Report Number : ICRR12421

IEG ICR Review
Independent Evaluation Group

1. Project Data:		Date Posted :	07/05/2006	
PROJ ID :	P008415		Appraisal	Actual
Project Name :	Agricultural Development Project	Project Costs (US$M)	26.8	26.8
Country :	Georgia	Loan/Credit (US$M)	15.0	13.9
Sector(s):	Board: RDV - Agricultural marketing and trade (40%), Central government administration (25%), Agro-industry (18%), Banking (15%), General agriculture fishing and forestry sector (2%)	Cofinancing (US$M)	IFAD: 6.5	5.9
L/C Number :	C2941			
		Board Approval (FY)		97
Partners involved :	IFAD	Closing Date	04/30/2002	06/30/2005
Evaluator :	Panel Reviewer :	Division Manager :	Division :	
Keith Robert A. Oblitas	Ridley Nelson	Alain A. Barbu	IEGSG	

2. Project Objectives and Components

a. Objectives

The original project objectives were:

To increase agricultural productivity in Georgia by supporting the development of private sector farming and agro-processing. The specific goals were to:
1. Develop an agricultural credit system.
2. Facilitate increased liquidity in land markets.
3. Identify, through training, a series of studies and pilot operations, an agricultural development and investment program to address major constraints to increasing agricultural productivity .

In February 2002 the project Credit Agreement was amended. The first part of the general objective was reworded: *"To remove key constraints to increasing incomes in rural areas of Georgia ".* Second, the first specific goal (agricultural credit) was expressed as two goals: *(i) to increase the access of agribusiness firms to investment credit; and (ii) to increase the access of farmers to rural credit .* The original second and third goals remained substantively the same. Third, the Credit was reallocated to reduce the size of the credit union component and to provide more funds for the land markets component.

b. Components (or Key Conditions in the case of Adjustment Loans):

The original components are as below, and the same five continued after the Amendment, the main changes being in the allocation of Credit funds (refer above) and in some details in the two rural credit components.

A. Credit to enterprises : (Planned costs at appraisal US$12.0 million, Actual costs US$13.0 million). Providing loans at market rates through commercial banks to rural private enterprises, including technical assistance in preparing business plans, and establishment of the Georgia Investment Promotion Center .

B. Credit unions : (Planned costs US$8.4 million, Actual costs US$6.3 million). The development of a network of 120 rural credit unions (at Credit Amendment the number of credit unions was reduced to 55) to provide loans to farmers and small rural enterprises, including the related legal and regulatory framework; and establishing a Credit Union Development Center.

C. Land registration : (Planned costs US$5.6 million, Actual costs US$5.6 million). Supporting land registration through the establishment of an institutional framework and implementation capacity to register and issue land titles . This would be piloted in two locations under the project, aiming for subsequent expansion of land registration in other parts of the country.

D. Agricultural services : (Planned costs US$0.5 million, Actual costs US$0.3 million). Assisting the Government in formulating a development strategy and investment program for the agriculture sector through a series of studies to identify priority agricultural services and the roles of the private and public sectors . This included technical assistance, training and pilot field programs .
E. Project Coordination Unit : (Planned costs US$0.3 million, Actual costs US$1.6 million). Establishment of the PCU.

c. Comments on Project Cost, Financing, Borrower Contribution, and Dates

The project period was extended three times, to a 38 month extension overall. The Credit Agreement was amended in February 2002 (for details, refer to Section 2a). Credit disbursement was US$13.9 million or 92 percent of the US$15.0 million Credit.

3. Relevance of Objectives & Design :

The project's relevance was **Substantial**. The project's overall objective was consistent with the CAS objectives which emphasized sector reform programs and promoting private sector development and recognized that the agriculture sector would need to be one of Georgia's primary sources of economic growth. The project design was relevant to helping achieve higher agricultural productivity and incomes: access to finance in the rural sector and land reform were two key areas needed to unleash the rural sector's potential. There was also a need to formulate an agricultural investment program.

4. Achievement of Objectives (Efficacy) :

The project's overall Efficacy was **Substantial .** The Efficacy of each Development Objective is reviewed below :

Objective 1 (or 1 and 2 subsequent to the Credit Amendment) - to develop an agricultural credit system - and which, in the Amendment of the project, was split into two Objectives, one to increase access of agribusiness firms to investment credit, and the other to increase the access of farmers to rural credit - was **Substantially** achieved overall:
(a) The **Credit to Enterprises** component went well and exceeded the original targets . Eight commercial banks were involved and loans were made to 48 agribusinesses. This significantly increased the experience of Georgia banks in lending to agribusinesses. Nearly all of the loans were successful - out of 26 companies reviewed at the Mid-Term Review, 22 had financial rates of return above 25 percent. Post loan sales of the enterprises increased by an average of 64 percent and export sales increased by 81 percent. The achievement of the Credit to Enterprise Objective/Component was **Substantial .**
(b) The **Credit Unions** component, for providing loans to farmers, was less succesful . Supervision by the Government was weak in the first several years, and the CUs became subject to political interference, resulting in rapid expansion of the number of CUs (which increased to 164 CUs), compromising their performance and financial integrity, and resulting in the failure of over 100 CUs. In the Amendment, the program was halved from the original target of 120 CUs, and by project completion 58 CUs had been operationaly established. The ICR estimates that about 35 of these CUs will survive as independent entities . Hence, performance was mixed, but a model for a CU was established, experience was gained, and an underpinning credit union law was passed . Thus, while achievement is **Modest** at this stage, the base was set for a steady scaling up of the CU program .

