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FINAL EVALUATION OF AgVANTAGE Project in GEORGIA

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GEORGIA

FINAL EVALUATION OF “SUPPORT ADDED VALUE
ENTERPRISES” - AGVANTAGE PROJECT

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DISCLAIMER:

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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Acronyms

ABLE	Agribusiness Leasing Enterprise
ADA	Agribusiness Development Assistance, Millennium Challenge Georgia
APAU	Agricultural Policy Analysis Unit of AgVANTAGE
ASE	Agricultural Services Enterprise
CIS	Commonwealth of Independent States
DAI	Development Alternatives, Inc.
EU	European Union
EurepGAP	Euro-Retailer Produce Working Group Good Agricultural Practice
FAO	Food and Agriculture Organization of the United Nations
FSU	Former Soviet Union
GDP	Gross Domestic Product
GIPA	Georgian Institute for Public Affairs
GMP	Good Manufacturing Practices
GoG	Government of Georgia
HACCP	Hazard Analysis Critical Control Points
HPAI	Highly Pathogenic Avian Influenza
ISO	International Organization for Standardization
LOP	Life of Project
MCA	Market Chain Approach
MCG	Millennium Challenge Georgia
MoA	Ministry of Agriculture
MIS	Market Information System
MTAEF	Medium-Term Action and Expenditure Framework
NGO	Non-Governmental Organization
PPF	Processing and Packing Facility
QC/QA	Quality Control / Quality Assurance
STTA	Short-term Technical Assistance
SWOT	Strengths, Weaknesses, Opportunities, Threats
TBE	Trade and Brokerage Enterprise
USAID	United States Agency for International Development

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EXECUTIVE SUMMARY

The goal of the AgVANTAGE Project (formerly SAVE: Support Added-Value Enterprises) was to raise Georgia's rate of economic growth and lower the country's trade deficit through expanded production, sale and exports of added-value agricultural products. The performance period of the project ran from April 24, 2002 through December 15, 2009. The total amount of funds expended was \$23,379,683.

The approved strategy for the project involved establishing two private sector firms (a trading and brokerage enterprise and a leasing enterprise) and a pilot packing and processing facility, and contracting with a private agricultural services enterprise. This structure completely collapsed after USAID reversed its approval of private firms to be operated by the project; the pilot facility was dropped in favor of working directly with private agribusinesses within market chains; and the service enterprise exited the market.

The project was reformulated to directly assist private-sector enterprises and associations, improve the financial environment of the agriculture/agribusiness system, and provide policy assistance and support to the Ministry of Agriculture. As implementation of the revised project proceeded, the country and the project suffered an adverse external shock when Russia embargoed the imports of Georgian fruits, vegetables, wine and spirits, and mineral water. Thus, in early 2006 the country and the project were faced with the challenge of finding new export markets.

- The key markets to emerge from AgVANTAGE efforts are Ukraine, Germany, Poland, Kazakhstan, Baltic States, and the United States. In all these countries, Georgia's exports must compete with other suppliers and meet strict safety and quality standards.
- Over 120 firms working within 20 market chains received project assistance. Sixty-three enterprises were given grants and complementary technical assistance. Others were assisted with safety/quality requirements and market development. Associations received assistance to establish plant nurseries and carry out demonstration projects. By the end of the project, the enterprises receiving assistance had generated cumulative total sales of \$37,700,000, created 1887 new jobs and purchased raw products from 37,000 farmers.
- AgVANTAGE intended to promote leasing as means of meeting credit needs for processors and handlers. The Georgian leasing industry was uninterested in developing an equipment-leasing program.

The project's policy assistance was directed toward the preparation of a national agricultural strategy; passage of a new food safety law; and operation of a market information system (MIS). This evaluation found that:

- A draft agricultural strategy was completed and presented to the Minister of Agriculture for adoption and implementation. The strategy was not accepted;
- A new food safety law, fully harmonized with European Union safety standards, was adopted and is being implemented; and
- The project developed and operated a MIS and attempted to arrange for it to be sustained after the project ended. No institutionalization of the MIS has yet taken place.

Future USAID assistance to the country's food and agriculture sector should take into account the following recommendations:

- Improve access of agribusiness firms to credit by buying down interest rates and providing for a grace period for loan amortization in place of grant assistance, letting enterprise selection become a business decision rather than a selection of "winners" by project managers.
- Provide start-up and development subsidies for firms offering technical services to agribusiness enterprises encountering safety and quality issues.
- Support the development of teaching, research and outreach programs in food technology at a Georgian university.
- Provide project support for building capacity for policy analysis in the Ministry of Agriculture, linked closely to decision-makers' need for analytical information on policy options.
- Help the Ministry of Agriculture to implement and sustain a Market Information and Outlook System.
- Support association development to provide a stronger voice for agriculture and agribusiness in national policy discourse.
- Encourage the GoG to organize and sustain an export promotion agency to carry out market development activities jointly with associations of export enterprises.
- Assist the GoG in an analysis of the need for public, institutional support to the agricultural/rural sector, including rural health and education; infrastructure; and higher education, research and outreach.
- Assist the GoG to address institutional, technology and credit needs to improve productivity of small farmers and integrate them in emerging supply chains organized by exporters and food retailers.

I. INTRODUCTION

This project was developed after a period of traumatic transition and severe decline in the Georgian economy. Prior to its declaration of independence in 1991, Georgia was an integral part of the planned USSR economy, with 85 percent of its external trade carried out with the other socialist republics. It was an established exporter of wine, fruit and tea, and a popular destination for Soviet tourists. In the period from independence through 1994 the country's gross domestic product (GDP) declined by more than two-thirds. Civil conflict exacerbated the social and economic difficulties; industrial production fell to 20 percent of the Soviet-era levels and agricultural production was severely disrupted.

The Government of Georgia (GoG) launched a 'shock-therapy' structural reform program in 1994 that included extensive enterprise privatization; legal, tax and regulatory reforms; price and trade liberalization; freeing the exchange rate; and strengthening the banking system. As a result of the reforms and subsiding civil conflict, the economy began to grow in 1995, reaching double-digit growth in 1996 and 1997. Inflation was brought down to single digits and fiscal and trade deficits were reduced.

Economic performance faltered during 1998-2000, affected by the Russian financial crisis, declines in remittances and a drought in agriculture. Some recovery in 2001, with GDP growth of 4.5 percent, could be attributed to better weather and expansion of the service sector. The recovery continued in 2002 and then accelerated to an average annual rate of GDP growth that approached double digits in the period 2003-2007.

Prior to independence, Georgian farming was organized in large-scale Kolkhozes (collective farms) and Sovkhozes (state farms), which together used 85 percent of the agricultural area. The remaining area allocation of small plots for workers on the farms was mostly for subsistence production. A land reform program that began in 1992 gave land to households: those households with workers on the disbanded state and collective farms received 1.25 hectares per household, while other households in the villages received 0.75 hectares. Urban households with residents who had previously worked on farms received 0.25 hectares. Other urban households were given garden plots of 0.15 hectares. In total, more than a million plots were distributed.

As a result of this sweeping land distribution, a dual agricultural structure emerged: a large number of small farmers produced mostly for subsistence, while larger farmers who owned and leased land supplied output to the markets. Following the initial distribution, additional land was made available for leasing and large farmers were permitted to purchase more land. As the AgVANTAGE project was being designed, Georgia had about 650,000 farm units, of which only some 16,000 had four or more hectares of land. These medium and large farms controlled 40 percent of the farmland (owned and leased). Overall, the reformed agricultural sector accounted for 20 percent of GDP and employed more than half of the country's labor force. Smallholders on the average had less than one hectare of land.

