Document of
The World Bank

Report No: ICR2352

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(COFN-04600 COFN-04610 IDA-40620 TF-54362)

ON A

CREDIT

IN THE AMOUNT OF SDR6.6 MILLION
(US$ 10.0 MILLION EQUIVALENT)

TO THE

REPUBLIC OF GEORGIA

FOR A

RURAL DEVLOPMENT PROJECT

June 28, 2012

Sustainable Development Department
South Caucasus Country Unit
Europe and Central Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective May 1, 2012)

Currency Unit	=	Lari (GEL)
GEL 1	=	US$ 1.62680
US$ 1	=	SDR 0.64493

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ACU	Association of Credit Unions
ADP	Agriculture Development Project
ASCDF	Agriculture Supply Chain Development Fund
BTI	Bureau of Technical Information
CU	Credit Union
ERP	Enterprise Rehabilitation Project
ERR	Economic Rate of Return
EU	European Union
FAC	ASCDF (Fund) Advisory Committee
FRR	Financial Rate of Return
FSA	Food Safety Agency
GTZ	German Organization for Technical Development
ICR	Implementation Completion Report
IDA	International Development Association
IFAD	International Fund for Agriculture Development
KFU	Kreditanstalt für Wiederaufbau (Germany)
MOA	Ministry of Agriculture
MOF	Ministry of Finance
MFI	Micro Finance Institution
NAPR	National Agency of the Public Registry
NBFI	Non-Bank Financial Institution
PCB	Participating Commercial Banks
PCC	Project Coordination Center
PHRD	Japan's Policy and Human Resources Development Fund
PIU	Project Implementation Unit
PFI	Participating Financial Institution
RCG	Rural Credit Guidelines
RDP	Rural Development Project
SME	Small and Medium Enterprise
SIDA	Swedish International Development Cooperation Agency
USAID	United States Agency for International Development
WTO	World Trade Organization

Vice President:	Philippe H. Le Houerou
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ICR Team Leader:	Anatol Gobjila

COUNTRY
Project Name

CONTENTS

A. Basic Information

Country:	Georgia	Project Name:	Rural Development Project
Project ID:	P078544	L/C/TF Number(s):	COFN-04600,COFN-04610,IDA-40620,TF-54362
ICR Date:	05/01/2012	ICR Type:	Core ICR
Lending Instrument:	SIL	Borrower:	GOVERNMENT OF GEORGIA
Original Total Commitment:	XDR 6.60M	Disbursed Amount:	XDR 6.58M
Revised Amount:	XDR 6.58M		

Environmental Category: F

Implementing Agencies:
Ministry of Agriculture

Cofinanciers and Other External Partners:
Government of Japan
IFAD

B. Key Dates

Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	09/30/2003	Effectiveness:	10/26/2005	10/26/2005
Appraisal:	10/31/2004	Restructuring(s):		07/09/2009 03/29/2011 04/28/2011
Approval:	05/17/2005	Mid-term Review:	10/31/2007	03/30/2008
		Closing:	06/30/2010	06/30/2011

C. Ratings Summary

C.1 Performance Rating by ICR

Outcomes:	Moderately Satisfactory
Risk to Development Outcome:	Substantial
Bank Performance:	Moderately Satisfactory
Borrower Performance:	Moderately Unsatisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	**Ratings**	**Borrower**	**Ratings**
Quality at Entry:	Moderately Unsatisfactory	Government:	Moderately Satisfactory
Quality of Supervision:	Moderately Satisfactory	Implementing Agency/Agencies:	Moderately Unsatisfactory
Overall Bank Performance:	Moderately Satisfactory	**Overall Borrower Performance:**	Moderately Unsatisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	**Indicators**	**QAG Assessments (if any)**	**Rating**
Potential Problem Project at any time (Yes/No):	Yes	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	Yes	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Moderately Satisfactory		

D. Sector and Theme Codes

	Original	Actual
Sector Code (as % of total Bank financing)		
Agricultural extension and research	3	5
Agro-industry	35	
Central government administration	12	10
Crops	50	10
Microfinance		50
SME Finance		25
Theme Code (as % of total Bank financing)		
Export development and competitiveness	29	30
Land administration and management		3
Law reform	14	
Other rural development		25
Regional integration	14	
Rural markets	29	40
Rural policies and institutions	14	2

E. Bank Staff		
Positions	**At ICR**	**At Approval**
Vice President:	Philippe H. Le Houerou	Shigeo Katsu
Country Director:	Asad Alam	D-M Dowsett-Coirolo
Sector Manager:	Dina Umali-Deininger	Juergen Voegele
Project Team Leader:	Anatol Gobjila	Rapeepun Jaisaard Adkins
ICR Team Leader:	Anatol Gobjila	
ICR Primary Author:	Anatol Gobjila	

F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document**)**
The objective of the project is to develop the productivity and profitability of the private agriculture sector. This would be achieved by facilitating the access of Georgia's mainly small and medium-scale farmers to supply chains, improving the competitiveness of the supply chains and strengthening the capacity of selected agricultural and financial institutions to serve private-sector agricultural market activity.

Revised Project Development Objectives (as approved by original approving authority)
The revised objective is to improve agricultural production and access to markets for Georgia's small and medium-scale farmers and rural enterprises supported by the project, through: (i) increasing the competitiveness of selected supply chains; (ii) strengthening the delivery of rural financial services and of the financial intermediaries; and (iii) modernizing key institutions for food safety and property registration with direct impact for increasing competitiveness of Georgia's agriculture.

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Improved incomes for farmers and enterprises from activities supported under the project.			
Value quantitative or Qualitative)	0	10%		28.3%
Date achieved	10/31/2005	06/30/2011		06/15/2011
Comments (incl. % achievement)	283% of target achieved. The data was collected through surveying the MFI grantees and the enterprises supported through the credit line to banks.			
Indicator 2 :	Improved access to agricultural rural finance.			
Value quantitative or	28% of rural households with access to financial	35%		41.4%

Qualitative)	services.			
Date achieved	10/31/2005	06/30/2011		06/15/2011
Comments (incl. % achievement)	118% of target achieved. The share of agro-borrowers before project was 34%, and now this share is 55%.			
Indicator 3 :	Improved capacity of the food safety and property registration institutions.			
Value quantitative or Qualitative)	No systems in place.	Central and local capacity developed.		Central and local capacity has been developed.
Date achieved	10/31/2005	06/30/2011		06/15/2011
Comments (incl. % achievement)	Improving the institutional capacity for property registration has been fully achieved. Outputs for improving the institutional capacity for food safety have been delivered. However, some of the investments were not yet operational at project closing.			
Indicator 4 :	Increased sales and profit of enterprises supported by the project.			
Value quantitative or Qualitative)		30% increase in sales and 50% increase in profit.		No data.
Date achieved	10/31/2005	06/30/2010		07/09/2009
Comments (incl. % achievement)	The indicator was dropped, following a Level 1 Restructuring that revised the PDO and the Results Framework.			
Indicator 5 :	Increased net income of farmers participating in project-enhanced marketing/supply chains.			
Value quantitative or Qualitative)		50% increase.		No data.
Date achieved	10/31/2005	06/30/2010		07/09/2009
Comments (incl. % achievement)	The indicator was dropped, following a Level 1 Restructuring that revised the PDO and the Results Framework.			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Number of supply chains supported.			
Value (quantitative or Qualitative)	0	5		3
Date achieved	10/31/2005	07/09/2009		06/30/2011
Comments (incl. % achievement)	60% of the target achieved. Target was not achieved because the Competitive Grant Program Guidelines were not approved by the MOA.			
Indicator 2 :	Number of farmers / farmer groups supported in the supply chain through T&D			

	and grants.			
Value (quantitative or Qualitative)	0	35		43
Date achieved	10/31/2005	06/30/2011		03/31/2011
Comments (incl. % achievement)	123% of the target achieved. The project supported 17 hazelnut and 26 citrus direct beneficiaries (farmers), and approximately 604 indirect beneficiaries.			
Indicator 3 :	Number of rural enterprises supported through grants.			
Value (quantitative or Qualitative)	14	7		1
Date achieved	10/31/2005	06/30/2011		06/30/2011
Comments (incl. % achievement)	14% of the target achieved.			
Indicator 4 :	Total rural investments generated by the project through the banks.			
Value (quantitative or Qualitative)	0	22,000,000.00		22,000,000.00
Date achieved	10/31/2005	06/30/2011		03/31/2011
Comments (incl. % achievement)	100 % of the target achieved.			
Indicator 5 :	Number of jobs created through PFIs lending with project funds.			
Value (quantitative or Qualitative)	0	50		205
Date achieved	10/31/2005	06/30/2011		03/31/2011
Comments (incl. % achievement)	410 % of target achieved.			
Indicator 6 :	Total number of loans and micro-credits generated by the project.			
Value (quantitative or Qualitative)	0	1,000		10,027
Date achieved	10/31/2005	06/30/2011		04/30/2012
Comments (incl. % achievement)	This is a 900% achievement of the target. There were 10,000 MFI credits and 27 bank loans, totaling more than US$15.2 million from the initial drawing on the project's credit lines. Including the reflows, the numbers are 11,081 loans, amounting to US 10.6 million.			
Indicator 7 :	Well functioning and effective labs and regional centers for food safety.			
Value (quantitative or Qualitative)	Non-existent	Upgraded		Partially upgraded.
Date achieved	10/31/2005	06/30/2011		03/31/2011
Comments (incl. %	The laboratory was rehabilitated and equipped. Not all equipment was operational at the closing of IDA financing. Six regional NS centers were			

achievement)	constructed. However, they were not yet operational at the time of the closing of IDA financing.			
Indicator 8 :	Establishment of the network of NAPR regional centers.			
Value (quantitative or Qualitative)	Non-existent	Completed		Completed
Date achieved	10/31/2005	06/30/2011		03/31/2011
Comments (incl. % achievement)	A number of 68 NAPR territorial offices were established.			
Indicator 9 :	Development of the CORS for NAPR.			
Value (quantitative or Qualitative)	Non-existent	Completed		Completed
Date achieved	10/31/2005	06/30/2011		03/31/2011
Comments (incl. % achievement)	100% of target achieved. The CORS system has been installed and is fully operational, and staff is trained in its use.			
Indicator 10 :	Number of commodity chains evaluated and supported.			
Value quantitative or Qualitative)		14 commodity chains.		3 commodity chains.
Date achieved	10/31/2005	06/30/2010		07/09/2009
Comments (incl. % achievement)	21% of target achieved. The indicator in its current formulation was dropped, following a Level 1 Restructuring that revised the PDO and the Results Framework.			
Indicator 11 :	Key institutional development areas supported.			
Value quantitative or Qualitative)		4 areas.		3 areas.
Date achieved	10/31/2005	06/30/2010		07/09/2009
Comments (incl. % achievement)	75% of target achieved. The indicator was dropped, following a Level 1 Restructuring that revised the PDO and the Results Framework.			
Indicator 12 :	Increase of agricultural lending as a percentage of agricultural GDP.			
Value quantitative or Qualitative)		2.8% increase.		0.8% increase
Date achieved	10/31/2005	06/30/2010		07/09/2009
Comments (incl. % achievement)	29% of target achieved. The indicator was dropped, following a Level 1 Restructuring that revised the PDO and the Results Framework.			
Indicator 13 :	Percentage of active loans to women - Microfinance (Core indicator).			
Value (quantitative or Qualitative)		50		50
Date achieved		06/30/2011		03/31/2011
Comments	100% of target achieved.			

(incl. % achievement)				
Indicator 14 :	Number of active loan accounts -Microfinance (Core indicator).			
Value (quantitative or Qualitative)		4,300		10,500
Date achieved		06/30/2011		03/31/2011
Comments (incl. % achievement)	140% of target achieved.			
Indicator 15 :	Outstanding SME Loan Portfolio (Core indicator).			
Value (quantitative or Qualitative)		5,700,000.00		5,700,000.00
Date achieved		06/30/2011		03/31/2011
Comments (incl. % achievement)	100% of target achieved.			
Indicator 16 :	Outstanding Microfinance Loan Portfolio (Core indicator).			
Value (quantitative or Qualitative)		4,600,000.00		7,500,000.00
Date achieved		06/30/2011		03/31/2011
Comments (incl. % achievement)	163% of target achieved.			
Indicator 17 :	Volume of Bank Support: Institutional Development - SME (Core indicator).			
Value (quantitative or Qualitative)		110,000.00		110,000.00
Date achieved		06/30/2011		03/31/2011
Comments (incl. % achievement)	100% of target achieved.			
Indicator 18 :	Volume of Bank Support: Institutional Development - Microfinance (Core indicator).			
Value (quantitative or Qualitative)	0	100,000.00		70,000.00
Date achieved	10/31/2005	06/30/2011		03/31/2011
Comments (incl. % achievement)	70% of target achieved.			
Indicator 19 :	Volume of Bank Support: Lines of Credit - SME (Core indicator).			
Value (quantitative or Qualitative)		10,000,000.00		5,700,000.00
Date achieved		06/30/2011		06/15/2011

Comments (incl. % achievement)	57% of target achieved. The financial crisis hit the banking sector, and the banks were no longer eligible to draw funds under the credit line.			
Indicator 20 :	Volume of Bank Support: Lines of Credit - Microfinance (Core indicator).			
Value (quantitative or Qualitative)		7,000,000.00		7,500,000.00
Date achieved		06/30/2011		06/15/2011
Comments (incl. % achievement)	107% of target achieved.			

G. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	02/09/2006	Satisfactory	Satisfactory	0.50
2	09/12/2006	Moderately Satisfactory	Moderately Satisfactory	0.86
3	01/18/2007	Moderately Satisfactory	Moderately Satisfactory	1.01
4	08/31/2007	Moderately Satisfactory	Moderately Satisfactory	1.14
5	06/17/2008	Moderately Satisfactory	Moderately Satisfactory	3.81
6	03/29/2009	Moderately Satisfactory	Moderately Satisfactory	5.89
7	05/19/2009	Moderately Satisfactory	Moderately Unsatisfactory	5.95
8	07/16/2009	Moderately Satisfactory	Moderately Satisfactory	5.95
9	01/29/2010	Moderately Satisfactory	Moderately Satisfactory	7.32
10	06/30/2010	Moderately Satisfactory	Moderately Satisfactory	7.64
11	04/28/2011	Moderately Satisfactory	Moderately Satisfactory	8.29
12	06/29/2011	Moderately Satisfactory	Moderately Satisfactory	10.02

H. Restructuring (if any)

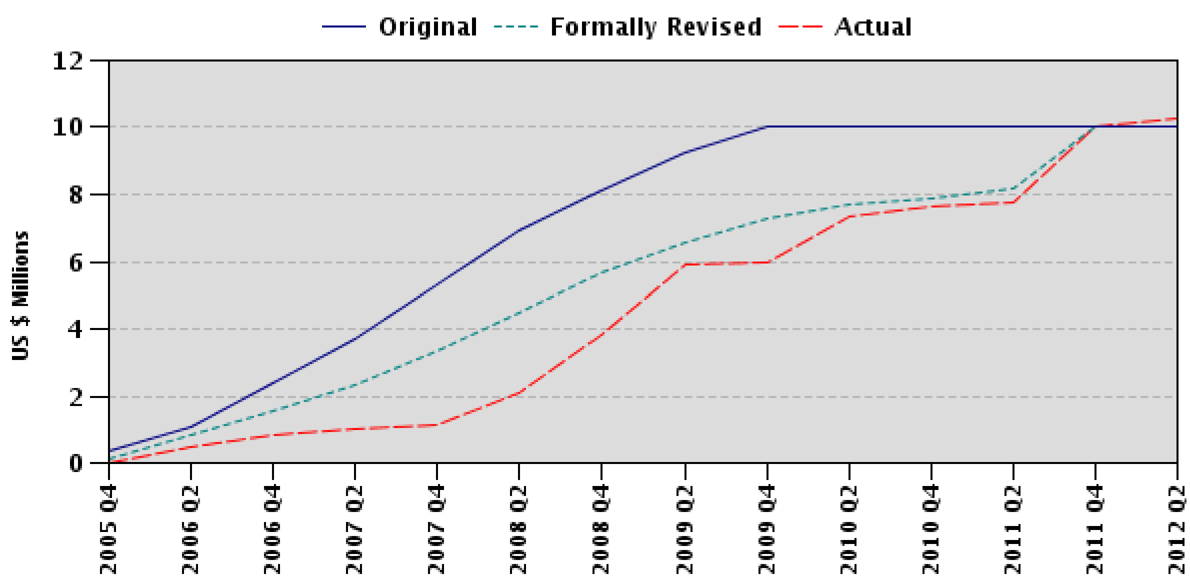
Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
07/09/2009	Y	MS	MU	5.95	Substantive restructuring, including change in PDO and revision of components.
07/10/2009	Y	MS	MU	5.95	Substantive restructuring, including change in PDO and revision of components.
03/29/2011		MS	MS	8.07	Reallocation of funds.

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
04/28/2011		MS	MS	8.29	Amendment to the maximum ceiling of lending to MFIs.

If PDO and/or Key Outcome Targets were formally revised (approved by the original approving body) enter ratings below:

	Outcome Ratings
Against Original PDO/Targets	Moderately Unsatisfactory
Against Formally Revised PDO/Targets	Satisfactory
Overall (weighted) rating	Moderately Satisfactory

I. Disbursement Profile



1. Project Context, Development Objectives and Design

1.1 Context at Appraisal

1. Georgia is a small Caucasus country with a population of 4.47 million people. At appraisal, the country relied on agriculture to provide 18% of Georgia's GDP and 56% of employment. Because of its relative size and role in employment, economic growth in the agriculture sector was considered critical to Georgia's overall economic growth and prosperity. Assessments indicated that Georgia had the potential to significantly improve its agricultural production base and become a net exporter of a number of agricultural products[1], such as wine, nuts, mineral water, herbs, citruses, fresh vegetables and livestock products. These sub-sectors had demonstrated potential for incremental production and sales, which could have led to a significant reduction in rural poverty. However, the country had been unable to produce the quality and quantities necessary to test these comparative advantages and gain stable access to export markets. The primary constraints for a more vibrant development of the sector were: (i) limited access to essential, modern agricultural inputs (ex. improved varieties); (ii) lack of know-how and wider proliferation of new agricultural technologies; and (iii) limited access to investment and working capital. In addition, critically necessary and enabling marketing infrastructure for most agricultural supply chains was poorly developed, with agro-processors themselves representing a weak link in supply chains, unable to offer more favorable prices to primary producers, induce technology transfer, provide credit to farmers, or exercise proper supply chain quality control functions.

2**.** A particularly limiting handicap for the sector's development was the lack of agricultural credit - its sources very limited and volumes insufficient. Banks and non-bank financial institutions had weak capacity for agricultural lending. This lack of capacity was exacerbated by the small size of the financial sector as a whole and its limited capacity to provide medium and long-term credit. Farmers and agricultural enterprises seeking medium and long-term investment capital were the main victims of an inefficient financial market. Generally, Georgian commercial banks and NBFIs had a preference for urban clients, but were beginning to consider a more active expansion towards rural clients. However, progress was tenuous, because of lack of adequate knowledge of agricultural lending and suitable loan products. In the case of the NBFI's an added constraint was related to lack of financial resources, as well as an adequate legislative and regulatory framework. At that time, the experience of the Agriculture Development Project with small-scale rural credit unions provided an eloquent example of the issues that barred the NBFI's from establishing a more stable and ubiquitous presence on the rural lending market**.**

[1] Comparative advantage assessment studies were financed by IFAD and Japan's PHRD Policy and Human Resources Development Fund.

3. Last but not least, the appraisal context was marked by a situation in which farmers and agricultural businesses suffered from insufficient and inefficient institutional support. Most of the concerned government agencies were under-resourced and guided in their approach by archaic policies, laws and regulations, thereby becoming a serious impediment to rural growth. At the time of preparation, there was a build-up of momentum for activities aimed at modernizing legislation and reorganizing and restructuring government institutions, which clearly required more focus and a better sense of direction to be effective. Areas of particular concern to the agriculture and agri-business communities included product standards and food safety, sanitary and phyto-sanitary regulations, and technical support services, such as secure registration of land and moveable assets. The Government's evolving food safety agenda was governed by a strategic approach towards approximation of food safety legislation and institutions with the practices in the EU[2]. The property registration agenda was regarded as essential for successful rural and agri-business development as a factor which can underpin investor confidence in long-term agriculture investment and security for creditors. Several investments were made under the ADP to develop land registration and fee-management systems to generate income for partial self-financing of a registration agency. A National Agency of the Public Registry was established with a mandate for land registration and cadastre and the registration of securities on moveable assets.

4. The continued involvement in the agriculture sector by the World Bank and IFAD was considered crucial for the sustainability of investments in land registration and credit unions already made under the ADP and for further development of activities necessary for the growth of commercial agriculture and agricultural exports. Furthermore, the World Bank and IFAD's involvement was justified by their unique ability to support the Government of Georgia in its sector development efforts aimed at providing direct support to private agricultural businesses through technical assistance and training; providing direct or intermediated investment resources to rural beneficiaries; and strengthening the legal and institutional framework of selected public institutions for providing improved services and regulation, and creating an enabling environment for private sector investment. This ability was engendered by the World Bank and IFAD's capacity, expertise and in-country and international experience to engage in activities aimed at strengthening agricultural supply chains, proven ability to assist the Government of Georgia in analyzing agricultural development policies, and significant experience in promoting the development of rural financial institutions. Additionally, IFAD had extensive in-country experience with activities aimed at alleviating poverty, particularly in up-land areas. Because of their overall approach and position, the World Bank and IFAD were believed to be able to play a catalytic role in helping to coordinate donor activities in agriculture and rural development rural in Georgia.

5. At appraisal, the project was consistent with the Bank's Country Assistance Strategy for Georgia for 2004-2006[3] (December, 2003) which emphasized the need for

[2] A draft Food Law was in an advanced stage of preparation at the time of appraisal.

[3] The draft CAS withdrawn from the Board due to a change in Government.

further support to the rural sector, and described strategies to promote export markets and an environment for private sector-led growth. The project was also included in the priority assistance program in the Reform Support Credit presented to the World Bank Board of Executive Directors on June 24, 2004.

6. The ultimate higher-level objectives pursued by the Bank and IFAD in supporting the Government of Georgia through this project were sustainable rural income growth and poverty reduction, strong public institutions and good governance. The intent was to achieve these goals through activities propagating growth of private commercial agriculture, with a high level of participation by small-scale farmers and unemployed and under-employed rural people. Investments to develop strong public institutions and to promote good governance were meant to enhance sector growth and opportunities for employment creation and rural income growth, and in some cases Georgia's compliance with WTO and EU requirements.

1.2 Original Project Development Objectives (PDO) and Key Indicators (*as approved*)

7. The objective of the project was to develop the productivity and profitability of the private agriculture sector. This would be achieved by facilitating the access of Georgia's mainly small and medium-scale farmers to supply chains, improving the competitiveness of the supply chains and strengthening the capacity of selected agricultural and financial institutions to serve private-sector agricultural market activity.

8. To track the progress toward achieving this development objective the following set of PDO outcome indicators was meant to be used, as reflected in the PAD Results Framework (Annex 3)[4]:

- Increase in sales and profits of enterprises in the supply chains supported under the project;
- Increase in net income of farmers participating in project-enhanced marketing/supply chains;
- Amount of employment created in agriculture and agro-industry enterprises supported by the project;
- A sustainable system of rural credit cooperatives;
- A substantial self-financed public registry for land and moveable property registration by the end of the project.
- Seed, sanitary and phyto-sanitary, and food safety laws enacted and food safety system upgraded.
- Strategies and action plans for institutional development completed.

[4] The Credit Agreement Supplemental Letter #2 on Performance Monitoring Indicators contains a significantly reduced version of the PAD Results Framework. The differences are discussed below.

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification

9. The revised objective was to improve agricultural production and access to markets for Georgia's small and medium-scale farmers and rural enterprises supported by the project, through: (i) increasing the competitiveness of selected supply chains; (ii) strengthening the delivery of rural financial services and of the financial intermediaries; and (iii) modernizing key institutions for food safety and property registration with direct impact for increasing competitiveness of Georgia's agriculture.

10. To track the progress toward achieving the revised development objective the following set of revised PDO indicators was used:

- Improved incomes for farmers and enterprises from activities supported under the project;
- Improved access to agricultural rural finance;
- Improved capacity of the food safety and property registration institutions.

11. The change in the project's PDO and the ensuing modifications in the results framework were dictated by: (i) substantive changes in the content and scope of project components; and (ii) significant reallocation of proceeds amongst project components and disbursement categories. These changes were necessary for corrective and adaptive reasons. On the one hand, by the time the Level 1 Restructuring was processed, the project was clearly on a poor performance path due to a combination of factors, such as design flaws and uncertain government commitment to some of the project's initial activities. On the other hand, the project needed to retain relevance by adapting to the evolving strategic direction of policies and reforms promoted by the Government at the time. The initial formulation of the PDO was determined to be "ambitious and broad"[5], and the results framework deemed difficult to measure and suffering from attribution problems. Subsequently, the Government of Georgia and the World Bank (in consultation with IFAD) agreed on a restructuring approach which would have enabled the project to achieve the revised objective in a simpler, yet more effective manner.

1.4 Main Beneficiaries

12. The main beneficiaries identified at appraisal were:

(i) **Private:** A broad range of private sector operators in the country's agriculture and agri-business sectors, ranging from small and medium-size farmers, to agricultural processors, as well as other private, supply chain-integrated entities. These were meant to receive financial and technical support aimed at increasing agricultural knowledge and technology transfer, strengthening supply chains, accessing rural finance, and accessing more sophisticated markets. Another distinct beneficiary category is the country's financial sector players, represented by commercial banks and non-bank financial

[5] Georgia RDP Restructuring Paper, June 17, 2009.

institutions, which were meant to benefit from access to medium and long-term financial resources for further financial intermediation, as well as capacity building activities aimed at increasing facility with agricultural lending, diversification of loan products, and branching out into rural areas. The causality linkages between the project's activities, intended beneficiaries and project outcomes were based on the assumption that providing (generally speaking) access to agricultural knowledge and finance would lead to increased productivity and profitability of the sector, and would reduce poverty in rural areas by increasing incomes and employment.

(ii) **Public:** A number of government agencies that were undergoing institutional modernization and had the potential for playing a key role in establishing an enabling environment for a more vibrant operation of the agriculture and agri-business sectors. The thematic focus of the institutional modernization effort supported by the project was two-fold: (a) food safety; and (b) land/property registration. At the time of appraisal, the country's institutional food safety set-up was still evolving hence the description of intended beneficiaries is vaguely formulated to indicate a focus on professionals in the MOA in charge of various food safety aspects, as well as on the creation of a Food Department in the MOA. In regard to public property registration, the main institutional beneficiary of the project's activities was the National Agency for Public Registry.

13. The Level 1 Restructuring of the project did not lead to any substantive changes in the type or expected number of beneficiaries reached by the project.

1.5 Original Components (*as approved*)

Component 1: Agricultural Supply Chain Development (Estimated Cost US$4.27 million, of which IDA - US$0.58 million, IFAD - US$0.31 million, PHRD Grant - US$2.17 million, Beneficiaries -US $0.29 million and Government- US$0.92 million)

14. The component aimed to support the efficient development of marketing/supply chains for commodities that have a demonstrated market potential, with the view of expanding profitable domestic and export market opportunities. The project would work with all agents in potentially profitable agricultural supply chains to develop and implement a holistic strategy for identifying and addressing weaknesses and bottlenecks.

(a) Supply Chain Analysis and Development. The objective of this sub-component was to develop a holistic strategy for the expansion of profitable sales in domestic and export markets. This would involve assistance in determining consumer demand, identifying technical, regulatory, institutional, contractual and financial constraints, developing a collaborative strategy for their redress, and analyzing sources of supply. The supply chain analysis would attempt to determine where commodity associations and other market participants could productively reinforce linkages among actors along a commodity chain both formally and informally. The project would finance for each project year, technical assistance, training, and studies in market and supply chain analysis and development. It would support agri-business firms in identifying regulatory, technological, contractual, and investment constraints and assist in the development of marketing plans, supply chain linkages, contractual agreements, and investment proposals.

(b) Linkages to Farm Communities. The sub-component was to test a program to assist farmers and communities to engage with commodity supply chains in an equitable and profitable manner. Using field demonstrations, capacity building workshops and local study tours, the RDP would introduce farmers to more productive and profitable market-linked agricultural technology. Farmers would be empowered to develop marketing groups and associations with a view of improving product quantity and quality and, thereby, improving market access and price. Provisions would be made to support the development of business plans and proposals for loan applications to participating financial institutions (PFIs) and for activities supporting the initiation and development of enduring commercial relationships between farmers and key supply-chain entities. Local/international NGOs, employed under performance-linked contracts, would manage pilot programs in eastern, central and western Georgia, which would be reviewed after 15 months, leading to the identification of a longer-term project strategy for improved small-scale commercial farm productivity and market linkages. Second, the project would also provide assistance both to the new and to existing farmer groups to link to commodity supply chains. For this, the project would finance technical assistance and training and partially support farmer group set-up costs and some equipment.

(c) Technology Transfer. The project was to support small-scale farmers and farmer groups engaged in potentially profitable agricultural supply chains to develop appropriate, modern farm technology, crop and livestock management practices, and post-harvest technology and demonstration programs. Development of technology would be supported through the Agricultural Supply Chain Development Fund. Producers, processors and traders would be encouraged to identify technology gaps and develop applied research and demonstration programs in collaboration with local and national research and extension institutions. The proposals would be submitted to the ASCDF Advisory Committee for competitive selection.

Component 2. Rural Finance Services (Estimated Cost US$25.76 million, of which IDA - US$8.2 million, IFAD - US$8.49 million, PHRD Grant US$1.16 million, Beneficiaries - US$4.50 million, Government - US $0.51 million, Commercial Banks - US$2.7 million and NBFIs - US$0.20 million)

15. This component intended to improve the capacity of PFIs to lend to the farmers, processors and agri-business enterprises involved in the marketing/supply chains of marketed agricultural commodities. This would be achieved by (a) providing them with additional capital for lending to private entities in the agricultural sector, particularly medium and long-term loans for investment, and (b) strengthening their capacity for sustainable rural lending.

