

QUARTERLY REPORT

Fourth Quarter FY 2001 (Yr. 4)

SEED ENTERPRISE ENHANCEMENT AND DEVELOPMENT (SEED) PROJECT (USAID - ACDI/VOCA Cooperative Agreement No. NIS-A-00-97-00046-00)

Project Duration: October 1, 1997 - September 30, 2001
Reporting Period: July 1 – September 30, 2001
Project Value: \$4,815,000 USAID
Geographic Area: Nationwide

Project Goal: To create, test and institutionalize a functioning system which will permit Georgia to become self reliant in the production of high yielding seeds of four basic food and feed crops; namely, potatoes, wheat, maize, and sunflowers.

I. Executive Summary

This is the fourth and final quarterly report under the SEED Project extension as it pertains to the continued support to Horizon Ltd. In that regard it focuses on the technical component of the seed production and marketing activities. During the reporting period those activities were related to harvesting, conditioning, promoting and selling of seeds under “Horizon” brand. However, during the fourth quarter additional Credit TA funds were awarded under an amendment to the SEED project to carry-out administrative oversight of the credit component until March 30, 2003. Therefore future quarterly reports will focus primarily on the credit activities of the SEED project.

The Technical Activities have been reported by Beka Tagauri “as submitted” to the A/V Tbilisi Field Office. The credit information and financial analysis for Horizon, Ltd. found at the end of the report has been prepared by William R. "Rusty" Schultz, country representative and rural finance specialist.

Table #1 below summarizes the impact of Horizon Ltd. in the 2000 – 2001 growing season. The economic impact is calculated on the basis of the value of the estimated yield increase to farmers due to planting Horizon Quality Seeds, as opposed to using regular seeds currently available on the market in Georgia.

Table #1. SEED Project (Horizon) Impact Assessment in 2000 – 2001

Description	Maize		Wheat		Potato	Sunflower	Total
	Enguri	Krugi	Bezostaja	Copper			
Seed Produced (Mt)	25	20	38	144	100	15.5	343
Planting rate (Kg/Ha)	18	20	250	180	3,500	6	
Area to be planted (Ha)	1,389	1,000	152	800	29	2,583	5,953
Estimated Yield Increase (Mt/Ha)	3.0	1.5	1.0	1.5	5.0	0.7	12.70
Estimated Total Yield Increase (Mt)	4,167	1,500	152	1,200	143	1,808	8,970

Est. Added Value (GEL/Ha)	750	375	300	450	2,000	280	4,155
Est. Total Added Value (GEL)	1,041,667	375,000	45,600	360,000	57,143	723,333	2,602,743
Est. Total Added Value (USD)	\$500,801	\$180,288	\$21,923	\$173,077	\$27,473	\$347,756	\$1,251,319

II. Seed Production Technical Activities

A. Wheat

The reporting period was marked with key activities for production and marketing of wheat seed, such as harvesting, conditioning and selling. 118 Mt of Copper was harvested in Apeni and Leliani plots in July. There was also harvested 103 Mt of Bezostaja-1 grain in Apeni. Taking into account the increased demand for Copper seed among Georgian farming community, 81.5 Mt of Bezostaja grain was exchanged for 62.7 Mt of Copper from the cooperator farmer in order to increase Copper seed inventory. All available grain was delivered to Leliani warehouse and conditioned into seed. The seed was inspected by the state seed quality inspection and certified as the first class seed. It was located in two warehouses: in villages Leliani and Tserovani. These warehouses were cleaned, treated with insecticides, palletized and prepared for storing seed under proper conditions.

Breeder seed of Copper and Bezostaja-1 was also produced in Mtskheta Breeding Station. This seed is intended for further multiplication and seed production in 2001-2002 season. It was delivered to Leliani where it will be planted in October 2001.

Land preparation activities were also conducted in September for wheat planting. It was decided to plant Copper and Bezostaja-1 on 75 ha in Apeni and Leliani under direct supervision and management from Horizon staff. The identified plots were cleaned, ploughed, fertilized and harrowed. Land preparation and planting activities will be completed in October 2001.

Wheat planting in Georgia starts in mid-October and goes through mid-December. In September farmers are mostly busy with land preparation. Majority of them buys seed just before planting. Therefore main portion of sales are expected to take place in October-November. First sales were started already in September. These were related to international NGOs providing assistance to local communities. SPF (the EU funded project) ordered 23 Mt of Bezostaja-1 for delivery to their beneficiaries in Gori district in mid-September. Also, A/V-ELP ordered 23 Mt of Copper seed for the beneficiary group in Dedoplistskaro district. These orders were met in a timely manner.