Objective 2 (or 3 after the Amendment) - to facilitate increased liquidity in land markets - had a **High** achievement. First, the legal and institutional base for land registration was established with the passing of the Law on State Registry, and the creation of a National Agency for State Registry . Second, the two regional pilots were very successful, exceeding land registration targets and developing high institutional capacity for rapid land registration . Their success led to replication in nine more regions, thus covering all of the country .

Objective 3 (or 4 after the Amendment) - to identify through studies and training an agricultural investment program to address major constraints in increasing agricultural productivity - was **Substantially** achieved. Two studies led to the preparation of two Bank projects - the Irrigation and Drainage Community Development Project and the Agricultural Research, Extension and Training Project, both now under implementation . The third study audited the accounts of the Ministry of Agriculture and its agencies, and a fourth and final study provided training in accounting procedures. These were all positive activities with tangible outcomes . However, another and broader study might also have been undertaken to provide an overall strategic investment plan for the rural sector as a whole .

5. Efficiency :

No economic rate of return was calculated for the project at Appraisal or at ICR stages (an unfortunate lapse, refer to Section 11). However, most components had significant achievement while overall project costs were the same as estimated at appraisal. Also, the financial data and other indicators suggest that the project's three field components were economically viable, especially the Credit to Enterprises and Land Registration components which together make up 65 percent of actual project costs. There was high demand for funds under the Credit to Enterprises component and most enterprises achieved financial rates of return in excess of 25 percent. Concerning the Credit Unions, the ERR would likely be more marginal, but possibly above the opportunity cost of capital, since the ICR reports that out of the 58 CUs established, 21 are "performing strongly", and elsewhere assesses that some 35 of the CUs will survive as independent entities. The land registration component is likely to have had a high ERR, based on international experience with land registration projects. The very high demand for land registration that was experienced under the project is itself an indicator of expected high benefits. Taking the three field components together, an ERR above the OCC is probable. Efficiency can be expected to have been **Substantial,** although there would be considerably greater confidence had ERRs been calculated.

6. M&E Design, Implementation, & Utilization:

A useful management information system was developed, and quantitative data on the project's basic achievements (eg. sub-loans disbursed to micro-enterprises, credit union membership, number of land holdings registered) is available and was used to monitor project progress, including achievements against the monitorable indicators.
As concerns the quality of achievements, the PAD refers to field visits to review perfomance of credit unions but details are limited. The ICR has minimal reference to M&E.

7. Other (Safeguards, Fiduciary, Unintended Impacts--Positive & Negative):

No issues/events are reported in the ICR.

8. Ratings:	ICR	ICR Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev.:	Substantial	Substantial	The banking sector and its activity in rural areas has been strengthened, and the institutions to support further development of credit unions and land registration have been established.
Sustainability:	Likely	Likely	
Bank Performance:	Satisfactory	Satisfactory	A generally satisfactory project outcome was influenced by a good design and very proactive supervision in the last years of the project, countering weaker Bank support at the beginning of project implementation. The Bank could have been stronger in resisting political pressures to rapidly expand the number of CUs (Refer Section 9).
Borrower Perf.:	Satisfactory	Satisfactory	Notwithstanding some institutional weaknesses and four different Ministers of Agriculture, Government commitment continued and in most respects the project was successfully implemented.
Quality of ICR:		Satisfactory	

NOTES:
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

9. Lessons:

1. Harmonization of implementation modalities of different donors is important, particularly for a national program :
The land registration program began a national program. In doing so, the different approaches and implementation modalities of different donors and government departments became evident. Harmonizing the approaches will

become increasingly important as the program is scaled-up.

2. **Credit Unions need sustained support to evolve as viable institutions**: The project experience indicated that the success or failure of a CU was highly dependent on the quality of supervision and training it received under the project. The ICR finds that such support needs to be sustained, at least until a CU is firmly established, which is also consistent with IEG rural finance findings,

3. **Credit expansion, even when based on successful pilot experience, needs careful monitoring and ensuring that the expansion rate is within the supervision capacity of the implementer and is not driven by political pressures.** The project originally targeted the establishment of 120 Credit Unions. An initial 10 CUs operated very well, but subsequent strong political interference led to the rapid establishment in the next two years of 164 CUs without adequate financial advice and monitoring. About 100 of these CUs failed, and the ICR also comments on cases of fraudulent behaviour. The Bank could have been firmer in insisting on an expansion rate within the borrower's capacity.

4. **Credit line projects need to be flexibly designed and implemented**. The ICR comments that this has been the general experience in ECA, as well as for this particular project, which adapted to lessons learned during implementation. This was particularly important in the unpredictable and fast changing political and economic climate of Georgia.

10. Assessment Recommended? ○ Yes ● No

11. Comments on Quality of ICR:

Satisfactory overall, although marginally so, because of the absence of economic analysis, which is a major deficiency of the ICR (and the PAD). ERRs for all three field components could have been calculated using appropriate techniques. The ICR refers frequently to financial rates of return, the data for which could also have been adjusted for economic values. For the two credit components, ERRs could, for instance, have been based on a sample of Enterprises or Credit Unions using the financial data evidently available. Another option would have been to provide simple but realistic models for each field activity based on field observations and data, and base the ERRs on these models.

An area where additional data and discussion would have been interesting, and important for the Government's and Bank's future investment decisions, is the impact on incomes and welfare of the Land Registration and Credit Union components. Data is particularly limited for the Land Registration component.