

Annex 2 – Annual Action Programme 2012 for Georgia

1. Identification

Title/Number	European Neighbourhood Programme for Agriculture and Rural Development (ENPARD Georgia) CRIS: ENPI/2012/23280		
Total cost	EUR 40 million		
Aid method / Method of implementation	Sector Policy Support Programme (SPSP): - Sector Budget support (centralised management) - Project mode (direct centralised management / joint management with the Food and Agriculture Organisation (FAO) and the United Nations Development Programme (UNDP)		
DAC-code	31120	Sector	Agricultural development

2. Rationale and country context

2.1. Country context and rationale for SPSP

2.1.1. *Economic and social situation and poverty analysis*

Georgia is a small developing economy with a population of about 4.5 million people and a gross national income (GNI) per capita of USD 2,560. According to the World Bank (2009) 25% of the population is living below the poverty line, with the higher levels in regions with high rural population rate. The unemployment rate is 17% (International Monetary Fund, 2011). Nearly half of Georgia's population lives in rural areas, where low-intensity self-sufficient farming provides the principal source of livelihood. The Gini coefficient for Georgia as a measure of inequality was 40.8 (UNDP, 2009) which is well below most post-communist countries.

2.1.2. *National development policy*

From 2011, agriculture has become a top development priority in Georgia, not least due to the peaking food prices (27% increases in 2010) and rise of inflation (high food prices are the largest contributor). This new emphasis to the sector has been underlined by a number of announcements by the President and is also reflected in the '10 Points Plan 2011/2015', which proposes developing of business oriented agriculture in addition to traditional household based agriculture. This approach has been supported by the business sector, Non Governmental Organisations (NGOs) and the donors, with a leading role by the EU Delegation in advocating for this switch. There is also a broad consensus beyond partisan lines on the need of supporting agriculture.

2.2. Sector context: policies and challenges

(1) Sector context

In Georgia the agriculture sector faces numerous problems and challenges which have caused the production to contract by 20% in real terms since 2005¹. The total sown area has been reduced by 43% and average production per hectare has diminished. Agriculture remains an important albeit still declining sector in Georgia in terms of GDP contribution², net foreign

¹ Source of all statistical data on agriculture: GEOSTAT

² In 2011 agriculture accounted for 8% GDP, down from 8.4% in 2010 and 9.4% in 2009.

exchange earnings, employment generation and poverty reduction. In Georgia agriculture is an important safety net for most of the rural population. The sector employs around to 50% of the total labour force, 95% are small farmers (+/- 1.2 hectares and 2 cows per family), therefore output is extremely low. The failure of Georgian agriculture to modernize is one of the root causes for the persistence of high poverty levels in the country. Farmers' organizations are very limited in number. Thus, the majority of the farmers cannot benefit from economies of scale nor compete with importing suppliers. The country is highly dependent on foreign imports (e.g. in 2010, 85% of the consumed wheat was imported). Other key problems of the sector are: major capital disinvestment; the Russian embargo; the world economic recession; limited access to credit (lending to the sector only accounts for 1% of total lending); absence of a functioning agricultural research-education-extension system; lack of a well-functioning land market; poor condition of irrigation systems and other infrastructures and widespread impact of livestock diseases.

According to most experts, Georgia has a significant agriculture potential, where estimates indicate that both farm production and agro-industrial production could increase fivefold from current, depressed levels. A developed agriculture can be an engine to drive economic growth, to reduce inflation (by increasing production) and this way also improving the country's food security situation. Growth in agriculture would also have a very positive social impact. Further development of the sector is thus critical in terms of the country's security and stability.

The proposed EU support to agriculture is also extremely relevant in the context of the EU-Georgia Association Agreement under negotiation, since a more modern agriculture sector will bring the country closer to European agriculture policies, so that it can benefit from the European experiences and knowledge sharing. The programme will also assist on the implementation of the geographical indications agreement concluded by the EU and Georgia in 2012. The current European Neighbourhood Policy (ENP) Action Plan sets out as one of its priority lines for action to 'enhance agricultural production and rural development'. Furthermore, modernizing agriculture is also the basis for developing a proper food safety system in the country, a critical element towards the EU-Georgia Deep and Comprehensive Free Trade Area (DCFTA) negotiation process.