(a) Credit Line for Commercial Banks. This credit line would be made to eligible commercial banks to increase their capacity to make medium and long-term investment loans to eligible farmers, processors and agri-business enterprises.

(b) Credit Line for Non-Bank Financial Institutions. This credit line would be made to eligible non-bank financial institutions (including Credit Unions) to increase their capacity to make small investment and working capital loans to eligible farmers, processors and agri-business enterprises.

(c) Strengthening the Capacity of PFIs for Sustainable Rural Lending. This component aimed to strengthen the capacity of participating rural financial institutions to appraise and manage loans for production, agro-processing and agri-business; develop and promote appropriate loan products and collateral instruments; provide matching grants to selected NBFIs for the establishment of new rural branches; and develop sustainable rural credit unions. Support would be provided for training of bank and NBFI personnel, technical assistance to design, test and adopt more appropriate loan products, collateral instruments and financial services, and matching grants of up to $10,000 to cover the costs of qualifying NBFIs of establishing new rural branches. Well-managed Credit Unions would be supported to expand and become financially sustainable.

***Component 3: Institutional Modernization* (Estimated Cost US$3.17 million, of which IDA- US $0.68 million, IFAD - US$0.65 million, PHRD Grant - US$1.05 million, Beneficiaries - US$0.05 million and Government - US$0.74 million).**

16. This component was to focus on specific, key legal and institutional reforms that impact directly on the competitiveness of Georgian agriculture and the safety and marketability of its products and enable Georgia to meet its international sanitary and phyto-sanitary obligations. Project interventions would be focused on:

(a) Institutional and Legal Framework. The sub-component intended to work with relevant MOA staff to revise selected food, plant variety protection and veterinary laws and regulations to meet international trade and treaty requirements and support Georgian membership and participation in international standards organizations relevant to Georgian agricultural trade. Training and study tours would be provided, and operating manuals based on an EU compliant legislative framework would be developed. The project would also enable the Georgian government to establish a comprehensive, unitary food safety management and risk assessment system in line with the requirements of a draft Food Law existent at the time. This was to include the establishment of a Veterinary and Food Department within the MOA, the strengthening of domestic and border sanitary inspection capacity, the strengthening of laboratories for accredited food inspection, the development of a risk assessment capability and the establishment of the Food Safety Council prescribed under the draft law.

(b) Support for Selected Commodity-Specific Programs. The sub-component was to support specific commodity chains. For example, the project would provide, based on the needs and proposals from the commodity chains, support for the development of product certification, quality testing and labeling standards.

(c) Continuing Support for Property Registration. The sub-component was to support the recently created NAPE by contributing to the completion of its network of regional centers, developing of systems for the integration of land and moveable property registry and land cadastre databases, establishing a secure NAPR data management and transfer network, and developing information programs on NAPR services.

<u>Component 4: Project Management</u> (Estimated Cost US$1.51 million, of which IDA - US$0.54 million, IFAD- US$0.67 million, PHRD Grant - US$0.12 million and Government - US$0.54 million).

17. The project was to be managed under the umbrella of an existing World Bank Project Coordination Center, or its agreed successor within the MOA. The PCC or its agreed successor would be responsible for all aspects of project administration, including overall project oversight, TA, goods and materials procurement, and financial control. The day-to-day management of the project would be with the technical Project Implementation Unit within the PCC, or its agreed successor. A Project Steering Committee (PSC) including representatives from government, private sector and donor agencies would provide project oversight and ensure national program integration.

1.6 Revised Components

18. Following the Level 1 Restructuring[6] the project maintained the same four-component structure. However, the first three components were revised in scope and content as follows.

Component 1: Agricultural Supply Chain Development

19. The main changes were:

- Replacing Sub-component 1 (b) – Linkages to Farm Communities, with a new Sub-component 1 (b) – Training and Demonstration Program. The objective of the new sub-component was to establish a training and demonstration program for farmers and rural enterprises involved citrus and hazelnut supply chains.

- Renaming Sub-component 1 (c) – Technology Transfer, to Sub-component 1 (c) – Competitive Grant Program. The sub-component was also revised in substance to allow for the possibility of extending small competitive grants to farmer groups and rural enterprises for competitiveness enhancing sub-projects in priority supply chains. The competitive grant scheme was to be managed by the PCC/PIU, and the establishment of the initially envisaged Agricultural Supply Chain Development Fund was no longer required.

[6] The team has erroneously entered the Level 1 Restructuring in the system twice: one dated July 9, 2009; and one dated July 10, 2009.

Component 2: Rural Financial Services

20. The main changes were:

- Support envisaged for strengthening the capacity of credit unions was dropped due to the collapse of the credit union system in Georgia;

- The amount of credit lines for participating commercial Banks was increased.

Component 3: Institutional Modernization

21. The main change was refocusing the support for the food safety agenda by preparing the groundwork for when the legislation will be changed towards enforcing food safety actions and controls. The support was to include: (i) the rehabilitation of, and provision of equipment to a food safety laboratory; (ii) the rehabilitation of, and provision of equipment to several regional veterinary offices; and (iii) training and technical assistance for staff involved in the food safety agenda.

1.7 Other significant changes

22. Throughout its lifetime, the project has undergone three restructurings. The first was a Level 1 Restructuring, approved on July 09, 2009. In addition, to changes in the PDO, results framework and components, the restructuring led to a reallocation of proceeds across the project's funding sources, categories, and components. In response to the Government's stated preference to use IFAD and PHRD grant resources for providing grants to farmer groups and rural enterprises, uncommitted IFAD grant proceeds were all consolidated under Component 1 (US$700,000). Subsequently, undisbursed IDA resources (US$500,000) initially allocated to Component 1, were reallocated to Component 2 for augmenting the credit line available to the PCBs. Last but not least, the restructuring extended the project's closing date from June 30, 2010 to June 30, 2011.

23. The second restructuring was a Level 2 Restructuring processed on March 29, 2011. Its main purpose was to reallocate remaining IDA funds away from the commercial bank credit line towards micro-finance institutions. This reallocation was necessary to channel funds towards a more vibrantly disbursing activity[7], while lending through PCBs has come to a halting stop due to their inability to continuously meet eligibility criteria for drawing project funds and, more generally, their lack of interest in agricultural lending following the impact of the global financial crisis on Georgia.

[7] At the time of the restructuring, the allocation of funds to MFIs has been fully disbursed (RDP Restructuring Paper, March 23, 2011).

24. The third restructuring was a Level 2 Restructuring processed on April 28, 2011. It came to complement the above restructuring, by removing the limit to maximum lending to non-bank financial institutions, and increasing their borrowing limit from 50% to 70% of their equity. This was necessary to accommodate growing demand for credit resources from MFIs for rural-based lending. Appropriate assessments of the institutional and financial health of the participating MFIs indicated that such adjustments would not negatively affect the sustainability of the MFIs.

25. IFAD financing extended to June 30, 2012, beyond the closing of IDA financing of June 30, 2011. Remaining IFAD funds were allocated primarily for the MFI credit line.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality at Entry

26. ***Project background analysis***. The project was generally well-contextualized in existing strategies and policies in place in Georgia at the time of preparation. It has benefitted from sound analytical and technical work supported by the World Bank, IFAD, Japan's PHRD Fund, and USAID. A particularly solid body of knowledge that seems to have shaped the focus of the project's supply chain development activities was the experience of the USAID-funded AgVANTAGE project and the World Bank-financed Enterprise Rehabilitation Project.

27. In addition to a solid body of technical and analytical knowledge, the project benefited in its design from the experience of other agricultural and rural development World Bank projects under implementation at the time - the Agriculture Development Project and the Irrigation and Drainage Community Development Project. The ADP had a particularly strong influence on the preparation of the RDP by presenting essentially "real-time" examples on what were the main sector challenges that needed to be addressed in the area of rural finance and registration of land and moveable assets.

28. ***Reflection of lessons learned in the design.*** The discussion on the reflection of lessons learned in the RDP PAD is rather generic. While the narrative provides a proper description of the sector context, background and sources of technical and analytical information that influenced the design (as noted in para. 25-26 above), it mostly fails to provide details on the specific lessons that informed the design of components and activities. For example, the PAD states that AgVANTAGE had carried out extensive analyses of various supply chains, which the RDP used in designing its support for supply chains, but it does not highlight what elements of these analyses were incorporated into the RDP design (nor alternatives considered). Similarly, the experience of the Center for Enterprise Restructuring and Management Assistance created under the ERP is presumptively stated to have been useful for the design of institutional arrangements, selection of procedures for companies receiving assistance, and cost-sharing arrangements between the project and beneficiaries. But again, there is no

specificity as to what where the important elements that were picked up in the design of the RDP. The positive exception here is the detailed elaboration on ADP lessons regarding access to rural finance, i.e. relevance for sector growth, financial intermediation approaches, strengthening of financial institutions, and expansion of the rural client base. It provides a well-set logical segue into the structure and operating principles of the Rural Finance Services Component.

29. A somewhat questionable statement made on lessons learned from Bank and IFAD-financed operations, which was embedded in the design relates to the need to keep project design as flexible as possible. Indeed, some degree of flexibility is rendered, especially for demand-based activities that require fine-tuning and adjustments during implementation. However, at the time of preparation general consensus in project design and management was shifting away from a loose design, to a more pro-active supervision effort, and the ensuing utilization of project restructuring as a means for maintaining necessary flexibility during implementation.

30. ***The rationale for Bank and IFAD intervention***. The rationale for Bank intervention was well-argued and sound. The World Bank and IFAD were logical partners in the project given their institutional mandates, as well as international and in-country experience in the sector. There were also positive synergies to be explored with on-going Bank and donor-funded projects, as well as from bundling the IDA and IFAD financing into a single project. The World Bank involvement also served as a vehicle for the mobilization of extensive PHRD co-financing.

31. ***Project design.*** An unequivocal assessment of the quality of the RDP's design is problematic. The benefit of hindsight, as related to the project's implementation record and the need for a Level 1 Restructuring, indicates that quality of design at entry was variable. The project was not reviewed for quality at entry by the Quality Assurance Group.

32. The original PDO was overly ambitious and broad. The original Results Framework relied on too many PDO indicators. These suffered from poor causal links to the PDO, were difficult to measure and suffered from attribution flaws[8]. For example, an original indicator used employment creation in targeted farms and rural enterprises as a measure of the original PDO (increased profitability and productivity). While employment creation is a generally positive economic outcome, it is a poor gauge of a company's profitability and especially productivity. The revised PDO represented a much more meaningful statement of intent, with a more accurate and logical representation of the project's intended goals. Also, the revised Results Framework eliminated the original's ambiguity, immeasurability and attribution deficiencies. However, some revised outcome indicators were set for fairly low quantitative targets.

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[8] As mentioned forth in more detail, the original (PAD) Results Framework was never fully utilized to measure the project's progress. Only two PDO indicators were included in the project's ISRRs.

33. The quality of design of the project's components was uneven.

- The design of the Agricultural Supply Chain Development Component was generally adequate. Its structure was based on thematically sound, well-integrated sub-components, that covered activities aimed at identifying and strengthening supply chains with potential for growth. However, the component's scope could have been more focused, both in breadth and depth. Seemingly any element or part of a supply chain (and any supply chain) was covered, without concentration on a particular element or sub-element of the supply chain (or concentration on particular supply chains). The concentration on particular supply chains was to be determined through Sub-Component (a) – Supply Chain Analysis and Development, but it can be argued that this is a typical preparation/appraisal activity that needs to be firmed up before, not during implementation. This loose approach has caused implementation problems down the road, when the component was being treated as a financier of last resort for emerging MOA requests, whether in line or not with the project's thematic thrust and objectives. Also, Sub-components (b) and (c) suffered somewhat from lack of detail on the implementation approach to providing technical and financial assistance to farmers and rural enterprises. As a result, the two sub-components were revised through the project's Level 1 Restructuring to make implementation more practical.

- The Rural Finance Services Component had a well-structured, straightforward and generally focused design. It had the feel of a well-appraised component with clearly outlined activities. The PAD version of the Rural Credit Guidelines provided a good initial framework for the operating principles of the project's credit lines and for access by potential PCBs and NBFIs, the criteria of eligibility for the PCBs and NBFIs, on-lending principles, etc. While not all the activities of the component were successfully implemented, these failures were largely caused by exogenous factors, and were not inherent to the quality of design. The project's Level 1 Restructuring had only marginal revisions of the component.

- The quality of the design of the Institutional Modernization Component was variable. Sub-component (a) – Institutional and Legal Framework lacked focus and took an all-encompassing approach in providing technical assistance and institutional support to the country's emerging food safety agenda. Sub-component (b) – Support for Selected Commodity-Specific Program was extremely vague, as it seemingly intended to support some unidentified outputs from Component 1. Sub-component (c) – Continuing Support for Property Registration was a well-structured sub-component, with clear definition of activities. The project's Level 1 Restructuring primarily addressed the need to focus the component's activities, in an uncertain policy and institutional environment, on some basic elements of the country's food safety agenda.

- The quality of the Project Management Component was solid, relying on the existing experience of the ADP and other World Bank projects implemented prior to the RDP

34. An overarching theme for the quality of design is the project's complexity. Complexity per-se is not an indication of poor quality of design. However, when contextualized in the thematic breadth of the project's three component's and nine-sub-components, the number of organizations involved in implementation, and not the least the novelty (for Georgia) of the approaches under Component 1, an emerging conclusion is that the design of the project should have been more streamlined and focused on a smaller number of activities.

35. ***Government commitment.*** Government commitment at appraisal was solid. The PAD and other documents on file, indicate that the Government was active in the preparation and implementation of this operation. A contribution of US$2.5 million in counterpart funds was pledged by the Government to the operations of the project. Further commitment was shown through the Government's willingness to implement the project through the PCC/PIU that was tasked with day-to-day management of the project, including preparation of work plans, procurement, financial management, reporting, monitoring and evaluation.

36. ***Assessment of risks.*** The design adequately identifies and reflects some of the risks inherent to financial intermediation projects such as commercial and financial risks, and offers appropriate mitigation measures. To a large extent, the project itself was a vehicle for mitigating risks related to financial intermediation. Also, the PAD properly reflects fiduciary risks and associated mitigation and management measures. However, on safeguard risks, the PAD does not sufficiently elaborate on the risks associated with a likely increase in the use of pesticides by participating farmers and subsequently does not trigger OP 4.09 – Pest Management. This was rectified through the Level 1 Restructuring, when OP 4.09 was triggered and proper measures were initiated.

37. On other possible implementation risks, there is only a timid assessment of such risks and associated mitigation measures, primarily related to general business environment, political instability and availability of counterpart funding. This assessment does not provide a meaningful and realistic account of implementation risks related to the range and magnitude of policy and institutional reforms the project aimed to support, institutional capacity to absorb supported activities, government commitment and design risks, nor is there a discussion of possible mitigation measures.