Within the Soviet Union, Georgia was a major producer and exporter of an array of foods. Its main exports were citrus and other fresh fruits; wine and other alcoholic beverages; tea and mineral water; and canned fruits and vegetables. Georgia's imports from the other socialist republics were mainly food grains, meat and meat products, dairy products, and feedstuffs. The value of exports was as much as twice the value of imports.

By the early 2000s, Georgia had suffered a substantial decline in production and exports, especially of fruits and tea. It had become a large net importer of food and feedstuffs, thereby contributing to the country's severe trade deficit.

II. THE DEVELOPMENT PROBLEM AND USAID'S RESPONSE

A. Problem Statement and Project Rationale

The country's economic priorities in the early 2000s were to accelerate and then sustain its growth rate, and reduce its trade deficit. Agriculture was critical to these goals because it was then contributing 18 percent of GDP and employing 56 percent of the labor force, which made the broad agricultural sector, encompassing both on-farm production and backward-linked input supply and forward-linked agribusinesses, essential for raising growth and reducing trade deficits.

The hypothesis guiding project formulation was that Georgia had potential to significantly increase its agricultural production. The existing consensus was that wine, nuts, mineral water, herbs, fresh fruits and vegetables, citrus, and canned foods had potential for expanded production and exports. The increased output, along with value-added in processing and marketing, would raise productivity and incomes in rural areas and thus reduce rural poverty. The rationale for the project design was that the reformed agricultural sector was unable to produce the quantity and quality of products necessary to establish its comparative advantage and gain profitable and sustained success in the evolving food markets of the Former Soviet Union (FSU) transition countries. Producers, especially small farmers, had little access to improved varieties, new production technology, modern inputs and credit. Marketing chains were poorly organized; inefficient processors and handlers were unable to offer attractive prices, technology transfer, quality control or production finance to farmers.

B. The Project Design

The structure chosen for the project, a design/implement approach, provided for an initial design phase (Phase I) and a subsequent Phase II for implementation of the strategy and activities identified in Phase I. That design phase required the contractor (ACDI-VOCA and subcontractors) to accomplish six tasks:

1. Clarify/verify constraints on agricultural development
2. Develop policy, regulatory and industry standards
3. Analyze and identify export markets for Georgian added-value products
4. Investigate potential of special areas and special products

5. Test the will of Government of Georgia (GoG) officials and private business owners to overcome various constraints and problems through the use of test/pilot cases
6. Implement training and a public information campaign to enhance understanding and support for agribusiness

The final requirement for Phase I was to prepare a strategy and overall work plan for USAID approval for Phase II. The performance period for Phase I was April 24, 2002 through April 30, 2003.

The conceptual framework proposed by the contractor to unify work in Phase I and the subsequent Phase II was the “market chain approach (MCA) to agricultural enterprise development,” put forward as an innovative, “promising approach to agricultural development.” In reality, recognition of marketing channels in which nonfarm enterprises transform primary products leaving the farm gate—in space (transportation), time (storage), form (processing) and ownership (trade)—for sale to final consumers is as old as the field of agricultural marketing. Problems in, and means for, vertical coordination in marketing channels had been a research, management and policy issue for decades. (The term “integration” is usually reserved for the case where an enterprise at one level in the marketing chain gains control through ownership of production at a lower or higher level.) An important development in recent years, the emergence in many countries of large-scale food retailers that organize national and international supply chains, and exercise market power over pricing, quantities and qualities of products flowing to their retail outlets, has not yet happened in Georgia.

C. Project Implementation

The Phase I tasks, and the many specified sub-tasks, were exceedingly demanding for what could be accomplished in a short, one-year performance period. They required the project staff to work diligently attempting to fulfill them. The main results of Phase I were summarized in the project’s Final Report under four objectives:

1. Assess products with export potential

The project produced a list of four product categories thought to have export potential: fresh fruits and vegetables, processed fruits and vegetables, specialty products, and products with import substitution potential. As is evident, few specific fresh or processed products would fail to fit in one these broad groupings.

2. Research export market opportunities

The AgVANTAGE Final Report indicates that this objective was accomplished by desktop Internet search and visits to potential export markets, without providing detailed results of this market research.

3. Assess specific constraints to agribusiness in Georgia

The Phase I report presented a lengthy list of constraints at the producer and processor levels and within the operation of existing market chains. Most of the identified constraints were unsurprising for a reader familiar with transition economies. The AgVANTAGE Final Report refers to a decision-making methodology to determine which constraints should be given priority in Phase II. However, it did not present the methodology nor identify the priority constraints.

4. Develop and institute pilot activities

Three pilot cases (wild mushrooms, new potatoes, apples) were carried out in Phase I. Results were not discussed, but the Final Report does contain the observation that weather and other acts of nature can adversely affect the outcomes of an activity even if all of the controllable constraints are mitigated.

Regrettably, Phase I did not require creation of a data base on the existing scope and organization of agribusiness in the country. Such baseline data would have been very helping in assessing the impacts of the project and for tracking the overall progress of the industry. Even today, little information is available about the organization and operation of agribusiness industries so that their overall value-added, sales, employment and exports can be quantified.

The ultimate output of Phase I, a strategy and overall work plan for Phase II, was approved by USAID. Rather surprisingly, the four entities identified in Phase II were to be controlled by the project. Two of these entities, a trade and brokerage enterprise (TBE) and an agricultural leasing enterprise (ABLE), were proposed as private firms to be owned and managed by the project. An entity for testing and demonstrating new processing and handling technology and methods was to be established and operated by the project as a pilot processing and packing facility (PPF). The fourth entity was to be an existing, private agricultural services enterprise (ASE), contracted to offer a wide range of fee-based services to improve the qualities of raw products flowing to handlers and processors. The project documentation offered no justification that connected this unusual, private entity-based project structure to Phase I results.

In addition to these four entities, nine functional areas were proposed for project activity: market promotion; market information system; regional trade and import substitution; training; policy reforms; business services unit; association development; staff development; and standards and certification.

This design for Phase II was approved for implementation by USAID. The performance period from August 15, 2003 through December 15, 2009 included three extensions.

Before the entity structure was created, USAID withdrew its approval for organizing private companies under project ownership. With similar effect, the project staff and USAID agreed to drop the project-operated pilot processing and packing facility in favor of working in the market chains chosen for assistance, using actual firms to demonstrate new technologies and methods. The private firm that was to be contracted as the agricultural services enterprise left the business. The USAID policy shift, the revised

approach to enterprise assistance and the failure of the services enterprise amounted to a total collapse of the original structural foundation of the project.

After a major reformulation of the project approach, four key objectives were specified to guide implementation in a new Phase II:

1. Increase the sales of added-value products in export markets
2. Increase the capacity of the agricultural sector to compete for export markets
3. Improve the financial environment of the agricultural sector
4. Provide policy and other advisory support to the Ministry of Agriculture

All four objectives supported USAID's Strategic Objective 1.31, "Accelerated Development and Growth of Private Enterprises to Create Jobs". Under this SO, objectives 1 and 2 supported IR 1.31.3, Increased Market-Driven Production and sales; objective 3 supported IR 1.31.2, Increased Access to Financial Services; and objective 4 supported IR 1.31.1, Improved Policy and Operating Environment.