Finally, the proposed programme is fully aligned with the objectives and approach of the EU's recent initiative 'European Neighbourhood Programme for Agriculture and Rural Development' (ENPARD), including inter alia improving agricultural productivity and developing public and private capacities on the basis of a well-defined long-term sector-wide strategy, prior capacity assessment and sector stakeholders involvement. Therefore, the programme should be actually considered as the application of the ENPARD initiative in the Georgian context.

(2) Main findings of the assessment of the sector budget and its medium term financial perspectives

Despite its high significance in terms of employment and its contribution to the GDP, the agriculture sector only got a tiny share of the national budget in the past (0.8% of the budget in 2010). This declining trend has dramatically reversed in recent times: In November 2010 the President of Georgia stated a goal to double the agriculture contribution to the GDP within 5 years, requiring that a minimum extra of EUR 40 million to be invested annually to promote agriculture. In 2012 the Government approved a 60% increase on the budget for the Ministry of Agriculture. This budget increase is in line with the political priorities of the sector. A medium-term expenditure plan for agriculture does not yet exist but will be developed by the

Government for the period 2013-2015 in the context of the elaboration of the sector's Action Plan, which shall be ready by October 2012.

(3) Description of the coordination process with the beneficiary country and other donors

The Ministry of Agriculture put in place a coordination process for preparing its new agriculture sector strategy by establishing a working group in August 2010. On request of the Ministry of Agriculture, the EU Delegation jointly with the FAO mentored the process closely and provided demand-driven expertise and comments on the strategy's final draft. The preparation of the strategy was driven, controlled and owned by the Ministry of Agriculture. The strategy, which covers the period 2012 to 2022, was officially adopted by the Government in March 2012. The scope of the strategy is sector-wide; hence, it includes elements to be implemented by other line ministries/agencies and provides also guidelines for the private sector and other relevant stakeholders.

As a next step, in order to effectively implement the strategy, the Ministry of Agriculture, in collaboration with the EU, FAO and other partner organisations, has started developing a 3 to 4 years Action Plan, which will describe the specific results, activities, projects, budgets, timeframe and evaluation criteria.

In order to enhance the coherence of the formulation and implementation of the agriculture policy, the Government established the Agriculture Policy Commission in 2011, which is led by the Ministry of Agriculture and is composed by the relevant line ministries and agencies (e.g. Ministry of Regional Development, Ministry of Environment, etc). It is foreseen that the Commission will have a significant role in monitoring the implementation of the sector strategy.

(4) Assessment of institutional capacity

The Ministry of Agriculture faces major challenges hampering its ability to contribute significantly to the development of the sector. Much of this relates to its perennial lack of financial and human resources. From 2005 to 2010, staffing of the Ministry was reduced by 70% following several reorganizations, with various functions being shifted to the private sector or elsewhere in government. There are also severe constraints in terms of lack of expertise and need of internal training. As a result, the Ministry could no longer contribute as it had done in the past. The Ministry of Agriculture is very conscious of these shortcomings and a main objective in the strategy is the reinforcement of the capacities of the Ministry. Certain ambitious steps have already started in this direction, including hiring agronomists to be placed in the regions (this reverses the abolition of Ministry of Agriculture representation in the regions several years ago) and the establishment of State-owned agriculture service centres in various locations of the country.