2.2 Implementation

38. A straightforward and unequivocal assessment of the project's implementation is problematic. In order to present a more nuanced, yet systemic assessment of the project's implementation performance, it is necessary to set a framework that distinguishes among: (i) exogenous factors – factors outside of government/implementing agency control; (ii) endogenous factors - factors subject to government and/or implementation agency control; (iii) implementation performance before the project's Level 1 Restructuring; (iv) and implementation performance after the project's Level 1 Restructuring.

39. *Exogenous factors that affected implementation.* The country has been exposed to three major external shocks that to some extent or another affected implementation performance. Chronologically, the first shock came in the spring of 2006 when the Russian Federation banned imports of Georgian wines. However, the negative impact of the wine ban on the implementation progress was fairly marginal - more psychological than material. If anything, the ban provided an impetus for the Government to seek a more comprehensive and strategic approach towards the development of the wine sector, and the project was well positioned to provide the necessary support.

40. The second shock came in 2008, in the aftermath of a brief, yet economically and socially crippling military conflict with a neighboring country. This shock had a significant impact on the project's Rural Finance Services Component, as both supply of and demand for rural credit, as well as quality of the PCB and NBFI portfolio deteriorated in light of economic disruptions and ensuing uncertainty.

41. The third shock came in 2009 as a result of the world financial crisis. It affected the country's financial system and lead to a marked contraction of commercial credit in the economy, and a deterioration of the financial standing of the country's commercial banks. This had a severe impact on the project's participating commercial banks, which found themselves unable to comply with eligibility requirements for accessing the project's credit line. Additionally, the PCBs became much more prudential about lending, which significantly reduced their interest in reaching rural clients. The combination of these two factors led to an initial *de-facto* suspension of Sub-Component 2 (a) - Credit Line for Commercial Banks, followed by a formal reallocation of credit line resources away from banks to non-bank financial institutions.

42. *Endogenous factors that affected implementation.* The following summarize the factors which were subject to Government/Implementing agency control:

(i) <u>Sector policies:</u>

a. Government indecision on the utilization of a revolving fund for credit unions established under the ADP led to the impossibility of providing technical assistance to qualified credit unions through the RDP. Eventually the country's credit union system collapsed and the project's support activities were cancelled.

b. Some provisions of the legal framework for the operation and registration of microfinance organizations caused delays in the implementation of MFI support activities. These issues were not sorted out until after mid-term review.

c. Policies related to the food safety agenda were ambiguous and led to loss of direction of the project's support. While a Food Safety Agency was established in 2006, by-laws related to enforcement of food safety actions and controls were not put in place in a timely manner, resulting in implementation delays and eventually revision of activities.

(ii) Government Commitment:

a. Government commitment to the project suffered from significant unevenness. The country went through a change in the Government composition in 2005. This lead to the withdrawal of the World Bank CAS 2006-2009 from Board of Executive Directors. Essentially the project was prepared during the tenure and under the governance program of one Government, but was implemented during a different Government. In addition, the project was implemented during a period that saw six different Ministers of Agriculture with different policy agenda, views and priorities. This fluidity was the major contributing factor to the unevenness in government commitment, both to the original design of the project, and also to the revised activities. Poor commitment was reflected primarily in lengthy delays in approval by the Government of key documents that were necessary to commence certain activities.

b. The project's effectiveness was delayed by two months from August 26, 2005 to October 26, 2005, although partially this problem can be attributed to the Parliament's schedule

c. The Agricultural Supply Chain Development Component suffered the most from delays and actual indecision which led to significant underperformance. The Ministry of Agriculture moved very slowly on the approval of specific component activities, and failed to approve the operational manual for the ASCDF, as well as, following the component's formal revision, the operational manual for the Competitive Grant Program. Even the reallocation of funds that ensured that only grant resources (PHRD and IFAD) were to be used for the financing of the Competitive Grant Program was not sufficient to engender full support on the part of the Ministry of Agriculture.

d. The Rural Finance Services Component suffered from delays in the approval of the final version of the Rural Credit Guidelines for commercial banks which took more than 12 months. The approval of the Rural Credit Guidelines for non-bank financial institutions, which was largely the same document as the one for the commercial banks, took nearly 18 months. Also, as mentioned above there was no support for the project's activities aimed at the credit union system, and eventually the activity was cancelled.

e. Under the Institutional Modernization Component, the activities related to the food safety agenda were significantly delayed by the indecision of the approval of a food safety training program and action plan prepared with support from the project that would have set the strategic and institutional framework for further investments and technical assistance to be provided by the project. The commitment towards the activities aimed at the institutional strengthening of the NAPR was much more solid, yielding very positive and timely results.

f. The commitment towards ensuring a smooth and uninterrupted implementation of the project's activities comes into question when considering the impact of the Government's decision to liquidate the PCC and the technical PIU, and mainstream the implementation of the project through the MOA. While the rationale of the mainstreaming effort is not subject to review, the timing (six months before the closing of IDA and PHRD financing) and the modality of the effort was certainly unproductive, especially as it happened during an extremely busy implementation period. These actions caused disruptions in activities under implementation and lead to the eventual cancellation of a large number of programmed activities. Details on cancelled activities are available in Annex 2.

g. Finally, another general element that is reflective of the Government's variable commitment was the ad-hoc approach to the project's activities. This was particularly prominent until the Level 1 Restructuring in 2009. The restructuring brought in more structure to the components, which lead to less randomness in requests for support from the MOA (although it did not completely eliminate them), and even a renewed commitment to the project's revised activities. Unfortunately, while the commitment displayed towards Components 2 and 3, was relatively solid, Component 1 was hampered by further indecision, resulting in significant under-disbursements from the PHRD Grant.

(iii) Management effectiveness and appointment of key staff.

a. The initial choice of pursuing implementation through the PCC/PIU ensured an overall efficient management of day–to–day project tasks, as well as proper compliance with fiduciary and safeguard requirements. But there were problems in administrative procedures as related to approval of project activities or outputs by the MOA, particularly under Component 1. In addition, the above-mentioned mainstreaming effort stripped the PCC/PIU of juridical power to sign project contracts, virtually bringing implementation to a halt in the last six months of implementation of IDA and PHRD financed activities. As mentioned above, this has left a number of important activities unfinished.

b. Appointment of key staff affected implementation of Component 1, when a national supply chain coordinator could not be recruited for two years. The above-mentioned mainstreaming effort also negatively affected the staffing of the PCC/PIU, with a number of employees leaving prematurely as a result.

43. *Implementation performance before the project's Level 1 Restructuring.* The implementation performance at the time the restructuring was processed can be characterized as variable and registering an unequivocally slow progress. The project's implementation rating was moderately unsatisfactory[9].

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[9] ISRR Sequence #7.

44. *Implementation performance after the project's Level 1 Restructuring.* The implementation performance following the restructuring can be characterized by positive improvements, although still variable across components. Even after restructuring, the Agricultural and Supply Chain Component never received necessary support from the Ministry of Agriculture[10] for the implementation of the Competitive Gran Program. The other two components fared much better. The implementation performance was also negatively impacted by the mainstreaming of project management into the MOA. The project's implementation rating at closing was moderately satisfactory[11].

45. In conclusion, the factors described above had an adverse impact on the overall implementation progress, which was variable and characterized by stop-and-go progress. This was captured in the supervision effort through adequate reflection of the implementation progress ratings, as well as continuous corrective measures initiated by the task team. The mid-term review essentially set the groundwork for the Level 1 Restructuring, although it can be argued that the restructuring should have been processed sooner[12]. The implementation supervision effort was not subject to a review by the Quality Assurance Group for a project with "at risk" status.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

46. The initial results framework had the following serious structural and presentation shortcomings:

(i) Major discrepancy between the formulations of the PDO in the PAD main text under section B. Project Description – para. 2 and the Results Framework table contained in Annex 3;

(ii) Major discrepancies and inconsistencies between the compositions of outcome indicators listed in the PAD main text under section B. Project Description – para. 2, and the Results Framework table contained in Annex 3;

(iii) The table on the Arrangements for Results Monitoring contained in Annex 3 lists only three outcome indicators, as opposed to seven in the Results Framework. Similarly the Credit Agreement Supplemental Letter #2 lists only three outcome indicators. Also, the three outcome indicators are worded differently in the table on the Results Framework (and Supplemental Letter #2) and the table on the Arrangements for Results Monitoring. The difference for the first outcome indicator is of substance as it brings ambiguity to the outcome target group.

(iv) The results indicators for each component differ in number for all three components and in substance for Components 1 and 3 in the table on Results Framework and the table on Arrangements for Results Monitoring.

[10] The Ministry of Agriculture failed to approve the operational manual for the Competitive Grant Program.
[11] ISRR Sequence #12
[12] The Level 1 Restructuring was processed 15 months after the mid-term review.

(v) Only 2 out outcome indicators were used to track the project's progress in the ISRRs before the Level 1 Restructuring. This is compared to 7 outcome indicators in the table on Results Framework, 3 outcome indicators in the table on the Arrangements for Results Monitoring (Annex 3), and 3 outcome indicators in the Supplemental Letter #2.

(vi) Only 3 results indicators were used to track the project's progress in the ISRRs before the Level 1 Restructuring. This is compared to 14 indicators in the table on the Results Framework, 10 results indicators in the table on the Arrangements for Results Monitoring (Annex 3), and 10 results indicators in the Supplemental Letter #2.

(vii) According to the PAD implementation schedule, the project was supposed to be implemented over 5 years, by the PAD Results Monitoring table (page 40) only put intermediate targets over 4 years.

47. From a qualitative perspective the outcome and results indicators were too numerous, difficult to measure and suffering from attribution flaws. They did not present a logical and sufficiently reflective structure of the project's inputs.

48. These inadequacies in the structure and quality of the results framework persisted until the Level 1 Restructuring. The restructuring brought about simplicity and improvements in the indicators.

49. **Design**. The responsibility for monitoring and evaluation activities was conferred to the PCC/PIU. The project was processed without the completion of the baseline study. The baseline was to be established at the beginning of implementation of each sub-component. Data format and collection requirements were supposed to be developed during the first supervision mission The monitoring of credit lines was to occur at two levels, regular reviews of the financial soundness and viability of the participating financial institutions, and simultaneous reviews of the way in which beneficiary loans are being used and managed [13]. In addition, IFAD worked with the PCC to elaborate an exhaustive questionnaire, which would have allowed for the monitoring of multiple variables (including outcome variables) related to the beneficiaries of the project's credit lines. Implementation progress was supposed to be monitored through regular (quarterly) reporting by the PCC/PIU in agreed formats.

50. **Implementation.** As was originally envisaged, monitoring and evaluation activities were implemented by the PCC/PIU. A full-time monitoring and evaluation specialist was brought on staff. Contrary to statements made in the PAD, there is no evidence that the initial plans of establishing the baselines and data format and collection

[13] Source: RDP Project Appraisal Document.

requirements were developed early in the supervision effort. This is particularly, unfortunate against the backdrop of the deficiencies in the Results Framework highlighted above. The monitoring of data for Components 1 and 3 was limited to an account of project outputs, with only scant information collected on outcome indicators. This had a negative impact on the quality of the updates of the Results Framework in the project's ISRRs. This situation persisted until the project's Level 1 Restructuring. For Component 2, the situation was markedly better. The PCC/PIU had a sound system for providing timely and accurate information, collected from the National Bank of Georgia, PCBs and NBFIs, on the financial health of the participating financial institutions. The PCC/PIU also had a well functioning system for the monitoring of the health of the lending portfolio of the PCBs and NBFIs. Unfortunately, monitoring of credit line beneficiaries based on the IFAD supported questionnaire was not implemented.

51. Following the Level 1 Restructuring, and the ensuing improvements in the Results Framework, the Bank team and the PCC/PIU made a concerted effort to improve the monitoring system for Components 1 and 3. A Monitoring Plan outlining these improvements was developed. Unfortunately, the Monitoring Plan was never implemented, partially due to lack of implementation progress under Component 1, and partially to deficient administration arrangements towards the closing of the IDA and PHRD Gran financing.

52. The PCC/PIU complied adequately with the project reporting requirements. Although progress reporting was not done quarterly, as indicated in the PAD, but semi-annually, and sometimes with delays.

53. **Utilization.** Data monitored and collected under the project was used primarily for two purposes: (i) inform decision-making related to project implementation; and (ii) impact evaluation. In relation to the first point, collected data on the financial health of the participating financial institutions and health of the lending portfolio was used to inform decisions related to eligibility of these financial institutions to the project's credit lines. Collected data was used to estimate the impact of the project's interventions on target groups, which subsequently informed the updates of the project's outcome and results indicators. Information was collected based on a random survey method through one-on-one interviews of PCB and MFI beneficiaries and can be considered reliable. An end-project impact evaluation was not carried out, primarily due to the institutional confusion caused by the liquidation of the PCC/PIU. This is unfortunate because such an exercise would have provided additional insight into the project's outcomes, particularly at farm/rural business level, and would have ultimately given a better sense of the economic and financial benefits of the project.

2.4 Safeguard and Fiduciary Compliance

54. **Financial Management**. Regular financial management reviews of the PCC/PIU carried out by the Bank team confirmed a highly satisfactory financial management system during the project life, compliant with the financial covenants of the project's

legal Agreements. Internal controls, accounting procedures and financial management reporting were all carried at highest standards of competence. Annual project audits were unqualified (clean), and recommendations that were occasionally raised were addressed in a timely manner.

55. **Procurement**. The PCC/PIU's ability to effect procurement activities in line with World Bank policies and procedures has been consistently sound. Procurement ratings have never been rated lower than moderately satisfactory, with the median rating being satisfactory. Procurement post-reviews found that procurement processes were generally reliable, timely and transparent with some corrective actions requested by the Bank related to updates and compliance with the procurement plan, quality of technical specifications and contract management.

56. **Disbursement**. Disbursements are a function of successful implementation. To this end, the Project struggled early on to keep up with initial disbursement estimates due to a slow start, although, certainly, disbursement estimates were overly-optimistic to begin with. With a surge in performance and substantial reallocation of proceeds towards the Rural Finance Services Component, disbursements picked up significantly for the IDA credit. In addition, the extension of its closing date ensured its nearly full disbursement. The IFAD Credit also registered high disbursement rates. The PHRD Grant registered poor disbursement rates due to lack of implementation progress under the Agricultural Supply Chain Development Component. Specifically, 103% of IDA funds were disbursed, 88% of IFAD funds were disbursed and 36% of the PHRD funds were disbursed.

57. **Environmental Assessment**. The project was rated as "environmental category FI", initially triggering only OP 4.01(Environmental Assessment). Following the Level 1 Restructuring, the project retained the environmental category, but OP 4.09 (Pest Management) was also triggered. This was due to the fact that the implementation of the proposed Competitive Grant Program would have led to an increase in the use of pesticides and fertilizers. Essentially, OP4.09 should have been triggered from the beginning, in response to the types of grants that may have been financed under the original Sub-Component 1 (c) – Technology Transfer. However, due to lack of implementation progress of the original activities of the sub-component, there were no violations of OP4.09. An Environmental Management Plan and Environmental Guidelines were prepared to comply with the requirements of OP 4.01. Following the triggering of OP 4.09, the Environmental Guidelines were updated to include a Pest Management Plan and a Pest Management Handbook.