The new strategy formulated for Phase II focused on expanding exports to Russia and other FSU countries. To quote the (then) SAVE proposal for Phase II:

SAVE's market research in Russia indicates there is broad range for increasing the level of exports of these (i.e., potatoes and apples) and other commodities, both fresh and processed: the market exists, if the Georgia marketing chains can become sufficiently competitive and if Georgian agribusiness entrepreneurs and policymakers can focus on providing what the post-Soviet consumers want, not what was shipped in the old days.

The strategy did go on to say that "SAVE's reach will extend beyond the historic fruit and vegetable producing areas (in Georgia) and the markets of the former Soviet Union." However, the only specific possibility mentioned was a London importer interested in dried wild mushrooms.

As project implementation unfolded, the country experienced an adverse external shock that dramatically changed the status and prospects of Georgia's agribusiness industries and exporters: a Russian embargo on food and agricultural imports from Georgia began in December 2005. It was first applied to horticultural products, but then extended in March 2006 to wine and spirits and in April 2006 to mineral water. These actions deprived the country of its major export market and left it with access to only the smaller markets in other FSU countries. The project, and the country, now faced the challenge of seeking new markets in countries with strong competition and strict safety/quality standards, creating both new challenges and reduced expectations about growth, trade volumes, and export earnings.

During project implementation, objectives 1 and 2 were primarily approached by working within product chains and promoting products with commercial market opportunities. Products receiving project assistance were: apples/stone fruits, fresh culinary herbs, bay

leaf, processed foods, dairy products, meat products, wine, animal feed, hazelnuts, citrus, small fruits and vegetables. The evidence that “market chains were developed around these products” is relatively weak; more evidence exists of specific interventions benefitting individual enterprises. These interventions are measured and assessed in the Findings section of this evaluation. Interviews with several start-up enterprises showed that their product distribution to market outlets was mostly handled through personal deliveries by employees. There is little discussion about organization of wholesale and retail food marketing in the project documentation, nor about how the anticipated future evolution of food merchandising would likely affect farmers, agribusiness processors and the operation of market chains.

In addition to direct assistance to enterprises, the project carried out related activities involving market promotion, association development, food quality and safety, and training. These activities were expected to enhance capacity in the agribusiness industry and improve the policy and regulatory environment.

Three other areas of project activity will be examined in the Findings section of the evaluation:

1. Agricultural Strategy/Policy Support

Although the original Phase II strategy strictly limited involvement in agricultural policy to issues immediately constraining investments and operations of agribusiness enterprises, a greatly expanded role in agricultural strategy formulation and policy analysis was added to the project in 2005. It committed AgVANTAGE to provide policy and other advisory support to the Ministry of Agriculture to promote an environment conducive to the growth and development of the food and agriculture sector.

2. Market Information System (MIS)

The project approach was to design and operate a system for gathering and disseminating timely information available to all participants— farmers, handlers, wholesalers, processors, exporters— operating in the market chains. The expectation was that this system would be institutionalized and so would continue to operate on a sustained basis after the project ended.

3. Food Safety and Quality

The need for developing a modern food safety and quality system was recognized in the early 2000s when the outdated and ineffective state of the system inherited from the Soviet era became evident. Several donors began to support the development of a new food law and a reorganized testing/certification system. The relevance of a new food safety system for the export orientation of the project was obvious. For this reason, AgVANTAGE was given the lead role in efforts to encourage the adoption and implementation of a new food safety law in Georgia.

III. PURPOSE OF THE EVALUATION AND APPROACH/METHODOLOGY UTILIZED

A. Purpose

The purpose of the evaluation was to analyze, and measure to the extent possible, the impacts of the project. The focus was on determining the project's success in achieving its goal of raising Georgia's economic growth rate through expanded production, sale and exports of value-added agricultural products. The evaluation assessed the interventions used to determine what worked, what didn't work, and lessons learned for future agribusiness support. In addition, the success and sustainability of the approach used to expand the capacity of the private sector to support continued growth of agribusiness was assessed.

Furthermore, the evaluation assessed the success of the project in improving the public sector's capacity to formulate and implement a strategy for the long-term development of agriculture and agribusiness in Georgia and a market information system to support private-sector production and marketing decisions. With respect to each of the components of the project, the evaluation made recommendations for future assistance for the sector.

B. Methodology/Approach

The evaluation focused primarily on the impacts of the project. The project's goal was to raise GDP growth and increase exports. Its impacts on economic growth and balance of payments were measured in the context of the economic structure of the Georgian economy so that the role and importance of agriculture and agribusiness can be appreciated. The second part of the goal, increased exports and import substitution, was related to the country's large international trade deficit. The evaluation also measured employment and income effects in light of the high levels of unemployment (and underemployment) and rural poverty in the country. Project reports and national accounts data were used for this part of the evaluation.

The main instrument for achieving the project goal was assistance, provided to individual agribusiness enterprises, producer associations and NGOs. The evaluation documented the types and magnitudes of assistance and assessed their impacts on production, sales, exports, employment and income of the enterprises; the capacity of the enterprises to sustain growth and profitability, the cost-effectiveness of the assistance provided, and lessons learned for the design of future assistance to agribusiness in the country. Interviews with a range of agribusiness enterprises, producer associations, and supporting private entities provided the empirical basis for this part of the evaluation.

The project also provided industry-level support to promote agribusiness growth. The evaluation investigated if viable private-sector firms and associations/NGOs have emerged to assist enterprise with technical food-quality problems, export marketing assistance and advocacy to improve the policy environment; the need for government

support was also to be considered. Interviews and document review provided information for this part of the evaluation.

There were several important components of the project that were omitted from the scope of work for the evaluation. The two most important of these omissions—the development of a market information system and the creation of a long-term strategy and capacity for agricultural policy analysis— were added to the evaluation. Information was obtained through interviews with key informants and documents review. Lessons learned and recommendations for future assistance were derived.

C. Structured Interviews

The largest set of structured interviews for the evaluation involved individual agribusiness enterprises. The firms were selected by considering size (small, medium, large) and degree of success (more successful, less successful). The evaluation of the other components of the project relied on interviews with key informants, project documents and secondary data.

D. Interview Plan

In order to systematically gather empirical information related to project impacts and effectiveness for the evaluation, interviews were conducted with four groups of respondents:

1. Agribusiness enterprises producing, selling and /or exporting fresh and processed agricultural products
2. Associations and service providers that support expanded production and exports
3. Agricultural strategy formulation/policy analysis participants
4. Market information providers

Interviews were conducted using a structured questionnaire for agribusiness enterprises (based on a purposive sample reflecting size and success of the enterprises) covering:

1. Products produced, sales and exports, 20003-2009
2. Assistance provided by the project (what and when)
3. Impacts of the assistance on sales, exports, employment and income
4. Current constraints on growth and profitability of the enterprise
5. What additional assistance is needed by this enterprise?
6. What assistance is currently available from private-sector service providers and government?
7. From the perspective of this enterprise, how successful was the project. Could it have been more successful? If so, how?

This part of the evaluation focused on lessons learned in the project that can inform and guide future assistance.

Interviews with associations and service providers: Specific questions depended on the role and activity of the association /service provider. In each case, the interview tried to determine the type of activity, how the entity came into existence, and the sustainability of the services offered. These interviews were used to assess the project's success in creating industry capacity to support agribusiness enterprise operations.