Besides the Ministry of Agriculture, other state bodies with responsibilities on agriculture are: **(1) the Ministry of Regional Development and Infrastructure** (e.g. rehabilitation of rural roads, small-scale agriculture-related infrastructures at village level); **(2) the Ministry Economy and Sustainable Development** (e.g. co-ordination of the land privatization process); **(3) the Ministry of Energy** (responsibility over forests); **(4) the Ministry of Education** (runs the Vocational Education and Training schools, where agriculture is a predominant part of the curricula); **(5) the Ministry of Environment** (e.g. land degradation and biodiversity conservation issues); **(6) the Ministry of Refugees and Accommodation** which oversees livelihoods/agriculture programmes in support of the internally displaced people; **(7) the National Food Safety Agency** - (sanitary and phyto-sanitary standards supervision,

monitoring and control); (8) the Revenue Service of the Ministry of Finance (sanitary and phyto-sanitary border controls), (9) the Department of Tourism (agro/rural tourism); (10) GEOSTAT, the Georgian statistic agency conducting the agriculture census, regular surveys and producing agriculture-related statistics. (11) The Georgia Agriculture Fund is a state owned entity created in 2012 to implement sector priority governmental projects. (12) The Agrarian Committee of the Parliament is responsible for reviewing and passing legislation in the agriculture sector. The EU is providing technical assistance to the Committee in preparation of the agriculture co-operatives legislation. (13) The only region of Georgia with devolved responsibilities on agriculture is the Autonomous Region of Adjara, which has its own Ministry for Agriculture and its own sector strategy (which is aligned with the national one).

There are few functional agricultural research, education, or extension public institutions within Georgia. Agriculture-related studies attract very few students in Georgia. The Agrarian University, which was recently privatized, is under-equipped.

Capacity of non public institutions is also weak: apart from some 100 small co-operatives and associations created by foreign-assisted projects, most of the small farmers (i.e. 95%) are not organized in any form. Furthermore, except for very few sector-wide national organizations (e.g. Shepherds Association) there are no entities in Georgia representing the interests of the farmers as a whole, thus diminishing the ability of farmers to advocate for common priorities. In contrast, providers for agricultural services (e.g. some 30 private service centres established by the Millennium Development Fund and USAID) are organized in a well-functioning national association.

(5) Overall framework for performance monitoring for implementation of sector policies/strategies

Monitoring mechanisms depend greatly on accuracy and reliability of statistics from GEOSTAT where the Unit for Agriculture Statistics regularly conducts surveys. Within the Ministry of Agriculture, the Management Unit for Marketing Research and Strategic Development is the main branch responsible to oversee production, market prices and general sector's trends as well as to analyze agriculture-related statistics. The last agriculture census was conducted in 2004 and is largely outdated. There are various shortcomings in the quality of the agriculture-related statistics available, due to limited sampling and quality control of the agriculture and household consumption/price surveys and lack of capacities to analyse existing information.

The EU-assisted FAO Programme on Information Systems to Improve Food Security Decision-Making is providing substantial support to Ministry of Agriculture and GEOSTAT in facing these shortcomings by enhancing their capacities in generating and analyzing reliable agriculture information. The programme will further improve the quality of the agriculture surveys and will assist the design of a new agriculture census, so to have performance monitoring data of sufficient quality to assess the implementation of the sector strategy.

(6) Macroeconomic framework

The Government's policy response to the global economic and local political crises has succeeded in stabilizing the economy and restoring confidence. Growth was broad-based in 2010 across all economic sectors, driven by a rebound of credit to the private sector and strong export demand. Real GDP growth was projected at 6 % in 2011. The fiscal position

has improved considerably with the 2011 deficit projected to decline from 6.6 % in 2010 to 3.9 % of GDP in 2011. However, the recovery of foreign direct investment (FDI) has been slower than initially anticipated. Inflation has risen to 12 %, but the current monetary tightening should help stabilize inflationary expectations. After an 18% real depreciation in foreign exchange to accommodate the crises there are currently stable foreign exchange rate market conditions and the authorities have agreed with the International Monetary Fund (IMF) that exchange rate flexibility should remain a central instrument of adjustment. With regards to medium term growth, the main challenge is to transit from recovery to durable growth by addressing remaining adjustment needs. The Government has taken a proactive approach with an emphasis on structural reforms in agriculture and targeted public investment to improve productivity and attract private investors. The IMF Ninth Review under the Stand-By Arrangement concluded that its macro-economic objectives have largely been achieved.