58. There were no significant deviations or waivers from the Bank safeguard policies throughout implementation. Overall, safeguard compliance was satisfactory, as indicated by regular reviews. The project's ISRRs have rated overall safeguard and environmental assessment (OP 4.01) compliance as satisfactory in all but two ISRRs (Sequence s #5 and #10 – moderately satisfactory). Pest management compliance (OP 4.09) was always rated as satisfactory. The episodes in which the rating was moderately satisfactory related to: (i) the need for better compliance of the participating banks with the requirements of

environmental screening and classification of sub-loans; and (ii) the need to ensure more individualized environmental management plans for construction works supported by the project. Necessary corrective measures were promptly implemented and ratings were upgraded.

59. **Social Safeguards**. No social safeguards were triggered by the project. All construction works were carried out on sites on public land. OP 4.12 - Involuntary Resettlement was not triggered.

2.5 Post-completion Operation/Next Phase

60. The outlook for the post-completion phase of the activities of the Agricultural Supply Chain Development component is mixed. On one hand, a positive factor is that targeted farmers which have benefited from technical assistance under the development of citrus and hazelnut supply chains received important knowledge and inputs that should make their operations more competitive. The project laid the groundwork for further commercialization of hazelnut cultivation, as demonstrated by on-going USAID funded activities apply approaches similar to the RDP's[14]. In addition, many technical activities and studies supported by the project (particularly in the wine sector) led to knowledge generation that would likely inform sector policies and strategies. On the other hand, due the failure of the ASCDF and the Competitive Grant Program, project financing for activities aimed at supply chain development was negligible. Essentially, the efforts to integrate farmer and rural businesses into supply chains stopped at project closing.

61. The outlook for the post-completion phase of the activities of the Rural Finance Services is positive. The participating MFIs are well-positioned to continue their operations in the country's rural areas – their portfolios are healthy and institutional capacity to continue rural lending is robust. They are now in a better position to access external resources for on-lending to rural beneficiaries, than they were before the project. A revolving mechanism for the utilization of IDA and IFAD reflows would have allowed them to sustain more easily current levels of lending. Unfortunately such a mechanism was not put in place yet[15]. Commercial banks, that significantly reduced agricultural lending in the aftermath of the financial crisis, are likely to resume it when their financial situation allows it.

62. The outlook for the post-completion phase of the activities of the Institutional Modernization Component is moderately positive. On one hand, the National Agency for Property Registration emerged into the post-completion phase as a very well-functioning,

[14] A training program designed by USAID's Economic Prosperity Initiative (EPI) and delivered in collaboration with the Italian company Ferrero (the largest foreign investor in Georgian agriculture).

[15] For IFAD the establishment of a revolving fund is a loan covenant.

well-equipped, trained and fully sustainable (including financially) institution. On the other hand, there is a lot of uncertainty about the ability of the food safety laboratory of the MOA and the 10 regional NSVFS to become fully operational in the post-completion stage due to further funding, staffing and equipment needs. However, the country's engagement with the EU on the negotiations of a Deep and Comprehensive Free Trade Agreement, and the prospect of funding from the EU Comprehensive Institutional Building Program, strengthens the sustainability outlook for the country's food safety institutions, as additional funding is likely to be provided to achieve food safety compliance with the EU rigors.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

63. The Project's revised objective, design and implementation remain highly relevant to Georgia's development priorities. The original objective and implementation also remain relevant, while the original design has a few elements which are less relevant in the current context (ex. support for Credit Unions). This is the case both for the original PDO and design, as well as the revised PDO and design. The Government's medium-term program entitled "United Georgia without Poverty" (2008) and the "Basic Data and Directions" strategy document (2010-2013) which outline sector strategies, clearly establish as priority development areas growth in agricultural exports, increased rural productivity and incomes, job creation, food safety and effectiveness of governance, financial intermediation and strengthening of property rights.

64. The project also remained highly relevant in the context of the FY06-09 CPS Progress Report, under the pillar of "Generating jobs" and "Strengthening of public sector management". The FY10-13 CPS also renders the project relevant through its strategic pillar of "Restoring growth and competitiveness"

3.2 Achievement of Project Development Objectives

65. The original PDO was to develop the productivity and profitability of the agriculture sector. This was to be achieved by facilitating access of Georgia's mainly small and medium-scale farmers to supply chains, improving the competitiveness of the supply chains and strengthening the capacity of selected agricultural and financial institutions to serve private sector-agricultural market activity. The achievement of the original development objective was *de-facto* measured only through two outcome indicators and three intermediate outcome indicators, despite a more extended results framework contained in the PAD. Indeed, implementation progress was very slow and indicators were not being achieved, but a deficient Results Framework made it even more problematic to gauge the project's impact and assess the achievement of the development objective. A detailed review is presented below.

Outcome indicators

i. *<u>Increased sales (20%) and profit (50%) of enterprises by the project.</u>* The last reported status for the indicator, before the project's Level 1 Restructuring, had no quantitative information about the progress, simply stating that "Indications are positive with a wide range of activities supported under the credit line". As such, it is impossible to state that the outcome and its contribution to the PDO were being achieved.

ii. *<u>Increased net income (50%) of farmers participating in project-enhanced marketing supply/chains.</u>* The last reported status for the indicator, before the project's Level 1 Restructuring, had no quantitative information about the progress, simply stating that "Only one grant provided to citrus exporters allowing access to new market, technical assistance and demonstrations for improved agricultural practices conducted". As such, it is impossible to state that the outcome and its contribution to the PDO were being achieved.

Intermediate Outcome Indicators

i. *<u>Number of commodity chains evaluated and supply chains supported.</u>* The quantitative target was for the support of 14 supply chains. The last reported status for the indicator, before the project's Level 1 Restructuring, indicated that 3 supply chains were evaluated and being supported. Since, this indicator was revised (target reduced) following the restructuring its consideration against the original PDO is not feasible.

ii. *<u>Key institutional development areas supported.</u>* The quantitative target was for the support of 4 areas. The last reported status for the indicator, before the project's Level 1 Restructuring, indicated 3 areas of support: food safety, seed legislation and cadastre. This represents 75% of the target. Numerically, the contribution to the objectives of the project was strong. However, the indicator was vague and was not providing any insight into the effect this support had on specific regulatory and institutional policies.

iii. *<u>Increase of agricultural lending as a percentage of agricultural GDP.</u>* The quantitative target was 4% of agricultural GDP, from a baseline of 1.2% of agricultural GDP. The project targeted an approximate increase of 2.8 percentage points. The last reported status for the indicator, before the project's Level 1 Restructuring, indicated that agricultural lending was 2% of GDP - an increase of 0.8 percentage points[16]. This represented 29% of the target at the time immediately prior to the Level 1 Restructuring, after which the indicator was dropped. A judgment on the contribution of the indicator to the project objectives has to be based on an assumption of how much more progress would have been

[16] The source for the status of outcome and indicator progress before the Level 1 Restructuring is the ISRR Seq. #7.

made in the remaining two years of implementation if the indicator was not dropped. Based on the end-of-project amounts of credit resources channeled to the rural economy, it can be reasonably assumed that 29% represented a strong contribution to the project's objectives, and had it not been dropped it would have been in the 75%-100% range of achievement.

66. The project's revised PDO was to improve agricultural production and access to markets for Georgia's small and medium-scale farmers and rural enterprises supported by the project through: (i) increasing the competitiveness of selected supply chains; (ii) strengthening the delivery of rural financial services and of the financial intermediaries; and (iii) modernizing key institutions for food safety and property registration with direct impact for increasing competitiveness of Georgia's agriculture. The achievement of the revised development objective was measured through three outcome indicators and nine intermediate outcome indicators[17]. A detailed review is presented below.

Outcome indicators

i. *Improved incomes for farmers and enterprises from activities supported under the project.* The quantitative end-target was to achieve a 10% increase in incomes. The actual reported increase achieved was 28.3%. This represents a 183% achievement of the outcome and a very substantial contribution to the achievement of the PDO.

ii. *Improved access to agricultural rural finance.* The quantitative end-target was to achieve a rate of 35% of rural households having access to finance from a baseline of 28%. The actual reported rate achieved was 41.4%, which is 6.4% more than target, and represents a 191% achievement of the outcome (13.4% actual increase from 28%, over the forecasted 7% increase). This represents a very substantial contribution to the achievement of the PDO.

iii. *Improved capacity of the food safety and property registration institutions.* The qualitative end-target was to develop central and local capacity. The indicator has to be disaggregated for activities focused on improving food safety institutions and the NAPR. The project's outputs for the improvements in the food safety system have been delivered, although at the time of the closing of IDA financing, some were still not operational. The objective of improving the capacity the NAPR was fully achieved. The contribution to the achievement of the PDO can be considered significant.

Intermediate Outcome Indicators

i. *Number of supply chains supported.* The quantitative end-target was 5 supply chains, from a baseline of zero. The project supported 3 (hazelnut, citrus and

[17] The Level 1 Restructuring Paper had a revised Results Framework which contained 3 outcome and 9 intermediate outcome indicators. Only 7 intermediate outcome indicators were tracked through ISRRs. Indicators 3 and 6 were not.

wine). This represents a 60% achievement. The indicator was not fully achieved, so the contribution to the project's objective can be characterized as moderate.

ii. *Number of farmers/farmer groups supported in the supply chain through T&D and grants.* The quantitative end-target was 35, from a baseline of zero. The actual reported target achieved was 43 direct beneficiaries (farmers), which represents a 123% achievement. There were 604 additional indirect beneficiaries. The contribution to the project's objectives was substantial.

iii. *Number of rural enterprises supported through grants.* The quantitative end target was 7. The actual target achieved was 1, which represents 14%. The contribution to the project's objective can be characterized as negligible.

iv. *Total rural investments generated by the project through the banks*. The quantitative end-target was US$22.0 million. The actual reported target achieved was US$22.0 million. This represents a 100% achievement, and a substantial contribution to the project's objective.

v. *Number of jobs created through PFI lending with project funds.* The quantitative end-target was to create 50 jobs. The reported achievement was 205 jobs. This is a 410% achievement. Numerically the target was overachieved, and represents a very substantial achievement, but the initial target was very low. Unfortunately, the indicator doesn't capture self-employment that was engendered by the MFI lending, where the portfolio clearly enabled thousands of rural inhabitants to explore such opportunities.

vi. *Total number of loans and micro-credits generated by the project.* The quantitative end-target was to extend 1,000 bank loans and micro-credits. The latest monitoring data indicates that there were 10,000 micro-credits extended by MFIs and 27 sub-loans extended by the PCBs. This represents a 900% achievement of the target. If reflows are taken into account the number of loans extended by PCBs and MFIs is 11,081 (1,100% achievement). The contribution to the project's objectives was very substantial, but the initial target was very low.

vii. *Well-functioning and effective labs and regional centers for food safety.* The qualitative end-target sought an upgrade in capacity. The MOA food safety lab was rehabilitated and equipped. Six regional veterinary centers were constructed[18]. Training to staff of the national service (FSA) was delivered. However, some of the laboratory equipment was not in operation at the time of closing; the territorial offices were not functional due to lack of equipment and furniture. Thus, while the scope of activities was substantial, the contribution to the project's objective was achieved only partially.

[18] The ISRR Sequence #12 mistakenly states that 10 territorial offices were constructed.

viii. *Establishment of the network of NAPR regional centers.* No quantitative end-target was established. The project served as a catalyst for significant donor support for the establishment of a network of 68 territorial centers[19]. The project also provided equipment and technical assistance for ensuring the connectivity, interoperability and integration of data management systems of the NAPR and its regional centers. The contribution to the project's objective was substantial.

ix. *Development of the CORS for NAPR.* The qualitative end-target was to establish a CORS system. The system has been installed and was fully operational at project's end. The capacity of the NAPR staff to utilize the system was enhanced. The contribution to the project's objective was substantial.

67. They were 8 core indicators introduced in 2010 (see datasheet). Most were for reporting purposes and are not reviewed in the narrative.

3.3 Efficiency

68. Generally, a judgment of the appropriateness of cost levels vs. expected outputs at appraisal is problematic due to the flexibility of the design that often did not set clear linkages between initial component costs and expected outputs, and to the demand-based nature of the activities supported under Component 1 and 2. Project or component ERRs were also not calculated at appraisal. The most meaningful ex-post analysis of the project's cost-efficiency can be made along the premise that nearly 80% of project funds were disbursed under the Rural Finance Services Component which relied on market-based financial intermediation. Allocation of resources to end-beneficiaries at financial rates of return that ensured that sub-loans were bankable (both by commercial banks or non-bank financial institutions), and subsequent high repayment rates, represents robust evidence that the project was implemented efficiently. In addition, project results for all components were achieved without exceeding the financing envelope at appraisal, therefore strengthening the conclusion of overall efficiency.

3.4 Justification of Overall Outcome Rating

Rating: Moderately Satisfactory

69. The outcome rating against the original PDO and Results Framework is rated moderately unsatisfactory. This is based on assessment that accounts for the shortcomings described above in achieving the project objectives, while at the same time accounting for a relatively high relevance of objectives and implementation (less so for the relevancy of the original design) and efficiency. While an analysis of the outcome indicators suggests a lower rating, the problem was essentially one of measuring the outcomes due to deficiencies in the Results Framework described earlier.

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[19] These activities were also supported with funding from USAID, GTZ, KFW, SIDA and NAPR's own resources.

70. The outcome rating against the revised PDO and Results Framework is rated satisfactory. The following considerations were used to arrive to this conclusion. The revised PDO remains highly relevant for Georgia's development agenda. It had specific objectives related to supply chain development, rural finance and institutional modernization directly linked to Components 1, 2 and 3, respectively. Their relative importance to the PDO can be best judged by the initial amounts allocated to the underlying components. To this end, the first specific objective of increasing the competitiveness of selected supply chains was not fully achieved due to poor implementation progress of Component 1. The second specific objective of strengthening the delivery of rural financial services and of the financial intermediaries was fully achieved. This judgment is informed by the data on outcomes, but also on the quality of outputs that were generated under the component in terms of total lending to farmers and rural enterprises, the diversity of the rural lending portfolio, the quality of the rural lending portfolio (repayment rates), expansion by the commercial banks and non-bank financial institutions of their rural client base, etc. The third specific objective of modernizing key institutions for food safety and property registration with direct impact for increasing competitiveness was also largely achieved. This judgment is informed by the magnitude and sustainability of the modernization effort achieved in the food safety institutions (partial) and the NAPR (modernization and sustainability). To this end, the PDO was achieved from a quantitative and qualitative point of view through the contribution of the specific objectives supported by Components 2 and 3, with Component 2 having the largest relative share of financing (80%). The contribution of the specific objective supported by Component 1 was not fully achieved. The project was implemented efficiently. The combination of relevance and achievement of the revised PDO, in the context of overall efficiency, justifies a satisfactory outcome rating.

71. The overall outcome rating is moderately satisfactory. The conclusion is based on a weighted evaluation approach which takes into account the outcome rating against the original PDO, the outcome rating against the revised PDO, and disbursement rates before (44%) and after the restructuring (56%).