Several distributors were identified in Eastern Georgia in Gori, Kareli, Mtskheta, Bolnisi, Dmanisi, Telavi and Akhmeta districts for wheat sales. Promotion materials were prepared and distributed in the wheat growing regions. There were a number of contacts made with wheat growers for creating awareness of Horizon seeds and promoting Copper. It is expected that most of the seeds will be sold in October-November 2001. If there is some left-over inventory of Copper seed, it will be sold for the spring planting.

B. Potato Activity

Potato plots were harvested in Dmanisi and Tsalka regions. Harvested crop amounted up to 89 Mt in Tsalka and 83 Mt in Dmanisi. About 100 Mt of Class A seed was sorted out in the result of conditioning harvested potatoes. There were marked differences in yields among

various varieties. Marfona and Sante demonstrated higher yields than Velox and Udacha. There was a difference observed between performance of the same varieties grown in Tsalka and Dmanisi plots. Collette yielded higher in Dmanisi (lower alleviation), while Velox yielded higher in Tsalka (higher alleviation).

Sales of seed potatoes in Georgia takes place in two periods: early sales are made in November to those farmers who prefer to buy seed in advance and store it themselves till planting in Spring. Second round of sales goes in early spring, just before planting. Prices for both seed and ware potatoes is lower in the fall, but it is still preferable to sell them in order to avoid losses related to storage during five months.

C. Maize Activity

Maize was harvested from two plots, located in villages Asureti and Apeni, 10 ha each. Yellow hybrid "Enguri" parent lines were grown in Asureti. Its female line harvest amounted to 37 Mt (at 30% moisture content), and male line – to 5 Mt. Harvested ears were located in Aseureti warehouse for drying. When moisture content drops to 14% it will be shelled, calibrated, treated and bagged. It is expected that about 25 Mt of quality hybrid seed will be produced for the spring planting season in 2002, that will plant 1,389 ha, with the yield potential of 9,000 Mt of grain. Taking into account the advantages of using quality hybrid seeds, it is expected that it will increase yields by 3 Mt per one hectare planted. Total potential yield increase attributable to using Horizon hybrid maize seed on 1,389 ha is estimated at about 4,000 Mt. It is anticipated that the demand for Enguri seed will be increased for the next planting season, as its popularity has grown considerably due to higher yields in 2001.

Yellow open pollinated maize Kartuli Krugi was harvested on about 8 ha in Apeni. Yield amounted to 32 mt. Discarded years were sorted out and the rest was located in Leliani warehouse for drying. Its conditioning will be conducted in February to have the seed ready for spring planting season. This variety is popular in Eastern Georgia, especially in Kakheti region, therefore it will be stored at and sold from Leliani warehouse. It is expected to get about 20 Mt of final seed, that will plant 1,000 ha, with the yield potential of 5,000 Mt of grain.

D. Sunflower Activity

Sunflower was harvested on Shiraki and Apeni plots. First cleaning operation was conducted and 15.7 Mt seed was produced. It is located in two warehouses in Dedoplistskaro and Leliani. Final conditioning will include grading, treating and bagging, that will be done before the planting season, in Spring 2002.

III. Sales Activities

In the reporting period marketing and sales operations were focused on wheat seed. There was produced about 180 Mt of wheat seed for sale. Two large lots of Copper and Bezostaja-1 seeds (23 Mt each) were delivered to A/V-ELP and SPF in September. A number of other potential buyers were contacted and advance requests were collected. The distributors were identified to deliver seed to buyers in Gori, Kareli, Mtskheta, Bolnisi, Dmanisi, Telavi and

Akhmeta districts. A truck was purchased for transporting seeds and other necessary inputs to destinations more efficiently.

Potato sales will be started in October. Potato price in the fall is lower than that in the spring. Nevertheless, in order to avoid losses and expenses related to storage during winter months, it was decided to sell ware potatoes in the fall. Promotion of ware and seed potatoes was started in order to create awareness of available products among potential buyers in Bolnisi region, as they represent the major portion of early buyers. Early sales of seeds in October and November will be followed by the major sales season in the Spring for the planting season.

As for sunflower and maize sales, they will take place in March-April. Before that the seed will be conditioned and stored in the selected warehouses.