Interviews with participants in agricultural strategy/policy formulation and decision-making: Each of these interviews was unique, keyed to the interviewee's role. In each case, the interview focused on the support given by the project; the results; lessons learned; and implications for future assistance to create demand and build capacity for strategy formulation, policy analysis and decision-making.

Interviews regarding the market information system: Interviews with key informants served to assess the market information system developed by the project and the extent to which the system has been successfully institutionalized. Emphasis was given to the lack of sustainability of the system and to future private-public approaches that could help to meet the information needs of all participants in the broad agriculture/agribusiness sector.

IV. FINDINGS: OUTCOMES AND IMPACTS

A. Assistance to Enterprises and Associations

A major portion of the project's resources was allocated to assistance (financial, technical, marketing, management) given to private companies, associations and cooperatives to assist improvement of their operations and expansion of their sales. The use of grants, by which individual entities received funding for equipment, facilities renovations, planting materials, promotion/advertising and other expenditures, was considered to be a critical initial impetus for the entities, which would then be complemented by technical and management assistance to propel their growth in production and sales.

The project awarded 63 grants for a total investment of \$1,952,508. The grants varied in amount from \$3,000 to \$125,000. Each grantee was required to contribute to the total budget for the activity funded by the grant. These grantee contributions varied from nominal amounts to as much as half of the total budget.

The grants were justified on the basis that benefits would be generated for others through raw material purchases, employment and exports. In addition, AgVANTAGE argued that the selected activities would serve as models of improvement and growth that could be replicated by other enterprises. The grants were complemented by direct support to recipients for training, technical assistance and management consulting.

The project's final report provides a summary of the outcomes from the entity grants and assistance, cross-tabulated by type of assistance and product category (Table 1). This is a very comprehensive and useful presentation of the outcomes from this major part of the project. It clearly demonstrates a high level of performance in the final years of the

project. Interviews with a number of grant recipients confirmed the value of the assistance to the recipients and their positive opinion of the success of AgVANTAGE¹.

The project staff also undertook a cost/benefit type of analysis to quantify the impacts of its assistance to entities. This analysis was based on a careful accounting of the increases in sales and employment by product categories that were directly attributable to the project’s assistance. Local staff costs and project activities not commodity-specific were allocated in equal amount to each product grouping. The results of this impact measurement are given in Table 1.²

Table 2: AgVANTAGE Project Impacts

Product	Total Sales LOP, '000\$	Employment LOP	Interventions Cost, in thousands USD	Sales/Cost Ratio
Bay Leaf	\$1,555	188	\$1,335	1.2
Mandarins	\$8,832	132	\$2,695	3.3
Culinary Herbs	\$11,589	565	\$3,517	3.3
Apples	\$594	113	\$1,689	0.4
Potatoes	\$121	30	\$1,320	0.1
Vegetables	\$127	30	\$557	0.2
Hazelnuts	\$10,765	414	\$1,850	5.8
Processed Foods	\$154	85	\$1,223	0.1
Dairy	\$1,584	170	\$1,908	0.8
Small Fruit	\$293	66	\$1,327	0.2
Wine	\$1,940	7	\$1,606	1.2
Special Programs	\$190	87	\$4,487	0.0
Totals	\$37,744	1887	\$23,514	1.6

Source: AgVANTAGE Final Report

Keeping in mind the consequences of the Russian embargo and the 2008 war, the economic impacts shown in the table are reasonably impressive in absolute terms, if modest in relation to the country’s GDP (\$11.11 billion in 2009) and total labor force (1.9 million in 2007). The use of cumulative gross sales as value-added for the economy neglects imported inputs for production through the market chains. For example, an interview at an egg production enterprise revealed that 80 percent of feed requirements are imported. Many other inputs for raw material production through processing and handling along the market chains are also imported, all of which should be deducted from gross sales to better approximate domestic value added.

¹ See Annex 4, Table 1 “AgVANTAGE Project Outcomes”

² In Table 2, the costs of assistance, cumulative sales and employment include only what is attributable to project activities.

Cumulating sales over all enterprises receiving assistance conceals the degree of success or failure of the individual firms. Interviews conducted for the evaluation encountered different examples: successful expansions of a culinary herbs producer/shipper and an apple grower/shipper, low utilization of a new slaughter facility due to a delay in regulations, failure of a cheese plant to open due to a lack of market access. The different degrees of enterprise success should not come as a surprise, nor necessarily be taken as criticism of recipient selection: the mortality rate among start-ups and small firms is high in most economies. Given the impact of the external shocks on Georgian agribusiness, including the 2008 war that physically damaged plants and adversely affected investor confidence, the success of the project in realizing investments is very praiseworthy.

The project's final report does not show the proportions of the increases in gross sales that were exported. Discussion with former project staff confirmed, however, that the bulk of the sales went for export. Indeed, all the sales made a positive contribution to the country's negative agricultural trade balance. The cumulative sales total is equal to some 7 percent of the country's total agricultural exports in 2007-2008. Any domestic sales contributed to at least a slight reduction in agricultural imports, which totaled \$1.3 billion in the same two-year period, these imports being four times the value of exports.

The modest gains in sales and employment, and sales over costs, should not be misconstrued in evaluating the success of the project. Probably the most significant impact exhibited in Table 1 is its demonstration of growth and expansion in agribusiness industries faced with drastically altered market possibilities and a war emergency. The indication is that the initiated growth process will accelerate and spread, and that a potential has been created for increasing sales, exports and incomes in the agriculture/agribusiness system. The impacts shown in the table should be understood as early returns from investments in physical and human capital, both of which can continue to generate economic benefits in future years.

Interviews conducted for the evaluation confirmed that the quality and reliability of raw materials is a serious problem for handlers, processors and exporters. These problems are almost always the most severe when the raw products come from a large number of small producers. As a result, the processors often decide to produce the raw materials themselves, or contract with larger producers to assure the needed flows and qualities of raw products.

The original Phase II design included an agricultural leasing enterprise (ABLE). The revised design continued to identify financing as a critical need and had as an objective the promotion of leasing to help alleviate the shortage of credit for agribusiness enterprises. The project was unsuccessful in establishing leasing as a source of equipment financing. The leasing industry was uninterested in lending to agribusinesses and did not respond positively to the project's efforts.

The project documents mentioned frequently that banks were not willing to make loans to agribusiness firms and agricultural producers. That may have been largely true when the

project was initiated. Interviews for the evaluation elicited the opinion that credit was available but that it is expensive and short-term.

Beyond the impacts already discussed is the question of sustaining growth and expansion of agribusiness. Some project outcomes favor sustainability. One example is a private firm that has established itself in management consulting on food safety and quality issues, which will be able to assist firms to operate successfully in domestic and export markets. Some doubts remain, however, about the availability of technical knowledge and capabilities available to the industry. While the project paired local staff with expatriate consultants, it is not clear that viable commercial enterprises will emerge that can meet processors' need for technical assistance with safety and quality problems. The supply of local talent is especially pertinent since the project applied a cost-sharing approach for its technical assistance: firms were asked to pay a portion of the costs. This policy had two important benefits: firms were more anxious to obtain value from the consultants and the companies became more willing to pay for needed technical services.