3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

72. In addition to economic benefits, positive gender externalities were also an important achievement of the project. Nearly 70% of beneficiaries supported by the project's hazelnut supply chain development activities were women. For citrus the participation of women was 80%. In addition, micro-finance lending achieved similar outreach to women.

(b) Institutional Change/Strengthening

73. Institutional changes/strengthening achieved by the project was described earlier.

(c) Other Unintended Outcomes and Impacts (positive or negative)

74. The ability to timely channel more resources towards micro-finance lending served as a great aid to Georgia's rural people in the aftermath of the August, 2008 conflict. The country was faced with huge economic and social challenges, and the availability of micro-finance resources for lending to the rural population helped in relieving some of the economic pressure.

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

75. There was no project completion stakeholder workshop held.

4. Assessment of Risk to Development Outcome

Rating: Substantial

76. There are a number of aspects that could influence the project's long-term sustainability.

> a. For Component 1, sustainability of technical advice delivered to beneficiary farmers is impacted by lack of follow-up, both during the project phase, as well as in the post-operation phase. There is no public or private extension service in the country that could either build up on the project's engagement with farmers and rural businesses, or continue with the dissemination of the knowledge created under the project to a larger audience of farmers. In addition, the initial approach of engaging qualified NGOs for propagating support for supply chain development has failed, not allowing for the evolvement of a core of small consulting entities that could support future activities related to rural business development. This is mitigated by continuing donor and private sector support for facilitating farmer access to integrated supply chains.
>
> b. For Component 2, the biggest risk to long-term sustainability is different for commercial banks and non-bank financial institutions. For banks, the risk to sustainability comes from the fact that aversion to rural lending (caused by the 2008 financial crisis), may continue too long, leading to loss of institutional memory and knowledge for rural lending that was built with project support. For NBFIs, the major risk to sustainability comes from possible future difficulties in assuring adequate external funding for on-lending to rural clients. The World Bank and IFAD proposed to the Government of Georgia to consider the establishment of a revolving fund that would use project reflows for continuous lending to NBFI. Unfortunately, such a fund was not established and at some point the NBFIs will need to seek and secure funding from other resources. However, the mitigating factors for this risk are: (i) existing SLAs would allow

the participating NBFIs to use reflows for on-lending for a few more years (albeit in discontinuing volumes as they repay to the MOF); and (ii) as a result of the project, the NBFIs are much better positioned to secure external lending, having established a record of successful performance under the RDP.

c. For Component 3, the highest risk to sustainability comes from the ability of the project supported institutions to ensure proper operation, maintenance and up-keep of the equipment and facilities that were procured/rehabilitated. In the case of the NAPR there is quite a bit of certainty that the long-term institutional sustainability will be maintained. This assessment is based on the comprehensive support the agency received from the project and other donors, but also from its business model and approach to cost-recovery and development. For the food safety institutions supported by the project, the risk to sustainability is high, due to their reliance on government funds for full operationalization of the assets provided by the project, as well as future maintenance and up-keep needs. This is mitigated by the country's strategic alignment for compliance with EU food safety rigors through the negotiations of a Deep and Comprehensive Free Trade Agreement, which should ensure steady financing for maintenance and further upgrades of the food safety institutions.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance
(a) Bank Performance in Ensuring Quality at Entry

Rating: Moderately Unsatisfactory

77. The Bank properly established the sector context, the project's relevance, thematic coverage, and the resulting mix of components. However, the overall design suffered from lack of focus and, particularly for Components 1 and 3, the project often suffered from lack of finality on what it was going to support. Components 1 and 3 were structured in a way that left some elements under-designed (ex. the operations of the ASCDF) and vague (lack of initial specificity on the support for the food safety agenda). Without a clear direction, these components struggled the most initially, and had to be significantly revised through the Level 1 Restructuring. The project suffered from a poorly formulated initial PDO and weak causality in its Results Framework. Additionally, the Results Framework was wrought with inconsistencies and mistakes. The economic analysis was deficient, lacking an ERR calculation (at least for Components 1 and 3), and substituting proper quantitative and qualitative economic analysis with notions related to comparative trade analysis. Environmental aspects did not cover pest management issues, which were clearly relevant under Component 1, and the proper safeguard was not triggered. Monitoring and evaluation arrangements for Components 1 and 3 lacked specificity and structure.

(b) Quality of Supervision

Rating: Moderately Satisfactory

78. The Bank maintained a solid focus on ensuring the fulfillment of project objectives. The task team closely supervised implementation through annual, and at times more frequent missions, fiduciary reviews, and maintenance of a constructive dialogue between the project's major stakeholders. Issues raised were addressed in a timely manner and were candidly reported in the official documentation. For example, during the MTR the Bank identified very specifically the substantial problem areas, suggested ways in which the MOA and the PCC/PIU, as well as other relevant institutions could resolve them, and followed up with specific measures on the Bank side to facilitate the necessary changes (Level 1 Restructuring). The task team did a solid job of ensuring that the project's activities were implemented in line with the provisions of environmental safeguards triggered by the project. Fiduciary reviews were carried out in a timely and effective manner as per institutional requirements. The team managed relatively well other internal institutional requirements related to reporting (ISRRs). Finally, the task team built an excellent partnership with IFAD which resulted in a very effective, participatory approach to the supervision of project's activities.

79. The areas were Bank performance should have been more astute relate to the timing of the corrective measures implemented through the Level 1 Restructuring. The Bank should have been more pro-active in processing the restructuring sooner, perhaps at, or immediately after the mid-term review[20]. The underlying realism of performance ratings should have reflected better the state of urgency for engendering necessary project revisions. Some initial design flaws, as well as the weakening commitment by the MOA, should have been addressed more aggressively and much sooner than nearly four years into implementation. Another, negative aspect relates to the Bank's failure to reflect the changes in the project's Results Framework in the legal agreement, by formally amending the Supplemental Letter #2.

(c) Justification of Rating for Overall Bank Performance
Rating: Moderately Satisfactory

80. World Bank support to the Government of Georgia in preparing and implementing the project is rated as moderately satisfactory. The rating is derived largely from the Bank's performance on supervision, especially in the context of the project's Level 1 Restructuring, which demonstrated responsiveness and adaptation to implementation challenges.

5.2 Borrower Performance
(a) Government Performance
Rating: Moderately Satisfactory

[20] The MTR took place in March, 2008. The Level 1 Restructuring was approved on July 9, 2009.

81. At preparation, the Government of Georgia supported the project and its objectives. However, from the outset, the implementation dynamic has been difficult due to delays in the approval of key project-specific implementation documents, for example, the RCGs for commercial banks and NBFIs (Ministry of Finance), or the operating manual for the ASCDF and the Competitive Grant Program (Ministry of Agriculture). In addition, there were significant delays or lack of direction in engendering critical legal and institutional adjustments (credit unions, food safety) which were imperative for an efficient implementation of the project. Government performance has stabilized after the mid-term review, especially for Components 2 and 3, allowing for improvements in implementation and a positive outlook for the achievement of the project's main objectives. Counterpart funds were provided in adequate (although not full) volumes.

(b) Implementing Agency or Agencies Performance
Rating: Moderately Unsatisfactory

82. The Ministry of Agriculture was the project's implementing agency. For fiduciary tasks and component coordination it was assisted by the PCC/PIU. As discussed above, the MOA displayed highly variable, but mostly weak commitment to the project's activities (structure) and objectives. The most unfortunate example is the protracted indecision on activities under Component 1. Generally, resolution of implementation issues was slow, despite agreements reached with the Bank. The mainstreaming of the PCC/PIU into the MOA was also handled in a manner which had an adverse impact on the implementation of the project in early 2011, i.e. inability to finalize multiple activities due to outright cancelation by the MOA, or the inability of the PCC/PIU to effect necessary procurement, in the absence of feasible viable alternatives. These transitional problems also had a negative impact on the end-of-project impact evaluation, which was not carried out.

83. Against this backdrop, the performance of the PCC/PIU was generally satisfactory. Fiduciary aspects related to financial management, procurement, safeguards compliance were addresses in a timely and qualitative manner, as acknowledged by period reviews. Financial management was a particular highlight, as it was constantly rated as highly satisfactory.

(c) Justification of Rating for Overall Borrower Performance
Rating: Moderately Unsatisfactory

84. The justification for the rating stems from the weight of the MOA's role, as an implementing agency, in the assessment of the Borrower's performance. The implementing agency had a much more prominent role than the Government of Georgia at large, whether central or local, and in particular the Ministry of Finance, the other important player in the project.

6. Lessons Learned

85. *Project design should be more focused.* The project would have benefited from more thematic focus, and subsequently fewer, yet implementable activities. Indeed, development needs and demands are always numerous, but an adequate balance is always necessary between a meaningful and manageable scope and the instinct to go for more. Ideally, project-supported themes should be complementary and provide for mutually enabling, and perpetuating results. The benefit of hindsight comes to support plausibly this conclusion. The RDP would have benefited from fewer components and sub-components (activities). This would have also contributed to a more meaningful initial formulation of the PDO and to a tighter and more logical Results Framework.

86. *Project activities should have better definition.* While recognizing the need for in-built flexibility of design, there is a clear need to have well-appraised activities (technically and otherwise), that give the project a sense of finality and strategic direction. Too much flexibility leaves the project hostage to situational, spur-of-the-moment preferences by project proponents, hampering implementation pace. Again, poorly defined activities pose problems for establishing firm causal links between the project's outputs (which become tentative) and outcomes.

87. *Operating guidelines for grant-schemes.* Echoing the lesson above, operating guidelines for competitive grant schemes need to be properly outlined in project appraisal documents. Indeed a certain degree of operational flexibility is intrinsic to the nature of such demand-based activities. However a firm general framework is absolutely critical to establishing a clear initial approach to the implementation of a grant program. Additionally, a document that establishes the operating principles of a grant scheme should be approved by the counterpart as early as possible in the preparation cycle, and ideally be a covenant for a preparation milestone, such as negotiations or board presentation.

88. *Finality of monitoring and evaluation arrangements.* A project's monitoring and evaluation arrangements framework should be finalized at appraisal, and be meaningfully connected through its monitoring and impact variables to the PDO and the Results Framework. It is certainly not desirable to leave the conceptualization of the M&E arrangements for the early stages of project implementation. Even the practical set-up and functionality issues should be firmed-up as early in the preparation process as possible.

89. *Readiness for implementation.* Setting key realistic expectations in areas of policy reforms, regulations and institutional strengthening is a key pre-requisite for successful and timely implementation of project's that address institutional modernization. While not suggesting that projects should not follow ambitious goals, overall project design and activities should be better grounded in the reality at preparation.

90. *Pro-activity in restructuring problem projects.* Substantive corrective measures, such as Level 1 Restructurings should be implemented more pro-actively, and early enough in the project implementation cycle, especially when the underlying design issues

and implementation problems dictate such actions. In addition, to the actual merits of corrective measures, their timely processing allows for a sufficient time horizon in the post-restructuring implementation phase, thus making restructurings more meaningful for achieving results.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/implementing agencies

(b) Co-financiers

91. In its comments to this report, IFAD raised the issue of effective assessment of the project's impact in the absence of an end-project impact evaluation, expressing the opinion that the report could strengthen this point. In fact, the ICR clearly states that failure to carry out the evaluation was unfortunate as it did not allow for additional insight into the quality of project's outcomes.

92. Another comment by IFAD seeks clarification on the state of operations at the food safety laboratory and NS regional centers at the time of closing of the IFAD financing. The report purposefully posits as a benchmark for the assessment of achievement of these activities the closing date of IDA financing, as these were not supported by IFAD during the remaining duration of IFAD financing. Nonetheless, since the closing of IDA financing there has been progress in achieving operationalization of these facilities.

(c) Other partners and stakeholders
(e.g. NGOs/private sector/civil society)

Annex 1. Project Costs and Financing

(a) Project Cost by Component (in USD Million equivalent)

Components	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Agricultural Supply Chain Development	4.27	1.08	25%
Rural Finance Services	25.76	25.45	99%
Institutional Modernization	3.17	2.92	92%
Project Implementation	1.51	1.83	121%
Total Baseline Cost	34.71	31.27	90%
Physical Contingencies	0.00	0.00	0.00
Price Contingencies	0.00	0.00	0.00
Total Project Costs	34.71	31.27	

(b) Financing

Source of Funds	Type of Co-financing	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Borrower	State Budget	2.47	1.05	43%
International Development Association (IDA)	Credit	10	10.28	103%
International Fund for Agriculture Development	Loan/Grant	10	8.75	88%
JAPAN: Ministry of Finance - PHRD Grants	Grant	4.5	1.62	36%
Local Sources of Borrowing Country	Credit Lines Contribution	2.9	9.57	330%
Local Farmer Organizations	Beneficiaries' Contribution	4.84	0.00	0%

Annex 2. Outputs by Component

COMPONENT 1: AGRICULTURAL SUPPLY CHAIN DEVELOPMENT

1. The Agricultural Supply Chain Development Component had the objective to support the efficient development of marketing and supply chains for commodities that had a demonstrated market potential, with the view to expand profitable domestic and export market opportunities, through: (i) supply chain analysis and development; (ii) a training and demonstration program; and (iii) the provision of competitive grants.

2. The component had only moderately achieved its objectives. Despite some notable achievements, the component never achieved an optimum scale of implementation. It lacked a clear strategic vision, and many supported activities were of an ad-hoc nature generated, by situational needs of the MOA. In addition, many programmed activities were not completed. Detailed information on component outputs and activities dropped is presented in the Table 1 below.

3. *Sub-component 1 (a) - Supply Chain Analysis and Development.* The project supported analyses and development of three supply chains: hazelnut, citrus and wine. It did so through a variety of activities such as: (i) applied technical assistance and studies; (ii) a draft wine sector strategy (ii) marketing and awareness-raising events; (iii) applied testing for improved production and competitiveness; and (iv) applied technical guidelines for cultivation. A particular highlight is the support that the project provided for the organization and proceedings of the 33rd International Vine and Wine Congress. This event helped raise international awareness about Georgian wines, at a time when further diversification of wine exports was paramount. Unfortunately, another major project output that could have contributed further to the development of the country's wine sector - the draft Wine Sector Strategy, was not approved by the Ministry of Agriculture, and as such was never formalized as a national strategic document.

4. *Sub-component 1 (b) - Training and Demonstration Program.* The project supported demonstrations of new technologies for citrus and hazelnut cultivation in the Adjara Region and Zugdidi District. These demonstrations focused on introduction of new varieties, agronomic improvements, and plantation maintenance. There were 43 direct beneficiaries (farmers) and more than 604 indirect beneficiaries. These new technologies contributed to: (i) an increase in the productivity of private hazelnut and citrus plantations; (ii) to improvements in the consistency and quality of harvest; and (ii) to better supply-chain integration. Ultimately, these activities generated additional employment and increased incomes for beneficiary farmers. The approaches tested under this sub-component are now implemented under other donor and private-sector funded farm advisory programs.