IV. Project Collaboration

During the reporting period collaboration was continued with other local and international entities implementing agricultural programs in Georgia. Close cooperation was developed with the agricultural department of UMCOR-Georgia. Two demonstration plots were designed under UMCOR funding in villages Leliani (Eastern Georgia) and Argveti (Western Georgia). There were presented various food and feed crops, such as maize, soybeans, sunflowers, sorghum-sudangrass. Demonstration field days were held in these places during August and September. They were attended by representatives of MOAF, other NGOs, mass media, farmer associations and individual farmers. Participants were exposed to various hybrids and varieties, were given information on various growing and utilisation techniques. Keen interest was expressed to growing sorghum-sudangrass hybrid for animal feed. High protein feed is not available currently in the country and farmers expressed their interest in the development of this sector.

Collaboration with UMCOR-Georgia was further developed into providing technical assistance to farmer groups in Western Georgia for growing wheat as an alternative crop to maize. During last years they suffered considerable losses of maize yields related to drought in summer months. It increased their interest to switch to those crops that would be less hit by the drought in July and August. Farmers decided to grow wheat, as it will be harvested in mid-July and will not be affected by the lack of precipitation in hot summer months. But, in Western Georgia there is very little experience of growing wheat. For this reason, UMCOR-Georgia contracted ATA to organize demonstration plots in villages Argveti (Sachkhere district) and Ilemi (Zestaponi district) for presenting to local farmers various wheat cultivars and growing technologies. Also, ATA will provide them with seeds, fertilizers, pesticides and technical expertise for growing wheat on their commercial plots. This project will have a significant impact for promoting Horizon wheat seeds in subsequent years.

On-site farmer training was also conducted in the maize and fodder demonstration plots organized in collaboration with IRC and VTJC (the local NGO) in Kutaisi and Zugdidi regions. Local farmers were provided technical and financial information of growing various cultivars under high-input technology. Local farmers expressed great interest in obtaining yellow hybrid maize Enguri seed, as its yield potential far exceeded all varieties currently available for them. It is planned to further develop cooperation with VTJC regional centers to make quality seeds and information on advanced growing technology available to farmers through their distribution channel. Video material was prepared that will be broadcasted through local TV in Zugdidi region to create awareness among farmers of the benefits of using advanced growing technology.

Cooperation was continued with FAO in implementing drought relief project in Tsalka, Dmanisi, and Tetri-Tskaro districts. Under this program 1,500 Mt potato seed and 200 Mt fertilizer was distributed among commercial, as well as subsistence farmers this spring. They were monitored during the reporting period and received technical assistance for increasing yields and efficiency of their farms. Monitoring activities and final data collection under this project will be completed during next quarter.

V. Financial Statements

Below are given statements reflecting financial results of Horizon Group in 2000-2001.

During the reporting period Horizon Group provided not only quality seed to the agricultural community in Georgia, but it also expanded to providing various services, such as distribution, monitoring, delivery of goods, consulting, etc. In order to better illustrate the portion of the SEED activities, P&L statements are presented below in two sets:

(a) one reflects the results of Horizon's seed production and marketing activities only; and
 (b) the second shows consolidated statements of the Horizon Group, including all activities (seed marketing, as well as distribution and consulting services).

(a) Profit And Loss Statement Of Horizon/SEED

October 1, 2000 – September 30, 2001

(Shown in GEL)

Income	
Currency Revaluation	6,504.32
USAID Grant	434,049.37
Sale	345,352.86
Total Income	<u>785,906.55</u>
Cost of Goods Sold	<u>192,067.13</u>
Gross Profit	593,839.42
Expenses	
Administration Expenses	208,639.58
Nursery	200.00
Alfalfa & Barley '01	3,959.44
Apeni '02	2,500.00
Demo	819.70
Maize	17,865.59
Potato	2,461.85
Sunflower	7,879.73
Wheat	17,512.86
Service	972.02
Losses - Currency Revaluation	1,380.85
Losses - Inventory	7,863.15
Total Expense	<u>272,054.77</u>
Net Ordinary Income	<u>321,784.65</u>

(b) Consolidated Profit And Loss Statement Of Horizon Group

October 1, 2000 – September 30, 2001

(Shown in GEL)

Income

Currency Revaluation	6,504.32
USAID Grant	434,049.37
Seed Sales	345,352.86
Service Sales	157,653.88
Total Income	<u>943,560.43</u>
Cost of Goods Sold	<u>192,067.13</u>
Gross Profit	751,493.30

Expense

Administration Expenses	234,697.05
Nursery	200.00
Alfalfa & Barley '01	3,959.44
Apeni '02	2,500.00
Demo	1,659.08
Maize	17,925.59
Potato	5,970.29
Sunflower	7,879.73
Wheat	17,512.86
Service	83,865.06
Losses - Currency Revaluation	3,386.75
Losses - Inventory	7,863.15
Total Expense	<u>387,419.00</u>
Net Ordinary Income	<u>364,074.30</u>

