42.05%

Note: Zero has been spent from IFAD supplementary loan as of 30th April 2014

Table 4: IFAD grant disbursements (SDR, as at April 30, 2014)

Category	Original Allocation	Disbursement	Balance	Per cent disbursed
IV Technical Assistance	90 000	38 838	51 164	43%
V Training, Workshops, Surveys and Studies	40 000	18 880	20 414	49%
Advance of Funds		69 274	-69 274	
Total	130 000	12 6993	3 007	97.69%

Table 5: Total Funds Spent, Signed and Approved (USD as at 30 April 2014)

Financier	Allocation (USD)	Expensed, Signed and Committed (USD)	Financier's Allocation (%)
IFAD Loan	8,500,000	7,807,549	92%
IFAD Supplementary Loan	5,000,000	0	0%
IFAD Grant	200,000	127,077	64%
RDP Grant	18,600	18,600	100%
Co-financier**	0	0	
Government*	2,069,000	1,380,110	57%
PFIs	473,000	511,024	108%
Beneficiaries	896,800	965,980	108%
TOTAL	17,157,400	10,810,340	63%

** Co-financier allocation stated as zero hence it has been replaced by IFAD supplementary loan.

Appendix 5: Compliance with financing agreement covenants: Status of implementation

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
Section B.6	There shall be a Project Account for Project operations in the Treasury Service of the Ministry of Finance of the Borrower		Complied with	Given the re-organisation of Project management and implementation under IOPID initially and later under the Department for International Relations, counterpart funding originally intended to cover part of the operating cost will no longer be transferred to the Project accounts and payments for operating costs and staff salaries will be made directly from the MoA budget and certified accounted for by the Financial Department of the MoA.
Section B.7	The Borrower shall provide counterpart financing for the Project in the amount of USD 169 000 in cash contribution, and USD 1 900 000 to cover taxes.		Complied with	
Section C.1	The Lead Project Agency shall be the Ministry of Agriculture (MoA) through its International Organizations Projects Implementation Department (IOPID) or the successor of IOPID.		Complied with	
Section E.1	(a) The following are designated as additional general conditions precedent to withdrawal: (i) The Project Account designated to receive IFAD advance resources has been opened by the Treasury Service of the Ministry of Finance; and (ii) The Project Manager shall have been duly appointed on terms and conditions satisfactory to the Fund.		Complied with	

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
Section E.1	(b) the following are designated as specific conditions precedent to disbursement under Category III: (i) Due diligence and evaluation shall have been carried out on those Leasing Companies and MFIs who have expressed interest in the proposed project for agricultural micro-leasing, by an international expert in leasing operations, and a report, satisfactory to the Fund, has been provided on the findings of such evaluation. (ii) The Rural Leasing Manual, subject to the no-objection of the Fund, shall have been finalized and adopted by the Borrower, and submitted to the Fund by the Lead Project Agency; and (iii) Subsidiary Loan Agreements have been finalized with individual Leasing Companies and MFIs subject to prior no-objection by the Fund.		Complied with	Two companies, namely TBC Leasing and Finagro MFI, expressed interest to participate in the Rural Leasing component. A due diligence and evaluation has been carried out for both of them. A SLA has been signed with TBC Leasing and the SLA with Finagro will be prepared by June 30, 2013.
Schedule 1, 4.1	Component 1: Support for Leasing Operation in Rural Areas. The Project shall support and target rural leasing support to key participants of supply chains of the Georgian rural markets and focus investments in commodity chains with the strongest linkages to the target group.		Complied with delays	The key issue that has delayed the start-up of rural leasing refinancing operations has been the approval and adoption of the Rural Leasing Manual by the Government, which was fulfilled on the 7 th of February 2012.
Schedule 1, 4.2	Component 2: Small Scale Rural Infrastructure. The Project shall award competitive contributory grants for investments in public supportive infrastructure to enable and enhance rural population investments and activities in on and off-farm related business. All cases will have to demonstrate the commercial viability of the proposed venture, of which the infrastructure investment is a necessary part.		Complied with	
Schedule 1,5	Project Management. The Project shall be managed by the IOPID (or the successor), who shall carry its implementation responsibilities as outlined in Schedule 1, Section II.		Complied with	