B. Agricultural Strategy Formulation and Policy Analysis

In mid-2005, AgVANTAGE was given the role of providing policy assistance to the Ministry of Agriculture. The Minister agreed to the assistance, requesting that the policy work have a pragmatic private-sector perspective to the extent possible. The resultant Agricultural Policy Analysis Unit (APAU while physically located in the ministry building, seems to have been formally a part of the project rather than a part of the Ministry.

Ambitious objectives for the unit were set forth, including formulation of a national strategy for food and agriculture, capacity building for policy analysis, creating an appreciation for policy-related information, and providing the Minister with policy advice.

An early decision was made to focus APAU on the preparation of a national food and agriculture strategy and long-term plan, subsequently named "The Georgian National Food and Agriculture Strategy, 2006-2015." Time and resources were devoted to the plan, probably absorbing more than one million dollars of the project budget. Numerous individuals in and outside the Ministry of Agriculture were involved through working groups and other consultative efforts. However, the document that emerged was primarily the work of the senior policy advisor and manager of the APAU.

The expectation was that on completion the plan would be given to the Ministry as a draft, refined and revised for acceptance, and then implemented. Only the first of this three-part objective was accomplished: the completion of a several-hundred-paged draft document.

This lengthy document is a compendium of useful information about the sector. It is, however, difficult to see exactly how the document could have been adopted and used for policy decision-making. It begins in the voice of the GoG making an eloquent vision statement about how agriculture can benefit the country and society. In other sections it

becomes admonitory, prescriptive and directive about what the GoG needs to do for agricultural growth. It boldly claims the country has vast agricultural resources capable of a 5-fold increase in output. It makes a myriad of projections without basing any of them on actual trends and realistic prospects for the sector. It lists for each implementation year many policy and program actions needed to achieve 10 separate goals for the sector within the planning period. It lays out huge financial requirements and assigns financial and assistance roles to various donors. This more than explains why GoG was unwilling to simply adopt such an intimidating document for implementation. The planning model is excessively mechanical and reminiscent of five-year plans in the socialist system. It lacks analytical applications of applied economic research tools and assessment of policy instruments available to the government. The project's efforts towards agricultural strategy formulation and policy analysis produced an unsatisfactory end result: time and resources devoted to the effort produced no government-adopted strategy for the food and agriculture sector.

Finally, while the Final Report points out that assistance on some policy questions was given to the Minister, the Parliament, and other donors, there is no record of systematic efforts to build policy analysis capability in the ministry and link that analytical capability to the needs of decision-makers for relevant analysis through training and applied economic analysis of policy options and priorities.

C. Market Information System (MIS)

The project recognized the importance of information to help agricultural markets function effectively and fairly. In May 2006 it began to design and implement a MIS to make available reliable and timely information to economic agents along the market chains. This system was set up to provide information of prices at all levels for both domestic and export markets and met other information needs for decision-making by farmers and agribusiness enterprises.

As the project wound down, efforts to transfer the MIS to another entity to assure its continuity were initiated. The Ministry of Agriculture expressed a willingness to receive the system, employ its staff and provide a budget for operation. USAID rejected this option, apparently due to concern that the GoG commitment was only for a limited period of time. Had the offer been accepted, the system would have continued operating in at least some part of 2010 giving more time to arrange longer-term support in the Ministry. As an alternative, the project transferred funds to the Georgian Institute of Public Affairs (GIPA), a degree-granting NGO with a Rural Development Program. GIPA conducted an analysis of the current system, the need for sustaining it, and alternative approaches to continue it. That proposal views MIS as a revenue-generating system requiring substantial budget support to get it started. Information does have a value and larger commercial companies are often willing to pay for it. But the more information one firm has compared to its competitors, the more valuable the information is to that firm. Likewise, the more information agents on one side of a market have compared to agents on the other side, the greater their competitive advantage in market transactions.

In most countries, there is a large public role in market information. The public interest comes in making sure all market participants have the same information and in providing information to small, dispersed farmers who would otherwise be at a disadvantage in marketing their output. It is regrettable that USAID does not more fully appreciate the need for this public role and support the Ministry to become the MIS implementer. This need for a crucial public role is also lacking in the GIPA proposal, which if implemented would likely result in a MIS serving the needs of companies willing and able to pay for the information.

D. Food Safety

The project made important contributions to the Food Safety Law that Georgia has adopted and is in the process of implementing. The provisions of the law are fully harmonized with the food safety standards of the European Union. This law will be very helpful in overcoming any non-tariff barriers for exports to Europe and other potential markets and will greatly facilitate negotiations with the EU on a free trade agreement, which are expected to get underway in 2011. AgVANTAGE was instrumental in drafting the final version of the law and participated in public and governmental discussions of it.

E. Addendum to Project Outcomes

In addition to the project outcomes already discussed, two additional activities of the project deserve mention.

1. Avian Influenza Preparedness and Response

World attention was riveted by the advent of Avian Influenza in 2005-2006, when the disease spread in East and Southeast Asia, causing human deaths and the slaughter of millions of poultry in the affected countries. Infection of wild birds was confirmed in Georgia in 2006 but no spread to commercial or free-range poultry was detected. Nevertheless, public fears of an outbreak intensified after the disease was found in Turkey and Azerbaijan in early 2006. Domestic consumption of eggs and poultry meat fell drastically.

AgVANTAGE was given the role of designing and helping to implement a HPAI response program to minimize further damage to the industry by accurately informing the public of the risks, assisting the government to prepare for an outbreak, and restoring consumer confidence in Georgia's poultry products.

The program was successfully implemented. The main result was the enhancement of The GoG's newly-created Food Safety, Veterinary and Plant Protection Service capacity to establish surveillance strategies, implement biosecurity measures, and develop appropriate regulatory enforcement mechanisms.

2. Samtskhe-Javakheti Regional Assistance

AgVANTAGE was requested to develop a special program of assistance to agriculture and agribusiness in a region populated by an ethnic minority. The project analyzed the region and selected dairy and potato production for assistance during 2005-2007.

Concluding that the region has good potential for milk production, the project implemented an integrated program of assistance from feed production to the processing and marketing of dairy products. Six dairy farms were assisted to produce milk using good hygiene standards. Equipment was provided to producers along with technical advice and training.

The region is one of the main potato-producing areas in the country, accounting for about half of total national production. The project imported new varieties and assisted in organizing efficient production of seed potatoes. Grower cooperatives were formed and supported. Two storage facilities were renovated in order to lengthen the marketing season and increase returns to producers.

V. CONCLUSIONS AND RECOMMENDATIONS

A. Direct Assistance to Private Enterprises and Associations

Conclusions

The use of grants deserves additional appraisal. While those grants used only about 10 percent of the LOP expenditures, this project joined other U.S. assistance in distributing cash directly to private enterprises (e.g., Agribusiness Development Assistance under the Millennium Challenge Georgia grant). The appeal of grants to recipients is obvious: they create real assets under the control of the grantee, thereby improving the enterprise's balance sheet. The impact on the enterprise asset position is immediate in the case of cash grants.³ Such assets can improve an enterprise's credit worthiness and qualify the grantee for credit from commercial lenders. The grants impose no repayment obligation and socialize much of the investment risk.

The main defense offered for the grants is that they generate benefits for others such as raw material suppliers and new employees. But these are the beneficiaries of any business expansion, and should be attributable to the expansion rather than to the grant. Expansion financed in any way would create the same beneficiaries. That leads to questions about providing assistance in ways that could be available to a larger group and not require the same degree of selectivity in "choosing winners" among potential recipients. An example might be a program to facilitate commercial lending to agribusiness firms by buying down interest rates and creating a grace period for the amortization schedule, open to all firms seeking commercial credit. This means that project staff would no longer play the role of "picking winners," leaving the choice to market forces and the financial system.