Balance Sheet Of Horizon Group

As of 30 September, 2001

(Shown in GEL)

ASSETS

Current Assets

Checking/Savings

SEED	362.80
ATA	10,731.33
FAO	5,751.50
Sale	189,516.83

Total Checking/Savings 206,362.46

Accounts Receivable

Accounts Receivable 65,662.19

Total Accounts Receivable 65,662.19

Other Current Assets

Chemicals	5,202.48
Harvest '01	125,689.62
INVENTORY '01- on Hand	42,734.12
Working Advance	1,776.49

Total Other Current Assets	175,402.71
Total Current Assets	447,427.36

Fixed Assets

Agricultural Equipment	87,104.07
Office Equipment	37,821.44
Office Furniture	588.00
Total Fixed Assets	125,513.51
TOTAL ASSETS	572,940.87

LIABILITIES & EQUITY

Equity	
Opening Bal Equity	208,866.60
Retained Earnings	112,318.77
Net Income	251,755.50
Total Equity	572,940.87
TOTAL LIABILITIES & EQUITY	572,940.87

VI. Sustainability Analysis for Horizon Seed, Ltd.

Based on the financial information provided to the Tbilisi Field office (above), Horizon Seed appears to be operationally and financially sustainable as of September 30, 2001¹. From my own observations of management's capability over the previous year, which was previously reported in the June 30th quarterly report, I am confident that Horizon will succeed in the near term and long term barring any unforeseen, adverse influences from government authorities (Tax and other regulatory ministries/agencies) or catastrophic losses.

From the financial information provided, the following indicator's of performance and sustainability can be calculated:

Current Ratio:	N/A (there are no liabilities)
Total Equity:	100%
Retained Earnings as % of Equity:	19.6%
Current Earnings as % of Equity:	43.9%
Total Earnings as a % of Equity:	64%

Return on current Assets:	56.3%
Return on Fixed Assets:	200%
Return on Total Assets:	43.9%

Current Assets as a % of Total Assets:	78%
Current Assets as a % of Operation total operational expenses:	115%

¹ The financial information submitted appears to contain accounting errors between net profit reported in the profit and loss and balance sheet information. The A/V country rep will continue to provide TA to correct these errors for the benefit of Horizon Management. In calculating profitability, the lower net income figure reported in the balance sheet is used.

These latter figures indicate that current assets are more than adequate to meet 9 months operational expenses (i.e. Jan-Sept). This shows an increase from 87% reported in the last quarter.

A/V will continue to collaborate with Horizon and provide technical assistance where warranted.

VII. Credit Activities

In the fourth quarter of FY2001 the Emergency Loan Program funded by Save the Children was completed and additional funding under the SEED project was awarded through an amendment to the SEED cooperative agreement. This additional funding was limited, providing funding for local staff salaries until December 31, 2001 and A/V TA funding through March 31, 2003. During the quarter activities focused on: loan monitoring/servicing; securing additional TA funding; continued collaboration with GEPA, GEA and CERMA; and, securing additional USDA 416(b) funding through the Ministry of Agriculture.

Table I below provides an update on the status of the SEED loan capital and the loan portfolio it created along with the ELP summary loan data. Table II and the corresponding graph summarizes information on the sectors impacted by the SEED and ELP loan capital.

TABLE I

A/V Credit System SEED and ELP Loan Portfolio

As of : 30-Sep-01

Region	Loan Program	No of Loans	No of Borrowers	Average Loan (GEL)	Total Loan Portfolio (GEL)	No. of Loans At Risk	Portfolio At Risk (GEL)	as a % of total
Telavi								
	ELP	92	79	3,987.93	366,889.66	0	0.00	0.00%
	SEED	97	30	9,746.53	945,413.80	9	103,861.32	10.99%
<i>Telavi</i>	<i>Total</i>	189	109	6,943.40	1,312,303.46	9	103,861.32	7.91%
Tsnori								
	ELP	181	217	4,066.20	735,981.96	0	0.00	0.00%
	SEED	41	45	8,626.61	353,691.18	3	17,915.15	5.07%
<i>Tsnori</i>	<i>Total</i>	222	262	4,908.44	1,089,673.14	3	17,915.15	1.64%
Gori								
	ELP	23	45	4,899.29	112,683.62	0	0.00	0.00%
	SEED	74	160	11,049.85	817,688.73	7	33,953.57	4.15%
	416b	67	94	4,549.96	304,847.58	0	0.00	0.00%
<i>Gori</i>	<i>Total</i>	164	299	7,531.83	1,235,219.93	7	33,953.57	2.75%
Bolnisi								
	ELP	0	0	0	0	0	0	0.00%
	SEED	19	26	5,745.21	109,159.00	5	23,701.63	21.71%
<i>Bolnisi</i>	<i>Total</i>	19	26	5,745.21	109,159.00	5	23,701.63	21.71%
Zestafoni								