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
Schedule 1, 7	The Ministry of Agriculture shall have the overall responsibility for the Project. Staff responsibilities shall be discharged by the Director of the IOPID (or the successor) and shall include, but are not limited to, the following functions: Project Management, Financial Management, Accounting, Procurement, Engineering, Rural Finance Coordination, Monitoring and Evaluation, Legal and Administrative Assistance. The IOPID Director (or the successor) shall, as part of his/her overall managerial duties, have specific responsibilities for assuring gender mainstreaming and gender sensitivity in all aspects of Project planning, implementation, monitoring, reporting and evaluation. Staff positions are subject to the no objection of the Fund and shall be revised from time to time in consultation with the Fund.		Complied with	
Schedule 1, 8	IOPID (or the successor) shall prepare the draft Annual Work Plans and Budgets (AWPBs) for each Project year. The draft AWPBs shall include, a procurement plan, a detailed description of planned Project activities during the coming Project year, and the sources and uses of funds therefore. The draft AWPBs shall be submitted to IFAD for no objection no later than sixty days before the beginning of the relevant Project year. IOPID (or the successor) shall submit progress reports in English to IFAD and the MoA and MoF to provide essential information on the physical and financial progress of Project activities and regular assessment of Project impact.		Complied with	The AWPBs FY 2013 has been submitted on time (December 2012).

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
Schedule 1, 9	The Project will be directly supervised by IFAD. The first three leasing contracts from each MFI will be closely reviewed by IFAD. After one year of Project implementation, IFAD along with the IOPID (or the successor) will assess the performance of each MFI to determine if they should continue to participate in the program. A set of eligibility criteria for leasing activities to be funded by IFAD will be introduced and incorporated in the manual for Rural Leasing Operations. In addition, initially the IOPID (or the successor) will review and clear each leasing contract before finalization and IFAD will review and clear the first three contracts extended by each leasing company as well as all leasing contracts above USD 100 000. Finally, at the end of the first year of operation, IFAD will review the level of leasing contracts being provided to farmers' groups with a view to determine whether Project support to group formation is required. In the course of the first year of Project implementation, a strategic good governance framework shall be developed by IFAD in collaboration with the IOPID (or the successor).		Complied with	
Schedule 1, 10	The IOPID (or the successor) shall prepare or finalise implementation manuals for Rural Leasing Operations, Agriculturally Related Infrastructure, Procurement, and Financial Management in the first year of Project implementation subject to the no objection of the Fund. These manual combined shall comprise the Project Implementation Manual.		Complied with delays	The Manual was approved by the Government of Georgia on February 2012.
Schedule 1, 11	A Mid – Term Review shall be carried out towards the end of the Project's second year. The Review will cover, among other things: (i) physical and financial progress as measured against Project Annual Work Plans and Budgets; (ii) performance and financial management of contracted implementation partners; and (iii) an assessment of the efficacy of technical assistance and training programmes.		Complied with	

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
Schedule 1, 12	Management of Component 1 'Support for Leasing Operations in Rural Areas' shall rest with the IOPID (or the successor). The main tasks shall include: (i) informing in a proactive manner the potential participating institutions identified for the leasing scheme about the various services provided under the Project and call for their expressions of interest to take part in the scheme; (ii) organising, with international technical support, the due diligence; (iii) facilitating the signing of relevant Subsidiary Loan Agreements between the Leasing Companies and MFIs and the Government; (v) reviewing the applications for leasing capital from the Leasing Companies and MFIs and approving/rejecting the applications based on the agreed eligibility criteria of the scheme; (vi) managing in an efficient and timely manner the financial transactions related to leasing capital disbursements and revolving fund operations; (vii) monitoring the effective utilisation of the Project leasing capital through; (a) reports from Leasing Companies and MFIs on the outstanding credit balances and on the balances of the revolving bank accounts; and (b) periodical field visits to Project-financed investment sub-projects.		Complied with	
Schedule 1, 13	Management of Component 2 ' Small Scale Rural Infrastructure' shall be done by the IOPID (or the successor). This shall include: (i) publicize the availability of the competitive grants for infrastructure rehabilitation; (ii) assistance to possible applicants to prepare requests; (iii) review and evaluate grant applications in accordance with the guideline and mechanisms agreed upon; (iv) develop Terms of References for design works for selected infrastructure rehabilitation and subsequently monitor them; (v) carry out procurement of goods, works and services; (vi) monitor and carry out supervision of civil works implementation of investment sub-projects by contractors; and (vii) assess the impact of the component.		Partly complied with	The project needs to invest more efforts in terms of making this component more demand driven process and publicising the availability of the competitive grants for infrastructure rehabilitation.
Schedule 2, (ii)	'Recurrent Costs' means salaries, operations and maintenance, and other operating costs, whose costs in PY1 shall be financed by the level of 20%.		Complied with	