³ For in-kind grants of capital equipment, legal ownership was not transferred to the recipient until the end of the project period.

As for social benefits over and above the private benefits of the recipients, these could result from the demonstration effect to encourage the spread of new methods and technology to other enterprises. There is, however, an inherent conflict of interest between the competitive advantage gained by a grant recipient and the spread of the innovations involved to other firms. It is not in the interests of a private firm to freely provide information to improve the operations of its competitors.

The strongest case for grants (and other assistance) would come from explicit requirements for the recipient to contribute to larger public policy interests. A good example would be to require handlers and processors to procure raw materials from small farmers, those with 1-2 hectares or less. Interviews with enterprises confirmed that this is happening to some extent (e.g.: culinary herb producers and villagers with one to three cows). The project's final report counts the farmer-producers of raw materials as beneficiaries, for a total of 37,000. But the report does not indicate how many of those beneficiaries were small farmers and how many were medium/large-sized farmers with four or more hectares of land.

An example that illustrates the need to tie grants to a broader objective is an enterprise to the project helped to improve its operations as a handler and shipper of culinary herbs purchased from small farmers. The success of the enterprise in improving its packaging and expanding its market also benefited a large number of operators of small greenhouses supplying the shipping firm. This enterprise then decided to expand by constructing commercial-sized greenhouses to produce tomatoes, cucumbers and other vegetables, which it markets in competition with small producers. AgVANTAGE did not provide a grant for this expansion but did assist the enterprise in obtaining a large grant from the ADA activity of MCA. There was little justification for the second grant: this was a successful enterprise capable of attracting investment financing from the commercial credit market. Its capital-intensive technology has little relevance for farmers with small greenhouses.

Recommendations

The project was very successful in its primary objective to assist private firms and associations to initiate, improve and expand operations. That success is clearly documented by the increases in sales of the enterprise recipients and the successful operations of nurseries by associations.

The case for continuing to provide free assets and low-cost services to private-sector firms is not strong. A shift to support open to all potential recipients is in order and recommended. Examples could include a program to buy down interest rates and provide a grace period for loan amortization.

While a legacy private firm for management consulting on food safety and quality issues was created, there seems to be a lack of firms offering technical services to help enterprises solve safety and quality issues. In future projects, subsidizing the start-up and initial operations of firms of this type is recommended. The project could also have done more to increase the number and improve the qualifications of local consultants by

adding them as interns to the teams assisting enterprises, thereby contributing to the expertise of a larger pool of local experts and improving the project's overall sustainability.

Another important dimension in sustainability is the need to enhance the scientific knowledge base to permit enterprises to continue to upgrade their processes and products. Public universities and research institutes are an important part of this research and outreach capability in many countries. Georgia's wine industry has benefitted from a faculty that was one of the first in the world to specialize in research and education for grape and wine production. In turn, firms in the industry have made financial contributions to the faculty. Georgia does not currently have adequate academic, research and outreach capabilities in food technology to provide needed technical support to the industry, especially to start-up and small enterprises. Creating such training and research capabilities should be considered as an important future element for sustaining improvement and growth of agribusiness.

The more intractable problem of agricultural lending is credit for small farmers. Many countries have struggled with organizing a credit system that can service a large volume of small loans on a low-cost and sustainable basis. Georgia has some micro finance institutions (MFIs) that are successfully lending to small farmers. However, their entire portfolio is not large, their impact on the small farmer population is limited, and a system for rural savings mobilization is lacking. This is an issue that should be given high priority for action by the GoG and donors.

The evaluation also recommends training to help banks understand both the potential and risks of agribusiness lending may be the best approach to increase credit availability to the industry.

Encouraging needed vertical coordination in ways that permit small farmers to improve quality and receive better prices can result in higher incomes and less poverty in Georgia's villages. This is unlikely to happen unless it is encouraged and supported by public policies and institutions to integrate small farmers into the market chains.

Associations with the standing to advocate for the interest of their members in public and political forums have not yet gained much traction. Assistance aimed at strengthening associations to give them more voice in political discourse is recommended.

B. Agricultural Strategy Formulation and Policy Analysis

1. Export Promotion

Conclusions

AgVANTAGE provided important assistance to help enterprises find and enter new export markets. It sponsored industry groups' attendance at trade fairs in potential markets and brought importer groups to Georgia. A number of trade openings were directly attributable to these market promotion activities and the Ministry of Agriculture participated in several of them.

Now that AgVANTAGE support has ended, so have the trade promotion activities. Neither the project nor the Ministry of Agriculture or other ministries created a sustained export promotion program. The GoG has no active export promotion program, no system for utilizing commercial *attachés* in Georgian embassies. Interviews revealed an interest and willingness on the part of enterprises to join associations that would engage in joint public-private trade promotion programs.

Recommendations

Steps should be taken to encourage formation of industry-level associations to participate in trade promotions activities. The GoG should move quickly to establish a trade promotion agency with adequate funding to continue on a sustained basis the market development activities that the project began. A joint public-private approach to funding these trade promotion activities should be instituted.

2. Agricultural Policy Analysis

Conclusions

The project did not succeed in producing a long-term agricultural sector strategy acceptable to the GoG, nor a functioning agricultural policy analysis unit linked to decision-makers.

Recommendation

In retrospect, more could have been accomplished if a short strategy, based on a vision for the sector, had been formulated and a few priorities areas, grounded in available resources and policy instruments, had been chosen. Moreover, if the APAU had been institutionalized within the Ministry with close ties forged to key policy decision-makers, it could have contributed more to the issues with which policy decision-makers are concerned.

Looking to the future of USAID assistance, an important first step would be to encourage the creation of a policy analysis unit within the ministry itself and then help to train and upgrade its staff. The goal would be for the staff to work on policy problems and provide advice to help policy decision-makers make better policy choices. Additionally, the staff would initiate data collection and applied research to better understand the factors that will determine the long-term performance of the sector.

A new approach is recommended for this important area, with a focus on capacity-building to generate analytical information directly useful to key policy decision-makers. Two examples of issues which deserve early attention are:

a) Idle arable land

The country has about 800,000 hectares of land capable of production but at least one-third of that total is unused for production. Additional land is in production but being used for extensive animal grazing rather than more productive purposes. National production has not yet regained its pre-independence level, and the last

several years have brought decreases rather than increases. There is urgent need to collect information in selected districts of the country to assess how much land is unused or used at low productivity levels. Then, policy instruments to encourage intensive land utilization should be studied and options given to policy makers. For example, a land tax based on the value of land in its most productive use could encourage owners to use their land or to sell it to others to use. This and other policy instruments should be analyzed and options provided to decision-makers.

b) Border measures to provide more price stability in domestic markets

Ninety percent of wheat consumed domestically is imported, as are a large proportion of animal feedstuffs. While the country has a strong comparative advantage in fruits, vegetable and tree products that fact does not establish that it is uneconomic to produce grain and oilseeds in the country, especially if that production is on now idle or underutilized land. . Use could be made of variable import duties to keep domestic prices at levels consistent with long-run international market levels. This policy approach would protect domestic production from subsidized exports and short-term declines in prices due to supply surges and economic distress in trading partner countries by providing price incentives appropriate to the true economic costs of imports.