5. *Sub-Component 1 (c) - Competitive Grant Program.* Despite repeated attempts to initiate the Competitive Grant Program (as well as the ASCDF before it), including simplification of draft operating guidelines and reallocation of proceeds, the program was

never implemented due to the indecision on the part of the Ministry of Agriculture to clear the guidelines.

TABLE 1:

Sub-component 1 (a) - Supply Chain Analysis and Development	• Soil analyses for 47 participating citrus farmers and 23 hazelnut farmers • Set of specific recommendations for increased productivity cultivation of citrus and hazelnut; • Three thematic agronomic guides for citrus cultivation (Pest and disease management; formation and maintenance of citrus plantations, substitution of citrus varieties). • Four thematic agronomic guides for hazelnuts cultivation (Pest and disease management; weed control; formation and maintenance of plantations, rejuvenation of plantations). • Workshops for cultivation of citrus and hazelnut. • Preparation of draft Georgian Wine Strategy & Action Plan (the draft was not officially approved by the MOA); • Identification and description of Georgian vine varieties; • Preparation of scientific technical articles for the OIV wine congress (5 items); • International TA for improving access and competitiveness in existing and new export markets; • Preparation of Main Provisions of Integrated Pest Management (elaborated, published, and disseminated to farmers.
Sub-component 1 (b) – Training and Demonstration Program (originally Linkages to Farm Communities)	• Demonstration activities for citrus and hazelnut farmers; • 17 hazel nut demonstration plots have been set up; • 26 citrus demonstration plots have been set up; • More than 600 direct and indirect beneficiaries have been trained.
Sub-component 1 (c) – Competitive Grant Program (originally Technology Transfer)	• One grant was provided for test-marketing of mandarins.
Dropped activities	• Fingerprint data base of Georgian grapevine; • International technical assistance for land consolidation; • Training for farmer centers; • TA for introducing seed certification system and development of seed legislation; • International TA for competitiveness analysis, gap analysis and modernization plan for agro-food

	sector; • International TA for developing wholesale markets, storage capacity and a warehouse receipt system; • Training and Demonstration program for citrus in Adjara; • Participation in trade fares and agricultural shows.

COMPONENT 2: RURAL FINANCE SERVICES

1. The Rural Finance Services Component had the objective to increase the capacity of participating commercial banks and non-bank financial institutions to lend to farmers, processors and agri-business enterprises involved in the supply chains of various agriculture commodities.

2. The component had successfully achieved its objectives. It provided credit to farmers and rural enterprises through a credit line for commercial banks and a credit line for micro-finance institutions. It had surpassed expectations on two levels: the impact on the income of the beneficiaries and the extent to which participating financial institutions reached out to rural clients. The only area in which the project was less successful is the support to credit unions (these activities were formally dropped through the Level 1 Restructuring). Detailed information on component outputs and activities dropped is presented in the Table 2 below.

3. *Sub-component 2 (a) – Credit Line for Commercial Banks.* The project provided credit resources for much –needed medium and long-term investment capital to a broad range of agricultural and food-processing businesses. The PCB portfolio was healthy and diverse, generating nearly US$22.0 million in investments, and creating 205 new jobs. The investments supported by the PCBs were in viticulture and wine-making, live-stock breeding, meat packing, dairy operations, cultivation of fruits and vegetables, and other food processing. Unfortunately, the commercial bank credit line was impacted by a series of exogenous shocks to the country's financial system. Otherwise it is plausible to assume that its outreach would have been wider.

4. *Sub-component 2 (b) – Credit Line for Non-Bank Financial Institutions.* The project channeled a significant amount of rural credit through this sub-component. There were five participating micro-finance institutions involved: Credo, Finca, Kristal, Lakiza Capital, and Finagro. These are relatively well-capitalized and financially healthy entities. The project financed a wide range of activities, including livestock breeding, greenhouses, small production of fruits and vegetables, dairy production, minor food-processing, agricultural trade and services. The average sub-loan size was around US$1,100, with an average maturity of 13.69 months. The sub-loan portfolio was very sound with the 30-day portfolio at risk of 1.36%. Repayment rates were high, with the write-off ratio at only 0.92%. These activities have provided critically necessary rural lending at a time when the lending through commercial banks was shrinking, resulting in increased rural employment (self-employment and new jobs) and ultimately in increased incomes for the beneficiary farmers and rural entrepreneurs.

5. *Sub-component 2 (c) – Strengthening the Capacity of PFIs for Sustainable Rural Lending*. The project was successful in building capacity of the participating financial institutions. It delivered necessary training to credit officers in appraisal of rural investments and delivery of new financial products. The best gauge for the quality of these activities is the positive financial results achieved under the sub-component, both in terms of the quality of the sub-loan portfolio, as well as its size and reach. However, probably the biggest contribution to the strength of the NBFIs was their participation and experience with the RDP. Before the project, these micro-finance institutions were small and relatively unknown entities. Now they have a track-record that can help them in securing additional donor funding to proliferate their rural lending activities.

TABLE 2:

Sub-component 2 (a) – Credit Line for Commercial Banks	• 27 sub-loans (25 beneficiaries) totaling US$5.7 million were extended; • Additional investments generated by the sub-loans through bank co-financing and beneficiary resources totals approximately US$22.0 million;
Sub-component 2 (b) – Credit Line for Non-Bank Financial Institutions	• Nearly 10,000 micro credits totaling US$9.54 million were extended from the initial drawing on the project's credit lines. Including the reflows, the numbers are 11,081 loans, amounting to US 10.6 million. A detailed breakdown of loans is provided in the table below.
Sub-component 3 (c) – Strengthening the Capacity of PFIs for Sustainable Rural Lending	• Training in investment appraisal and financial products was delivered to 42 credit officers and 16 service centre managers of MFIs.
Dropped activities	• Support for expansion of branch networks of MFIs; • Support for the strengthening of Credit Unions, including the creation of an Association of Credit Unions (was dropped following the Level 1 Restructuring).

COMPONENT 3: INSTITUTIONAL MONDERNIZATION

1. The Institutional Modernization Component had the objective to strengthen the institutional capacity of key agencies that could impact on the competitiveness of Georgian agriculture, marketability and safety of its products through: (i) support for food safety; and (ii) support for land registration.

2. The component had achieved its objectives, although some food safety activities were implemented partially. Detailed information on component outputs and activities dropped is presented in the Table 3 below.

3. *Sub-component 3 (a) – Institutional and Legal Framework.* This sub-component focused on support for the country's food safety agenda. Following the Level 1

Restructuring, the project focused on essential activities, with the intent of providing the following support for food safety: (i) rehabilitation of and equipment for the food safety laboratory of the MOA; (ii) rehabilitation of and equipment for several regional veterinary offices; and (iii) training and technical assistance for food safety staff. Frequent changes in the leadership and staffing of the National Service for Veterinary and Food Safety made implementation of this component challenging. More specifically, the food safety laboratory was fully rehabilitated and necessary equipment procured and supplied. However, due to implementation disruptions caused by the closure of the PCC/PIU and its mainstreaming into the Ministry of Agriculture, some equipment was not installed an operational at project closing, and training in the use of the new equipment was not provided. Similarly, due to implementation disruptions associated with the PCC/PIU closure, the project supported the construction of six regional veterinary offices, but furniture and equipment were not procured and supplied, hence veterinary staff could not move into the buildings and utilize the new facilities. The project also supported training for the National Service staff in Latvia on the following topics: on-farm quality assurance for raw materials; controls of food and animal origin; Hazard Analysis Critical Control Points; Food and Hygiene Controls; EU Food Standards; EU Food Legislation; animal welfare; plant health controls; risk analyses (assessment, management and communication); control of food and feed of animal and non-animal origin.

4. *Sub-component 3 (b) – Support for Selected Commodity-Specific Programs.* There are no specific outputs linked to this sub-component, either before or after the Level 1 Restructuring.

5. *Sub-component 3 (c) – Continuing Support to Property Registration.* The objectives of this sub-component have been fully achieved. These included establishing a network of 68 NAPR territorial offices, developing a system to integrate land and movable property register and cadastre databases, and establishing a secure NAPR data management and transfer network. All 68 offices have been connected to the Georgia Global Network (radio wave connections for all state and public organizations), so there is a back-up system for the electronic offices. For the establishment of the 68 territorial center, the project contributed to a larger effort supported with funding from other donors (USAID, GTZ, KFW and SIDA) and NAPR's own resources. Additionally, the project supported together with SIDA the development of the Continuously Operating Reference System, which includes 12 reference stations across Georgia, with prospective connections to the European Reference System. The NAPR is the owner of the system and responsible for its maintenance. The NAPR is financially self-sustaining from the fees charges for property and business registration.

6. Essentially, at the end of the project, the NAPR was a modern, well functioning and transparent cadastre and registration agency, offering advanced services (including eServices) to its clients in a simple, timely, effective and client-friendly manner. It now plays a significant role in Georgia's quest for sustained economic growth through reducing the cost of doing business and securing land-ownership and property rights.

TABLE 3:

Sub-component 3 (a) – Institutional and Legal Framework	• Draft Action Plan and Training Program for the strengthening of the National Service for Food Safety. • Design of 15 and construction of 6 regional offices of the National Service for Food Safety; • Strengthening of the capacity of the Food Safety Laboratory (reconstruction and equipment supplied); • Equipment for the National Service for Veterinary and Food Safety for strengthening Avian Influenza preparedness and surveillance, including protective clothing, disinfectant, and disinfecting equipment; • Training for the staff of the National Service for Veterinary and Food Safety in Latvia; • Training in basic computer skills for staff of the National Service for Veterinary and Food Safety and the MOA; • Informational video clip on registration of food producing enterprises; • Printing of materials for the Georgian Cheese Symposium.
Sub-component 3 (b) – Support for Selected Commodity-Specific Programs	• There were no specific outputs linked to this sub-component.
Sub-component 3 (c) – Continuing Support to Property Registration	• Equipment for the integration of NAPR databases across territorial offices; • Establishing a Continuously Operating Reference System (design and equipment); • Training to the staff of the National Agency for Public Registry.
Dropped activities	• International TA for slaughter houses; • TA for the identification and costing of future investment needs for the food safety; • Phyto-sanitary TA;

	• Office equipment and furniture for regional offices of the National Service for Food Safety; • Training for MOA food safety laboratory staff; • Laboratory furniture for MOA food safety laboratory; • Laboratory equipment for Adjara MOA laboratory. • International TA for CORS system.

COMPONENT 4: PROJECT MANAGEMENT

TABLE 4:

C.1. Project Management	• Support for the functioning of the PCC/PIU, including operating costs, procurement of necessary office equipment and goods, transportation means, consulting services, etc.

Annex 3. Economic and Financial Analysis

1. The PAD did not attempt to estimate and overall NPV or ERR for the project. There were also no estimations of component-level NPV and ERRs for Components 1 and 3, which were the most amenable to such an analysis. For Component 3, the economic and financial analyses were based on a number of selected production models for which NPV and FRRs were calculated.

2. *Component 1. Agricultural Supply Chain Development.* The implementation of the component did not go beyond a limited number of activities for a limited number of supply chains. The activities that were implemented were essentially knowledge generation, dissemination and demonstration activities for improved agronomic cultivation of citrus and hazelnut. A precise measurement of the likely economic/financial benefits from these activities is problematic for two reasons: (i) some benefits are intrinsically unquantifiable (ex. publication of thematic booklets); and (ii) there was no attempt made during the component's implementation to estimate adoption rates of knowledge/information disseminated to farmers, nor was there any actual assessment of ensuing impact on yields and incomes for those farmers that adopted the agronomic advice received. In any event, it is plausible to assume, that access to new information and knowledge on improved productive practices and varieties would lead to better financial performance. Additional economic externalities can be expected from incremental wage employment generation and a more vibrant rural economy in the communities were targeted farmers are operating.

3. *Component 2. Rural Finance Services.* This was the component with the largest cost at appraisal, and at closing accounting for nearly 80% of all project funds. Hence its weight in the project's overall economic outlook is highly essential. The PAD had no ex-ante aggregate ERR/FRR estimations for finance activities, as they were deemed impossible due to the demand-driven nature of financeable sub-loans. There were only estimates of NPV and FRR values for a set of six production models: red saperavi grapes plantation, hazelnut plantation, apple orchard, parsley greenhouse production, tea plantation, and small dairy cattle. The discount rate used was 12%, and the time horizon of the investment models varied from 12 to 25 years. These calculations indicated the financial feasibility of investments in plantations of red saperavi grapes (FRR of 20%), hazelnut (FRR of 15%), apples (FRR of 26%) and greenhouse production of parsley (FRR of 46%). Investments in tea plantations and small dairy cattle had negligible and marginal rates of returns, respectively.

4. The production models considered in the PAD were clearly meant for financing by commercial banks, judging by size of investments and maturity of loans. An ex-post confirmation of these individual NPV and FRR estimates is unfeasible at this time for two reasons: (i) a disconnect between the initial production models and the actual investments (27 sub-loans) financed by the participating commercial banks; and (ii) the relative "youth" of investments that were financed with sub-loans. Regarding the disconnect, an analysis of the portfolio of sub-loans by the PCBs indicates that there were only four sub-loans that fit the typology of the PAD production models - one grape plantation sub-loan, two milk production sub-loans, and one hazelnut cultivation sub-

loan. Even so, there are problems in adequate financial comparisons between these sub-loans and the PAD models due to differences in the size of investments, maturity and lending terms. Regarding the second reason above, i.e. the relatively young age of the investment projects, it could significantly skew a calculation of the rate of return downwards due to the likely negative cash flow on the investments in the initial years. Indeed, some of the sub-loans have not reached full maturity and not yet been repaid, so the investment costs are still outweighing the income streams. An additional methodological reason, that makes a de-facto FRR calculation unfeasible at this time relates to the specific nature of SME lending. SME lending is not "project finance", where assets and cash flows generated by the investment are legally segregated from the rest of the company's assets and cash flows. The investment project will increase or replace assets, but the incremental return attributable to the investment is buried in the company's overall return on all assets. The increase in profit is a very crude indicator of the incremental "return" because the net profit is affected by a range of other management decisions (acquisition or sale of other assets, hiring, marketing, systems, etc.). Thus even if the RDPP investment were not undertaken, there would be a change in profit due to other decisions and actions. In cases where the investment is a significant portion of a company's total assets, the overall profitability of an SME can be a close measure of the RDP project, but as mentioned above, the relatively young age of these investments and the unrealized full "return" makes and NPV and IRR calculation premature.

5. Against this background of analytical limitations at the time of the ICR, the best proxy (indication) of the likely financial performance of the project-supported investments is the business plan estimation of the IRR which informs the lending decision by the commercial banks. Available data on the pool of loans financed by the RDP indicates robust median rates of returns in the mid-30% (outliers ranging from 8% to 79%).

6. For the sub-loans supported by the MFI's, the average loan size was of US$950, for short-term working capital and small rural investments. Lending decisions by the MFIs' are generally not informed by strict IRR calculations, so it is impossible to present an analytical account of IRRs for the 10,000 loans (11,111 including loans from re-flows) that were made by the RDP participating MFIs. In any case, MFI lending evaluation literature establishes a direct correlation between the level of capital employed and financial returns. To this end, in the case of micro-finance loans that employ lower capital, the financial returns are higher, although net income is generally low due to high interest rates.[21] The up-take demand, growth in rural portfolio of the MFIs and repayment rates (against the backdrop of growth in farmer incomes - 35%), are good predictors of sufficiently high return rates for the RDP micro-finance activities.