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
Schedule 3, 1	Gender. The Borrower shall ensure that Project benefits are delivered to poor rural women in the Project Area.		Complied with	The RIMS data on the number of the Project beneficiaries is disaggregated by gender.
Schedule 3, 2	Taxes. The Borrower shall, to the fullest extent possible, exempt the proceeds of the Loan from all taxes. Any taxes which the Project is nonetheless obliged to pay shall be promptly reimbursed by the Borrower and the amount so reimbursed shall be credited against the counterpart financing obligation set forth in Section B.		Complied with	

Appendix 6: Physical progress measured against APWB, including RIMS indicators

Period: 08-07-2010 to 31-05-2014							
Impact and Outcomes	Indicators (with global target if available)	Achievements (as per M&E data)	RIMS Rating				
			(by Project)		(by supervision mission)		
Impact level							
Overall Goal The overall goal of the ASP is to reduce rural poverty in Georgia.	Increase in rural household assets / assets ownership index. Increased income and improved livelihood of rural households.	N/A	N/A		N/A		
Outcome level							
Project Purpose <i>Component 1:</i> to increase assets and incomes among actually and potentially economically active poor rural women and men willing to move towards commercially viable agricultural and associated rural enterprises	Number of farmers using purchased input. Number of jobs generated by small and medium enterprises Number of on - and off - farm new jobs created per USD 10 000 investment through leasing contracts. Value of incremental revenue of on - and off - enterprises/farmers.	N/A	N/A		N/A		
Project Purpose <i>Component 2:</i> to remove infrastructure bottlenecks which inhibit increasing participation of economically active rural poor in enhanced commercialization of the rural economy.	Number of farmers with secure access to water. Incremental hectares of crop grown. Number of functioning infrastructure. Number of farmers reporting production and yield increase. Value of incremental revenue of on - and off - farmers.	N/A	N/A		N/A		
Output level							
Outputs by component	Indicator	(Physical) Targets					
		AWP&B (planned)	Actual (achieved)	%	Appraisal (Global)	Cumulative (so far)	%
Component 1 Support for Rural Leasing							
<i>Output 1.1 Identification and due diligence of PFIs.</i>	<i>Number of PFIs undergoing due diligence</i>	3	3	100	3	3	100
<i>Output 1.2 Engagement and signing of SLAs with selected PFIs</i>	<i>Number of financial institutions signing SLA</i>	3	1	33	3	1	33
<i>Output 1.3 Capacity building of Rural Leasing Service Providers.</i>	<i>The capacity for MFIs participating in the project enhanced</i>	3	1	33	3	1	33
<i>Output 1.4 Providing facilitated financial services for registered enterprises.</i>	<i>Number of enterprises accessing facilitated financial services</i>	8	4	50	18	13	72
<i>Output 1.5 Providing facilitated financial services for registered enterprises.</i>	<i>Value of gross leasing loan portfolio (enterprises)</i>	\$1,58 mln	935 350	59	\$3,5mln	\$2,16mln	62

Component 2- Small Scale Rural Infrastructure							
Output 2.1 Undertaking the necessary activities for the construction and supervision of investments in Batch 1.	Number of infrastructure facilities undergoing construction/rehabilitation for Batch 1	2	2	100	3	3	100
Output 2.2 Constructing of two brigades in Sagarejo and Marneuli Districts (Batch 1).	Length of bridges constructed/rehabilitated in Batch 1	0	0	0	127m	136m	107
Output 2.3 Rehabilitating the drinking water system in Ambrolauri District (Batch 1).	Size of drinking water systems undergoing construction/rehabilitation in Batch 1	0	0	0	10.4km	10.4km	100
Output 2.4 Undertaking the necessary activities for screening and selecting of projects in Batch 2.	Number of infrastructure facilities selected for Batch 2	2	2	100	5	5	100
Output 2.5. Preparing the detailed technical design works for projects in Batch 2.	Number of infrastructure facilities designed for Batch 2	2	2	100	5	5	100
Output 2.6 Tendering the investment projects in Batch 2.	Number of infrastructure facilities tendered for Batch 2	2	2	100	5	5	100
Output 2.7 Constructing/rehabilitating of the selected irrigation systems in Batch 2.	Number of infrastructure facilities undergoing construction/rehabilitation in Batch 2	2	1	50	5	4	80
Output 2.8 Undertaking the necessary activities for screening and selecting of projects in Batch 3.	Number of infrastructure facilities selected for Batch 3	5	5	100	5	5	100
Output 2.9. Preparing the detailed technical design works for projects in Batch 3.	Number of infrastructure facilities designed for Batch 3	5	5	100	5	5	100
Output 2.10 Tendering the investment projects in Batch 3.	Number of infrastructure facilities tendered for Batch 3	5	5	100	5	5	100
Output 2.11 Constructing/rehabilitating of the selected irrigation systems in Batch 3.	Number of infrastructure facilities undergoing construction/rehabilitation in Batch 3	5	0	0	5	0	0