	ELP	0	0	0	0	0	0	0.00%
	SEED	141	158	1,291.91	182,159.00	20	33,066.39	18.15%
Zestafoni								
Total		141	158	1,291.91	182,159.00	20	33,066.39	18.15%
Kobuleti								
	ELP	0	0	0	0	0	0	0.00%
	SEED	23	47	3,497.61	80,445.00	2	6,601.52	8.21%
Kobuleti								
Total		23	47	3,497.61	80,445.00	2	6,601.52	8.21%
SEED		395	466	6,300.14	2,488,556.71	46	219,099.58	8.80%
ELP		296	341	4,106.61	1,215,555.24	0.00	0.00	0.00%
416b		67	94	4,549.96	304,847.58	0.00	0.00	0.00%
Grand Total		758	901	4,986.40	4,008,959.53	46	219,099.58	5.47%

Since the June 30th quarterly report delinquencies for the SEED portfolio have dropped by \$54,346 USD, or 20%. This reduction is due to heavy loan servicing activities carried out in the fourth quarter that focused on collections. We expect dramatic reductions in the last three months of 2001 when loan payments are at their seasonal high. Portfolio at risk is expected to drop to near 5%. However, we are expecting that increased delinquencies will begin to show up in the ELP portfolio. Initial calculations indicate that SEED will drop to approximately 5% and ELP will increase to approximately 6.5%, leaving the overall rate at somewhere near the current levels shown above (5.47%).

These levels of delinquencies would, under normal conditions in a developed, financially savvy society, be cause for concern. However, we are not concerned. The large majority of the SEED and ELP delinquencies are the result of approved, informal extensions due to the cost of loan renewals. Formal renewals and extensions would require notary services that would add 1% of the loan amount and up to 1.5% of the collateral value to the loan. In some cases this reaches extortionate levels where loan/collateral ratios are very low. Nevertheless, without formal agreements the loans cannot be re-booked or extended in the accounting system. To further substantiate this practice, delinquent interest payments are well below 2%. Until contract law regarding loan and security agreements and the cost of notary services is made equitable for both lender and borrower, the NRCS will continue to follow this practice. The consequences of not doing so are further hampered by highly constrained lender's rights to collect loans and the burden of time the courts place on lenders to collect. In other words, borrowers are free to pay when it is most equitable for them, or rather, when they PERCEIVE it to be most equitable. With wheat prices at their lowest point at harvest, our borrowers will be storing their grain until prices rise after the New Year. This is not uncommon. Neither, is it unreasonable for a lender to collect interest and extend the note until then.

Future Structure and Sustainability of the Credit System

As previously reported a national rural credit cooperative will replace the individual, independent credit cooperatives the NRCS is currently built upon. However, the issue of loan fund ownership continues to be of concern to local management and ACDI/VOCA. At the end of the 18 month extension to the SEED cooperative agreement, is it conceivable that all the legal constraints and corruption issues will be resolved? While we are hopeful, we are

also prudently guarded in our optimism. In the first quarter of FY2002, ACIDI/VOCA Tbilisi and in Washington will be discussing options that would provide extended ACIDI/VOCA oversight and management of the fund, and earnings from the fund, while retaining USG ownership of the core capital.

In regards to Sustainability of the NRCS the system will be covering 100% of its local operating costs by January 1, 2002. In the period October 1, 2000 to September 30, 2001, the system covered approximately 15% of operating costs. As of October 1, 2001, cash income reserves of the system are more than adequate for projected expenses through the end of summer 2002 when seasonal interest payments begin.

Change of quarterly report format

Beginning with the first quarterly report for FY 2002, the format of the SEED quarterly report will be changing to a more financial reporting format in place of the loan portfolio performance and impact that has been used in the past. The new format will have two parts. Part I will focus primarily on financial information resembling more of an audit report on a financial institution. Part II will cover the project aspects such as technical activities carried out, problems encountered during the period, impact assessments, and success stories.

The purpose of changing the format is to align the SEED project reporting to the financial institution development focus that will comprise 100% of the project's activity. Unlike the ELP project's objective of providing drought relief and the past SEED project's primary activity of seed production where the credit activity was a delegated a supporting role to other project as well as USAID objectives, the new SEED extension will be solely focused on the development and growth of the National Rural Credit system.