3. Public Institutional Support for the Private Sector

Recommendation

That a country chooses to rely mainly on private economic activity and market forces does not mean that the government has no responsibility to provide the policy and regulatory framework within which the private activities take place. In addition, infrastructure and public goods are an important government responsibility. For agriculture and rural areas, key areas requiring public support are: rural education and health: rural infrastructure: and higher education, research and outreach. Needs in each of these areas should be inventoried and plans developed for improving them with public and donor support.

C. Market Information System

Conclusions

Interviews conducted for the evaluation showed a strong, unmet need for information by Georgia's small farmers, not only for price information in domestic and export markets but also for market outlook information that could help them make informed production decisions.

The MIS implemented by the project is no longer operating. The proposal that was developed to institutionalize it was based on revenue generation by users to maintain the service. Such a system fails to recognize the needs of small producers usually served by a

publicly-supported system. Moreover, the need for outlook information, so important for orderly marketing by many small producers, has apparently received little attention in the country. Perhaps the information need might be more accurately termed Market Information and Outlook System (MIOS).

Recommendation

Remedying the industry's lack of even the most basic information should be high on the agenda for future attention by government agencies in order to create a descriptive information base on the broad agriculture/food system, including input supply; on-farm production; and marketing, processing and trade.

USAID should encourage the Ministry of Agriculture to restart and sustain the MIS developed by the project. The system should be expanded to provide outlook information that would help small farmers decide what and how much to produce for market.

D. Food Safety

Recommendation

The country is on the cusp of full implementation of a new food safety law regarded as adequate by experts. However, the laboratory system for certifying products under that law is not well organized. Problems exist with the status of state-owned, state-related and private laboratories. This system needs to be rationalized so that laboratories under different ownership operate on a level playing field.

Supporting Long-Term Development of Small Farmers in Georgia: Rationale and Recommendations

At present, more than 50 percent of the labor force produces 10-12 percent of overall GDP on farms. These numbers immediately establish the magnitude of the dire productivity and income problems in the villages of the country: output per worker in agriculture is only about 10 percent of output per worker in the rest of the economy, which translates to low average incomes for agricultural households and high poverty rates in the country's villages.

Another important structural feature of the food system is that much of the food processing takes place in rural households. In the Soviet system, most processing was done in factories integrated with the large state and collective farms. When those farms were dissolved, the factories collapsed and were abandoned. Households took over most food processing and marketing. Available data show that two-thirds of the production of a rural household goes for the subsistence consumption of that household and related households in towns and cities.

For Georgia to succeed in its goals for economic growth and higher per capita income, a structural transformation will necessarily take place: small farms will need to become larger and more productive and many rural residents will need to migrate from agriculture to other economic activity. This transformation will further reduce the percentage share of agriculture in GDP—but not the quantity of farm output—and will

raise output per worker and income per household. Additional agribusiness enterprises in rural areas will create more off-farm jobs and raise household incomes.

How to accelerate the structural transformation is the basic challenge facing the sector. A focus on raising worker productivity through the use of labor-saving biochemical technology to increase output value per hectare is an important part of answering this challenge. Small machinery can help by improving timeliness of production operations, making workers more productive and relieving drudgery, but there is little justification for larger machinery that simply replaces labor.

Further assistance to the food and agricultural system should be designed to address the enormous inherent technology, credit, organizational and social issues involved in making small farmers more productive. Agribusiness entrepreneurs should continue to be free to assemble larger production units and/or contract with larger farmers to supply raw materials to their operations. But government assistance and policies to integrate small farmers into the value chains that will be increasingly organized by large-scale exporters and food retailers is essential if the country is to close a growing gap between prospering larger farmers and poor small farmers with low productivity.

Annex 1: Evaluation Scope of Work

AgVANTAGE

Contract No. 114-C-00-02-00086-00 was awarded in April 2002 to ACDUVOCA to fund the "Support Added Value Enterprises" - AgVANTAGE project. The contract was completed in December 2009. Initial funding was allocated for Phase I, which lasted 15 months and focused on research, testing and planning activities to define assistance parameters for Phase II. Phase II was planned as a forty-two month effort to implement the activities identified in Phase I to remove constraints to the growth and development of the agricultural sector, added-value processing and exports. Based on the recommendations and interventions identified in Phase I, the AgVANTAGE activity was extended through December 23, 2007. On May 30, 2006 an Avian Influenza component was incorporated into AgVANTAGE's scope of work. Between December 2007 and August 2009 the project was extended twice, initially to continue support to Georgian export oriented agribusinesses heavily impacted by the Russian ban of 2006, and assist the Ministry of Agriculture in implementation of the "100 New Agricultural Enterprise" initiative; and later was extended further at no cost with the objective of helping to rebuild Georgia's agricultural infrastructure, value chains, off-farm employment, and linkages to buyers and investors following the August conflict with Russia. The goal of this program was to raise the rate of economic growth in Georgia through expanded production and sales of added-value agricultural products. To accomplish this objective, AgVANTAGE worked to expand the production and sale of agricultural products by identifying export markets for Georgian value - added products, and then worked with businesses to increase their ability to deliver quality goods and capture market opportunities. The project also provided advisory assistance to the Ministry of Agriculture to build its analytic and policy development capacity. During the last four years, the activity has mainly focused on the development of market chains within four broad product categories: fresh fruits and vegetables (apples, mandarins, fresh herbs and early potatoes), processed fruit, vegetables, (jams, sauces and juices), wine, specialty products (bay leaves and hazelnuts), and import substitution (dairy, meat).

In pursuit of these goals the AgVANTAGE project reports it supported 20 market chains; established and rehabilitated 32 consolidation centers /pack-houses/processing facilities; propagated 31 demonstration /production sites, orchards and nurseries; introduced 166 crop varieties and 17 new production technologies; helped create 10 associations with over 130 members; and conducted 145 trainings, trade shows and study tours for 2, 880 individuals. Through project interventions, the project reports that new export markets were opened and developed in the NIS, Europe, UK and U.S; a comprehensive Market Information Service (MIS) was set up; and 7 local dairy and hazelnut companies received help in introducing and implementing food safety (HACCP) and quality management (ISO 9001: 2000 and 2200:2005) systems. During the life of the project, USAID/AgVANTAGE reports that it facilitated production, processing, and sales of value-added agricultural products, generating over \$37 million and creating 1,880 permanent jobs; provided 63 grants to agricultural enterprises; supported 120 firms; and directly benefited 31,100 individuals.

Purpose of the Evaluation

AgVANTAGE

The contractor shall measure and analyze the impact of the AgVANTAGE project; this includes an "effectiveness assessment" that looks at how well the program catalyzed economic growth in Georgia through expanded production and sales of value -added agricultural products. Additionally, USAID would like to measure the sustainability of the impact on project beneficiaries and of the methodologies used.

The contractor shall review the project's implementation methodology and to the degree possible verify the results achieved in order to:

- Summarize the program's impact on targeted value chains, sales and job creation;
- Identify lessons learned and what factors contributed most to successfully promoting targeted value chains;
- Examine the project's model for increasing exports and expanding production. Specifically assess the strengths and weaknesses of-
- Direct firm-level assistance;
 - Work with the Georgian Government;
 - Use and development of business associations and local NGO's as partners and counterparts;
- Provide recommendations to USAID on how best to improve impact, sustainability, and cost-effectiveness of similar projects with the aim of improving future project approaches and work plans in the sector.