Appendix 7: Updated logical framework indicating progress against objectives, outcomes and outputs

Narrative Summary	Impact/Result Indicators	Means of Verification	Assumptions/Risks
Goal The Project goal is to reduce rural poverty in Georgia.	Impact Indicators <ul style="list-style-type: none"> Increase in rural household assets/ assets ownership index by 6.471 points.¹⁴ Increased income and improved livelihood of rural households by USD 4,000 per HH per year.¹⁵ 	IFAD RIMS 3 rd level Baseline/ Impact Survey Ministry of Health, WHO and World Project M&E database. Mid-term and Completion Assessments.	Political Stability. Macro-economic environment remains conducive to investment, private sector development, and trade. Corruption is contained and its impact on commerce reduced.
Purpose/Objective 1	Result Indicators¹⁶		
(i) to increase assets and incomes among actually and potentially economically active poor rural women and men willing to move towards commercially viable agricultural and associated rural enterprises	<ul style="list-style-type: none"> 2293 farmers using purchased input (RIMS 2nd level indicator 2.4.1). 477 jobs generated by small and medium enterprises (RIMS 2nd level indicator 2.5.1). One new job created per USD 10 000 investment through leasing contracts. Value of incremental revenue of on - and off - enterprises/farmers (USD 3,062,359). 	Sub-project information sheet Mid-term and Completion Assessments. Beneficiaries Assessments. IOPID and PFI records. Progress reports. Random/targeted surveys and focus groups at the project area	Absence of large external economic shocks. No deterioration in internal trade regulations and procedures. Government commitment and understanding of the project. Development and diversification of domestic and international markets.
Purpose/Objective 2	Result Indicators		
(ii) to remove infrastructure bottlenecks which inhibit increasing participation of economically active rural poor in enhanced commercialization of the rural economy.	<ul style="list-style-type: none"> 16,000 farmers with secure access to water (RIMS 2nd level indicator 2.1.2).¹⁷ 5574 incremental hectares of crop grown (RIMS 2nd level indicator 2.1.2).¹⁸ 15 functioning infrastructure (RIMS 2nd level indicators 2.1.3, 2.4.2, 2.7.2). 5000 Number of farmers reporting production and yield increase (RIMS 2nd level indicator 2.1.2).¹⁹ At least 35% increase in the value of revenue of on -farmers.²⁰ 	Sub-project information sheet Mid-term and Completion Assessments. Beneficiaries Assessments. IOPID and PFI records. Progress reports. Random/targeted surveys and focus groups at the project area.	Absence of large external economic shocks. No deterioration in internal trade regulations and procedures. Government commitment and understanding of the project. Development and diversification of domestic and international markets.

Logical Framework (cont'd)

¹⁴ The index is calculated based on the result of the baseline survey conducted in January – April, 2013.

¹⁵ The increase in HH income is calculated based on the result of the baseline survey conducted in January – April, 2013.

¹⁶ Target data for Objective-1 is obtained from the application forms submitted to the Participant Financial Institutions by the lessees. The data will be validate during the Impact Survey.

¹⁷ This is based on an estimation of the actual area estimated to be irrigated by the schemes selected under ASP with a command area of 11,148 hectares. It is estimated that a household owns around 0.69 hectare on average based on the results of the baseline survey.

¹⁸ We assume that in total 11,148 hectares will be irrigated and, at least, 50% of this area will register an increase in irrigated crops.

¹⁹ We assume that project will register an increase in crop grown in 3 500 hectares and the average size of the land plot owned by a HH is 0.69 hectares.

²⁰ This projection is based on the feasibility studies conducted for the approved infrastructure rehabilitation schemes.