7. In addition to the returns both to the borrowers, banks and MFIs in realizing the returns financed by the proceeds of the project, the project yielded a range of intangible

[21] The interest rates charged by the RDP participating MFI's were in the range of 25-30%.

benefits, namely: (i) increased rural lending facilitated by the availability of long-term capital and ability to borrow in Georgian Lari; (ii) increased presence/outreach of the financial sector in the rural areas (ex. an increase of approximately 345%); (iii) increased lending to rural (iv) a more vibrant rural economy, which resulted from generation of self-employment opportunities, new jobs and increased incomes for rural population; (v) provision of financing at a critical time to the microfinance industry allowing it to grow considerably and transform from informal NGO-type operations to a profitable, regulated industry supervised by the National Bank of Georgia.

8. *Component 3. Institutional Modernization (US$2.92 million).* The institutional capacity engendered under the component is expected to generate several distinct types of benefits, which cannot be quantified at this time due to early stages of roll-out, operationalization and application of such capacity. At the time of ICR most investments are less that 1-year old. Yet it is plausible to assume that as a result of the strengthening of key food safety institutions Georgia will be able to export its agricultural produce to more markets and at better prices than those commanded at present. In addition, the strengthening of food safety institutions and procedures will impact not only exports, but all food products moving through formal market channels (including, domestic sales and imports) and will therefore have important local public health benefits. The plausibility of these conclusions is strengthened by studies which have found that investments in public services and infrastructure associated with improvements in food safety management exhibit solid country-level economic returns, especially when benefits are assumed to derive from avoided trade losses and growing domestic and international trade volumes as a result of elimination of safety-related technical barriers[22].

9. The institutional improvements in the country's National Agency for Public Registration are expected to generate significant economic benefits from a more efficient administration of the country's land resources, better land planning and valuation, and security of tenure and ownership rights.

[22] The Economics of Food Safety in Developing Countries, Spencer Henson, ESA Working Paper No. 03-19, Agricultural and Development Economics Division, The Food and Agriculture Organization of the United Nations.

Annex 4. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Rapeepun Jaisaard Adkins	Senior Agriculture Economist	ECSSD	Task Team Leader
Frauke Jungbluth	Senior Rural Development Economist	ECSSD	Task Team Leader
Doina Petrescu	Senior Operations officer	ECSSD	Task Team Leader
Elmas Arisoy	Lead Procurement Specialist	ECSO2	Procurement Specialist
Ekaterina Arsenyeva	Senior Investment Officer	CF3S8	Financial Specialist
Ilia Kvitaishvili	Consultant	ECSS1	Rural Development
Juergen Venema	Junior Professional Associate	ECSSD	Rural Development
Gottfried Ablasser	Consultant	QLP - HIS	
Supervision/ICR			
Eustacius N. Betubiza	Consultant	ARD	Microfinance Specialist
Pierre Olivier Colleye	Senior Microfinance Specialist	LCSAR	Microfinance Specialist
Ahmet Gokce	Consultant	ECSO2	Procurement Specialist
Darejan Kapanadze	Senior Environmental Specialist	ECSS3	Environmental. Specialist
Ilia Kvitaishvili	Consultant	ECSS1	Rural Development
Paula F. Lytle	Senior Social Development Spec	AFTCS	Social Specialist
Jesus Renzoli	Consultant	ECSO2	Procurement Specialist
Anu Saxen	Senior Land Policy Specialist	ECSS3	Land Policy Specialist
Meeta Sehgal	Operations Officer	ECSS1	Operations Officer
Cora Melania Shaw	Consultant	ECSS3	Land Policy Specialist
Karl Skansing	Consultant	AFTSP	Procurement Specialist
Arman Vatyan	Sr. Financial Management Specialist	ECSO3	Financial Specialist
Anatol Gobjila	Senior Operations Officer	ECCS3	ICR Author

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY03	08.99	74.24
FY04	49.20	162.31
FY05	87.38	159.26

FY06	47.17	0.00
FY07		0.00
FY08		0.00
Total:	192.74	395.81
Supervision/ICR		
FY03		0.00
FY04		0.00
FY05		8.86
FY06	21.09	117.54
FY07	19.73	115.49
FY08	32.21	119.89
FY09	41.86	137.68
FY10	43.31	136.00
FY11	29.29	95.96
FY12	00.90	03.90
Total:	188.39	735.32

* Totals are inclusive of BB and TFBB.

In addition to the World Bank team supervision effort, the project was also regularly and satisfactorily supervised by IFAD project team.

Annex 5. Beneficiary Survey Results

Box 1: MFI Lazika Capital

Name of Borrower: Bichiko Patcacia
Location: Villige of Nagvazao, Samegrelo, Georgia
Amount: 1,800 Gel.

The borrower owns 2 hectares of land and green houses, where he produced tomatoes, peppers and maize. He used to sell crops a wholesale market at very low prices. He decided to sell his product by himself and with his wife at the local market. He had no money to pay for daycare for his children and for that reason his wife couldn't help him. The MFI gave him a loan of 1,800 Lari to buy 2 cows. He made an agreement with the kindergarten to provide them with milk products and as a payment in kind for his children daycare. The result of such a decision was very beneficial for his family. The parents can both work and sell their produce on the local market three times a week.

Name of Borrower: Tamar Sichinava
Location: Village Kitsia, Samegrelo region, Georgia
Amount: 1000 Gel

The person is a refuge from Abkhazia. She settled on her mother's land after the military conflict. It's the highest village in Samegrelo region with remote roads and very difficult living conditions. Together with her husband she started some agricultural activity to improve their living conditions. They have bought two cows and cultivated a small plot of land. Their incomes were very low and they decided to borrow money from MFI Lazika Capital to purchase a small herd of goats. They received a loan 1,000 Lari. Nowadays they sell goat milk and cheese in local market and in the future this activity will bring them higher incomes.

Box 2. MFI Crystal

Name of Borrower:	Zurab Nijaradze
Location :	Villige Khaishi, Zugdidi, Georgia
Loan:	5,000 Gel.

This story is about 41 year old family man, who worked in a school and had a very low income. He tried several times to receive a loan from banks for cultivation of agricultural land, which was left to him by his forefather and without any success. After an appraisal of his land he received a loan of 5,000 Lari. They allocated 3,500 Lari for land cultivation and potatoes seed, and 1,500 Lari for buying cows. Milk and milk products were used for family needs, and the excess for sale and repayment of the loan. That year the family had a 4-5 ton potato harvest. A part of the income was used to improve the family's life conditions, while the remaining part was used to repay the loan.

Name of Borrower:	Shota Mamageishvili
Location :	Villige Tkachiri, Imereti region, Georgia
Amount:	5,000 Gel
Activity:	Green House

The borrower and his family members were working as workers for hire in green houses, but their income was very low. They had very good experience in the green house business, so they decided to build their own one. MFI Crystal extended a US$3,000 loan to them. This was their first loan and was repaid in full and on time. The green house business worked well generating a steady income. Following this experience they received a second loan worth 5,000 Lari. Nowadays the borrower has two green houses and delivers his produce to the local market. The family income grew and they plan to expand their business.

Annex 6. Stakeholder Workshop Report and Results

Not applicable. A stakeholder workshop was not carried out.

Annex 7. Summary of Borrower's ICR and/or Comments on Draft ICR

Summary of the Borrower's ICR

SUMMARY

The overall objective of the project was to develop the productivity and the profitability of the private agriculture sector. This had to be achieved by facilitating the access of Georgia's mainly small and medium scale farmers to supply chain, improving the competitiveness of the supply chains and strengthening the capacity of selected agricultural and financial institutions to serve private-sector agricultural market activity. This had to increase incomers and employment and reduce poverty in rural areas.

Output indicators were:

Number of commodity chains evaluated and supported
Number of communities and producer groups supported
Number of on-farm technology demonstrations
Number of loans to agriculture producers, agro-processors
Number of computerized and moveable asset registration transactions conducted and the level of cost recovery achieved by the NAPR
The repayment performance of agricultural loans by banks and NBFIs
The membership of the national system of rural credit unions
Veterinary, see, sanitary, phyto-sanitary and food laws and regulations enacted and an improved food safety system

It can be stated that the most of outcome indicators were partially met.
In particular:
- 3 commodity chains were supported (citrus, hazelnut and wine);
- 71 farmers were supported;
- 9 on-farm technologies were conducted (5 in nuts growing and 4 in citrus growing);
- 11,111 agro-loans were issues (via banks and MFIs) with the total amount of 17,333.620 USD .
- CORS system was purchased for NARP and as of today NAPR is one of the successful financially sustainable agency in the country;

Project significantly supported National Agency for Food Safety by improving its infrastructure that was in very bad condition. Currently National Agency of Food Safety is public-legal agency that gives them right to keep their income and be more self-sustainable. Project also assisted laboratory of the MoA in purchasing of the modern technology equipment.
Credit union sub-direction was not implemented at all. The main reason for this was very bad experience from the previous Agriculture Development Project, and Ministry of Finance's firm position was not to continue assistance to the credit unions. Accordingly this direction was taken out from the credit agreement.
In overall the project was effective but it could be more efficient.

PERFORMANCE BORROWER

Project was implemented by the legal public entity – World Bank Financed Georgian Agriculture Development Projects Coordination Centre. The organization has more than 10 years of experience of implemented WB projects.

The overall management and coordination of the project were quite well arranged. The Centre had Highly Satisfactory in the financial management and clean audit opinion with no recommendation during last 2 years.

In February 2011, Government decided to merge project implementation units within the line ministries in order ministries to have more ownership on projects. Thus, from February 2, 2011 PCC was under the liquidation process that was completed on June 30, 2011. From that period Ministry of Agriculture through its International Organizations Projects Implementation Department is the main implementation agency.

PERFORMANCE WORLD BANK

The project was intensively monitored and supervised by the World Bank team. The Bank was quite flexible in meeting different priorities and requests of the government It is reflected in their understanding and flexibility during implementation. Their ongoing monitoring, technical assistance and patience greatly contributed to a positive outcome of the project. Nevertheless, the rules and regulations of the World Bank directly connected to implementation of the project were consequently enforced. They were at times helpful, at times seen as unduly strict and cumbersome, especially as borrower was also obliged to follow own rules. As the project in the practice was heavily depending on outsourcing of both goods and services, requirements and there were sometimes reason of delays in implementation.

Proposed arrangements for future cooperation

Ministry of Agriculture has about 15 years of experience of working with the World Bank. RDP was fifth project in the sector and during this period quite close and good cooperation was established. It would be better if the design of the future project is simpler from the implementation point of view and not having implementation arrangements with other agency (in RDP case, the project also was supporting to the NAPR that was under Ministry of Justice).

საქართველო
GEORGIA

სოფლის მეურნეობის
სამინისტრო
MINISTRY OF
AGRICULTURE
№ 01-05-14/2574
„13" 08 2012

To: Mr. Asad Alam
World Bank Regional Director
for the South Caucasus

Subject: Draft Implementation Completion Report, Rural Development Project

Dear Mr. Alam,

On behalf of the Ministry of Agriculture of Georgia I would like to present my sincere compliments to you and World Bank Regional Office for the South Caucasus and express our gratitude for the important assistance provided to Georgia.

We have reviewed the Rural Development Project (RDP) draft Implementation Completion Report (ICR) and would like to assure you that the Ministry of Agriculture's efforts always have been targeted at facilitation of the rural development and effective implementation of all the projects in this direction.

We fully recognize the difficulties and challenges that the implementation process was encountering. The lessons are learned and experience gained during RDP implementation process will be successfully applied to future agricultural project implementations and design.

Once gain, please accept assurance of my highest consideration.

Sincerely,

Malkhaz Akishbaia

Deputy Minister

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Annex 8. Comments of Co-financiers and Other Partners/Stakeholders

Summary of Comments from IFAD

Thank you for inviting IFAD to provide feedback to the ICR and commend it for being a candid report which will serve to better inform future development-oriented investments in Georgia. In particular, the risks associated with sustainability are shared concerns and IFAD looks forward to addressing them jointly through their on-going programme.

Specific comments on the report are as follows:

(i) The description of project implementation and performance and the analysis of project outputs is factual and IFAD has no comments.

(ii) The Report notes that "an end-project impact evaluation was not carried out, primarily due to the institutional confusion caused by the liquidation of the PCC/PIU". Without an end-project impact evaluation and considering M&E data and information under RDP, it is unlikely that the assessment of a number of key criteria, including overall effectiveness and impact indicators, can be effectively undertaken. We appreciate the difficulties you are experiencing in this regard, as the report is somewhat silent in this respect.

(iii) For indicator 7 of (b) Intermediate Outcome Indicator(s), it is noted "The laboratory was rehabilitated and equipped. Not all equipment was operational at the closing of IDA financing. Six regional NS centres were constructed. However, they were not yet operational at the time of the closing of IDA financing." It would be interesting to know whether they were operational at the time of the closing of IFAD financing.

(iv) The rationale for intervention should include IFAD.

(v) With respect to the revolving mechanism for the utilization of IDA and IFAD reflows (para. 61), IFAD made some recommendations and in principle, reached an agreement during the March, 2012 mission. It is not yet clear what the Government intends to do. However, please note that for IFAD the establishment of a revolving fund is a loan covenant.

(vi) The performance of IFAD should also be rated and it would be important to note/list the implementation support mission undertaken by IFAD.

Annex 9. List of Supporting Documents

World Bank documentation:

- Project Identification Document (December 12, 2004)
- Integrated Safeguards Datasheet (September 28, 2004)
- Environmental Assessment (July 6, 2004)
- Project Appraisal Document (April 20, 2005; Report No. 30746-GE)
- Restructuring Papers (June 17, 2009; March 23, 2011; April 27, 2011)
- Credit Agreement (May 28, 2005)
- Amendments to Credit Agreements (September 4, 2009; April 28, 2011; May 30, 2011
- Country Assistance Strategy for 2006-2009 (09/15/2005)
- Country Assistance Strategy (2006-2009) Progress Report (06/02/2008)
- Country Partnership Strategy for 2010-2013 (08/11/2009)
- Country Partnership Strategy (2010-2013) Progress Report (05/04/2011)
- Aide-memoires (2005-2011)
- Back-to-office reports and letters to Government (2005-2011)
- Implementation Status and Results Reports (2005-2011)
- Procurement Plans (2005-2011)
- Project Procurement Post Reviews (2005-2011)
- Project Financial Audits (2006-2011)

Project and Background papers:

- Rural Credit Guidelines for Participating Commercial Banks
- Rural Credit Guidelines for Non-Bank Financial Institutions
- Food Safety Action Plan and Training Program
- Draft Operational Manual for the ASCDFs
- Draft Operational Manual for the Competitive Grant Program
- Draft Wine Sector Strategy
- Draft Action Plan and Training Program for the National Service for Food Safety
- Implementation progress reports produced by the PCC/PIU

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