General questions to be addressed

The contractor shall review and summarize the implementation and results achieved by the projects to answer the following as well as additional questions developed by an evaluation team:

For AgVANTAGE

- Are the processes, innovations, institutions, partnerships, linkages introduced sustainable?
- Are business ventures supported by AgVANTAGE still operating and sustainable in the long run?
- Have they expanded/grown since receiving project assistance?
- Has assistance resulted in increased sales and employment?
- What was the economic impact of the project on entrepreneurs (e.g. has production capacity, sales, profits and/or incomes increased meaningfully?)
- What worked, what did not work and why?
- Are the export promotions and import substitution activities performed by the project an effective means to increase sales of selected value chains?
- Are there more appropriate models for expanding exports and domestic sales? Are these more cost-effective models?
- Is the project's model appropriate for strengthening MSM enterprises?
- What recommendations can be made to USAID/Georgia on how best to improve the impact, sustainability, and cost-effectiveness of its Agriculture activities?
- What recommendations can be made to USAID on how best to design future activities in the agriculture export or import substitution sectors?
- How effective are Georgian business associations and NGO's as partners?

Performance Period

The contractor is required to conduct this evaluation over a period of approximately six weeks. Up to five working days preparation (document reviews). Twenty working days working throughout the country including interviews, field visits, preparation of draft report and debriefing for the USAID/EG and USAID/EE offices. Initial draft assessment reports shall be presented no later than three days prior to departure from Georgia for Mission review and comment. Five working days follow-up for consideration of USAID comments (to be provided within ten working days after submission of the draft) A six-day workweek is authorized while in Georgia.

Methodology

In consultation with USAID, the Contractor shall perform the following tasks:

1. Draft Work Plans for the Assessment of the three projects and present for review to AOTR/COTRs of the activities on the second day following arrival in-country. USAID will provide an initial list of in-country contacts prior to team arrival as well as assist in logistics of appointing meetings;
2. Develop a questionnaire to be addressed during the evaluation that should be completed by the close of the second working day in country;
3. Review all relevant information and additional materials that may be necessary to support drafting of the evaluation report;
4. Conduct interviews with the appropriate staff of USAID/Georgia, sub-grantees/end-users, Georgian government, business associations, other private sector and certification entities;
5. Perform field trips as needed (to Ajara, Kakheti, Shida Kartli, Imereti, Samegrelo, Samtskhe-Javakheti regions) to interview project beneficiaries, business associations, and local government representatives;
6. Present a draft outline to USAID by the 12th calendar day in country and draft sections by the 18th calendar day. The final draft report will include an Executive Summary.
7. Conduct debriefing for USAID/EG Office on the AgVANTAGE and SME Support Projects before departing the country.
8. Prepare three written final reports, incorporating comments from the debriefing as well as written comments from USAID, and submit to USAID.
9. Final evaluation reports shall include an executive summary, table of contents, body, appendices, and shall not exceed 40 pages, excluding the appendices.

Supervision and Technical Guidance

The evaluation team should work in close consultation with: USAID/EG team including: Office Director Douglas Balko, AgVANTAGE Project Manager/COTR - David Tsiklauri, SME Support Project Manager/AOTR – Nino Kumsishvili, and other EG office local staff as necessary. In addition, as needed the consultant should work with ACDINOCA and IESC personnel formerly employed by these projects locally and in their headquarters. All evaluations should include a significant participation of grantees, end-users, and stakeholders.

Logistic Support

The Contractor will be provided with limited logistical support by USAID. The Mission will provide assistance to set up and manage the consultant's meetings schedule in Georgia. The Mission will assist in arranging for local transportation and for making travel arrangements within Georgia as required, though all payment /funds outlay for these services shall be made by the Contractor. USAID staff may accompany the assessment team on some meetings in Tbilisi and in the region. After reviewing the schedule of the meetings, the USAID/EE team will make a decision on which meetings to attend and inform the contractor in advance.

The Program Documents for Review

1. SOW for the Program
2. The Program final reports
3. The Program quarterly reports
4. The Program work plans
5. Public opinion surveys and pools
6. Studies/assessments produced under the Program
7. The other program documents which will be provided by the EG and EE offices in Tbilisi

Annex 2: List of Interviewees

Person Interviewed	Position
David Tsiklauri	USAID Cognizant Technical Officer
Nikoloz Grdzelidze	Former Chief of Party, AgVANTAGE
Emzar Khitarishvili	IE Nino Beridze
Gia Chonishvili	Finagro, Gori
Nengiz Nanetashvili	Gori Fruit Growers Association
Tristan Nikoladze	Geolacte Dairy Plant
Zurab Janelidze	Director, Herbia Ltd.
Avtandil Sokhadze	Aromaco Ltd.
Davit Javakhadze	Vegetable Producer, Kutaisi
Levan Davitashvili	Schuchmann Wines Georgia Ltd.
Davit Abesadze	Fruit and Nursery Producer
Patrick Norrell	Director, CNFA-Georgia
Marika Kasradze	Farmer-to-Farmer Program
Alexander Tsintsadze	Deputy Minister, Ministry of Agriculture
Nedar Kereselidze	Head, International Relations, Ministry of Agriculture
Konstantine Kobakhidze	Head, Agricultural Development, Ministry of Agriculture
Sophie Kemkhadze	Assistant Resident Representative, United Nations Development Program
Zviad Bobokashvili	Institute of Horticulture, Viticulture and Oenology
Levan Kometiani	AgroNova Ltd.
Keti Natriashvili	Georgian Institute of Public Affairs
Eldar Mildiani	Chairman, Mildiani Group
Raul Babunashvili	President, Georgian Farmers' Union
Saganelidze Giorgi	General Director, Savaneti
Daata Chambuidze	Founder, El Plus Support
Ekaterine Kimeridze	Director, GDCI
Tamor Labartkava	Project Manager, GDCI
Levan Kalandaze	Director, Multitest
Tamaz Nipakishvili	Director, Blueberry Growers Association
Murad Marsagishvili	AgroInvest Cheese Plant

Annex 3: References

AgVANTAGE Final Report, November 15, 2009.

The Georgian National Food and Agriculture Strategy, 2006-2015, Third Draft, September 2006.

Statement of Work, Support Added-Value Enterprises in Agriculture Activity, Phase II.

Support Added-Value Enterprises (SAVE) Activity, Phase II, Annual Work Plan, October 2008-September 2009.

Agriculture-Led Export Businesses Project, Final Evaluation, USAID/Egypt, November 2004.

ANNEX 4: Table 1: AgVANTAGE Project Outcomes

Product	Packing Houses	Cold Storage	Processing Plants	Nurseries	New Technology	Demonstration Plots	Green Houses	Storage Units	Rehabilitated Farms	HACCP/ISO
Bay Leaf	3		1			2				
Mandarins	2				1	1				
Culinary Herbs	4	3			5	3	10	1		
Apples	2	2		2	7	4				
Potatoes					2	2		2		
Vegetables	3				2	4	1			
Hazelnuts										2
Small Fruits				2		7				
Processed Products			5		4					2
Dairy		4	4		3				6	2
Animal Feed			1		3					
Meat			1							1
Total	14	9	12	4	27	23	11	3	6	7

Source: AgVANTAGE Final Report