Outputs from Component	Result Indicators		
Support for Rural Leasing The recapitalisation and consequent modernisation of Georgian agriculture, specifically among poor smallholders and small and medium agro-related enterprises as a result of the introduction and expansion of rural leasing as a flexible and affordable financial instrument.	<ul style="list-style-type: none"> 2 Financial institutions participating in the project (RIMS 1st level indicator 1.3.4). USD 500 000 as gross leasing loan portfolio (individuals) (RIMS 1st level indicator 1.3.10).²¹ USD 2.5mIn as gross leasing loan portfolio (enterprises) (RIMS 1st level indicator 1.3.10).²² 15-18 enterprises accessing facilitated financial services (RIMS 1st level indicator 1.5.5).²³ 75 farmers accessing development funds (RIMS 1st level indicator 1.6.8).²⁴ 	Mid-term and Completion Assessments. IOPID and PFI records. Targeted surveys.	No major adverse developments in financial sector stability in Georgia. External markets for Georgian agro-products diversified or reopened after the 2008 conflict and import substitution policies in place.
Narrative Summary	Impact/Result Indicators	Means of Verification	Assumptions/Risks
Outputs from Component	2nd level Result Indicators		
Small-scale Rural Infrastructure (SSRI)	<ul style="list-style-type: none"> 13 000 hectares of land under irrigation/ schemes constructed/ rehabilitated (RIMS 1st level indicator 1.1.5). 13 irrigation schemes constructed/ rehabilitated (RIMS 1st level indicator 1.1.15). 2 roads/bridges constructed/ rehabilitated (RIMS 1st level indicator 1.4.2). 1 drinking water systems constructed/ rehabilitated (RIMS 1st level indicator 1.7.3).²⁵ 	Contractors reports. Mid-term and completion assessment. IOPID field visits and records. Beneficiary focus group discussions.	Transparent criteria applied for awarding of contracts. Interest of Government and potential contracted processors to participate in the project.

²¹ This amount will be allocated through the MFIs to smallholder farmers.

²² This amount will be allocated through leasing companies to agricultural enterprises.

²³ We assume that the average size of the leasing contract provided by leasing companies to agricultural enterprises will range from USD 140 000 to USD 160 000.

²⁴ We assume that the average size of the leasing contract provided by MFIs to smallholder farmers will be USD 6 600.

²⁵ This Outputs data for SSRI Component is based on the assessment made during the Project Mid Term Review conducted on May-June 2013.

Appendix 8: Audit log

The Appendix 8 Audit Log is blank as there were no audit observations from the last audit.

Appendix 9: Itinerary of ASP Supervision Mission

Tuesday, May 6, 2014

Briefing by PIU staff

Meeting with Mr. Ilia Kvitaishvili, Deputy Minister of Agriculture

Individual Meetings with PIU Staff

Wednesday, May 7, 2014

Field trip to Metekhi scheme in Shida-Kartli Region

Thursday, May 8, 2014

Meeting with UASCG company – O&M department and rehabilitation department

Meeting with PIU Staff

Meeting with design, supervision and construction companies

Friday, May 9, 2014

Field trip to Loma-Turstkhi scheme in Samtskhe-Javakheti Region

Saturday, May 10, 2014

Team Discussion

Meeting with design, supervision and construction companies

Sunday May 11 2014

Team Discussion and start the work on the Aid Maimoire

Monday, May 12, 2014

Field trip to Lami-Misaktsieli irrigation scheme (Stage IV) in Mtskheta - Mtianeti Region

Tuesday, May 13, 2014

Meeting with TBC Leasing

Meeting with UASCG

Meeting with ERD

Wednesday, May 14, 2014

Field trip to Karaghadji and Dzevera-Tiripoli schemes both in Shida-Kartli Region

Thursday, May 15, 2014

Meetings with ERD

Meeting with the Minister of Agriculture

Wrap up meeting with the Deputy Minister of Agriculture

Friday, May 16, 2014

Field trip to Khareba wine producing company in Kakheti Region

Appendix 10: List of People Met

Government of Georgia

Shalva Pipia
Minister of Agriculture (MOA)
Ministry of Agriculture of Georgia

Ilia Kvitaishvili
Deputy Minister of Agriculture
Ministry of Agriculture of Georgia

Alex Lotuashvili
Head of IOPID

Lali Durmishidze
Project Manager
Consultant

Levan Tskhovrebashvili
Engineer
Consultant

Yana Samkharadze
Procurement Officer

Nodar Mosashvili
Financing Manager
Consultant

Tamara Tsintsadze
M&E

Eka Gurgenidze
Rural Finance Specialist

United Amelioration System Company of Georgia

Shota Daneli
Deputy Director

Givi Metreveli
Deputy of Rehabilitation and Investment
Programs Department

Zurab Kajaia
General Counsel

George Kalandadze
Head of Investment Programs Division

Dima Kavtuashvili
Deputy Director

Iuza Chakvetadze
Head of Technical Exploitation Department

Design Bureau met in UASCG

Aleksander Kebuladze
Director, Design Bureau Ltd

Tengiz Tevzadze
Senior Engineer, Design Bureau Ltd

Papuna Jgenti Senior Engineer, Design
Bureau Ltd

Financial Institutions

Nato Toronjadze
Head of Credit Department

TBC Leasing

Private Sector

Kakha Lebanidze
Technical Director
Khareba, wine producing Company

International Organizations

Juan Echanove
Agriculture, Rural Development and Food
Safety
Delegation of the EU to Georgia

Field Visits

Kaspi District (May 7, 2014)

Visit to the Tezi-Okami and Does-Grakali Systems Division Office

Gela Zubiashvili – Head of the Division

Zaur Maghradze – Hydrometrist

Inga Beridze - Hydrotechnician

Visit to Metexi, Karagaji, Does-Grakali and Niabi Irrigation Schemes

George Javakhadze – Foreman. Contractor
("Grandi" Ltd)

Nugzar Mirimanov – Technical Director
(supervisor company - "Gzamshenproekti" Ltd)

Shota Mchedlidze – Engineer Supervisor
("Gzamshenproekti" Ltd)

Tariel Gobronidze – Engineer supervisor
("Gzamshenproekti" Ltd)

Vakhtang Papashvili – Land Surveyor
("Gzamshenproekti" Ltd)

Ioseb Margishvili – Head of Metekhi Village

Nugzar Mamulashvili – Metekhi village
delegate to Kaspi Municipality

Mamuka Barnabishvili – Farmer (0.80 ha)
Solomon Patarqalashvili – Farmer (1.20 ha)

Zurab Merebashvili – Farmer (0.80 ha)

Akhalkalaki District (May 8, 2014)

Visit to Loma-Tirtskhi Irrigation Scheme

Vladimer Khmaladze – Head of the Division,

Nugzar Mirimanov – Technical Director
(supervisor company - "Gzamshenproekti" Ltd)

Nukri Gudushauri – Foreman. Contractor
("Optimus" Ltd)

Lasha Lezhava – Foreman. Contractor
("Optimus" Ltd)

Shermadin Jgarkava – Coordinator. Contractor
("Optimus" Ltd)

Tariel Gobronidze – Engineer supervisor
("Gzamshenproekti" Ltd)

George Nacvlshvili – Engineer Supervisor
("Gzamshenproekti" Ltd)

Liova Kazarian – Engineer Supervisor
("Gzamshenproekti" Ltd)

Mtskheta District (May 13, 2014)

*Visit to the Saguramo-Mukhrani Systems
Division Office*

George Babutsidze - Head of Service Centre

Natia Arkielidze - Hydroengineer

Ia Sinjaradze - Operator

Visit to Misaktsieli and Tsilkani Village Offices

Teimuraz Kuprashvili – Head of Misaktsieli
Village

Zaza Misireli – Farmer (0.25 ha)

Givi Tatarashvili – Farmer (0.25 ha)

Ilia Khaindrava – Farmer (1.00 ha)

Abeli Lagazashvili – Farmer (0.45 ha)

Ramaz Ardazishvili – Head of Tsilkani Village

Farmers from Tsilkani village

Visit to Lami-Misaktsieli Irrigation Scheme

Aleko Danelia – Engineer "Mamisoni" Ltd
(Contractor)

Nugzar Mirimanov – Technical Director
(supervisor company - "Gzamshenproekti" Ltd)

Tariel Gobronidze – Engineer supervisor
("Gzamshenproekti" Ltd)

Nikoloz Seturidze – Engineer supervisor
("Gzamshenproekti" Ltd)

Ramin Khvedianidze – Technician of Mtskheta
Service Center

Gori District (May 15, 2014)

*Visit to the Tiriponi Irrigation System Division
Office*

Mamuka Lomsadze - Head of Service Centre

Tamaz Namoradze – Engineer. Designing
Company "Geo Ltd"

David Karkarashvili – Engineer. Municipal
Development Fund of Georgia. Technical
Supervisor (Rehabilitation of Tiriponi Irrigation
Scheme financed by USAID).

Zviad Parkadze – Engineer. Municipal
Development Fund of Georgia. Technical
Supervisor (Rehabilitation of Tiriponi Irrigation
Scheme financed by USAID).