(7) Public Financial Management (PFM)

Georgia is performing well in implementing structural reforms. The approval of a number of legislative documents during 2009/11 shows that the government is committed to modernizing its public finances.

Steps have been taken to strengthen the links between multi-year planning and annual budgeting. In Dec 2009 the Parliament enacted a new Budget Code to reform budgeting processes at central and municipal levels. The main novelty of the new Code is the introduction of programme- and capital-based budgeting. In March 2010 the Parliament approved the law of State Internal Financial Control and Audit, drafted with the support of the EU. According to this law, Internal Audit Units should be established in all line ministries as of 2010. In Dec 2010 the State Procurement Agency introduced an E-procurement system (transparent and simplified online tendering in order to fight corruption). Also a new tax code was enacted in Jan 2011 which introduced the concept of "Micro" and "Small" business, e-filing of declarations, a Tax Ombudsman, "transfer pricing" and advance tax ruling.

Over the past four years Georgia has been getting high marks in the World Bank's "Ease of Doing Business" ratings. The ongoing programme with the IMF and large scale investment projects with international finance institutions (IFIs) show that the country is capable to maintain macroeconomic and fiscal stability.

As to transparency of public funds, reports from Transparency International show that the perceived level of corruption has decreased. Georgia's position in the "Open Budget Index" has also improved. The Government of Georgia regularly publishes the enacted State Budget and Basic Data and Directions Document (MTEF) on the web-site of the Ministry of Finance. For the 2012 budget cycle, the Annual Budget Law was published on 10th Dec 2011.

2.3. Eligibility for budget support

According to the EU-funded external evaluation on the 'Use of Sector Policy Support Programmes in Georgia since 2007' conducted in Sept/Oct 2011, *'an appropriate environment existed in Georgia for the implementation of SPSPs (...) the experience of these programmes overall has been positive and the instrument found to be effective and appropriate'*.

The Government of Georgia is committed to the effective protection and promotion of the fundamental values of human rights, democracy and the rule of law.

As explained above, Georgia meets the eligibility criteria for budget support in the agriculture sector: (i) strong policy commitment exists, led by the Government, and a well defined sector policy has already been adopted; (ii) a sound macroeconomic policy is in place; and (iii) a satisfactory trend in public financial management can be noted.

2.4. Lessons learnt

The EU has been engaged in the agriculture sector in Georgia since the 90's, initially via food security budget support programmes, and more recently through projects implemented by International Organizations, and/or NGOs. Over the past 5 years the Commission and the EU MS have financed at least 13 medium-sized rural development projects in Georgia (EUR 23 million), some of which targeted poor farmers in remote areas by establishing farmers' organizations, whereas others provided livelihoods/agriculture rehabilitation support to conflict-affected populations after the 2008 war.

In 2010 the EU Delegation conducted a 'Review of the EU-assisted Development Aid in the Agriculture Sector in Georgia in the last 5 years'. The proposed SPSP has been elaborated taking into account the results of this review as well as several other assessments (e.g. USAID Georgian agriculture sector assessment) and is also the result of the regular and intensive consultation conducted by the EU with the Ministry of Agriculture, the Agrarian Committee of the Parliament, the Adjara government, other donors and the civil society organizations.

The main lessons learned from these analysis are that **(1)** strengthening small farmers' organizations is a key element in order for small farmers to gain economies of scale; **(2)** small farmers require substantial technical assistance and access to extension services to increase their production; **(3)** the sector's reform will require an efficient and results-oriented Ministry of Agriculture **(4)** better agriculture statistics and information systems are essential to identify needs and to monitor the implementation of the sector's strategy.

2.5. Complementary actions

There is a high degree of synergy between the proposed programme on agriculture and other ongoing EU assistance in Georgia, in particular:

(a) Food safety/sanitary and phyto-sanitary standards are key elements in the EU-Georgia DCFTA negotiations and under subsequent AAPs (EUR 2.3 million is earmarked under the AAP 2011 for capacity building for the National Food Agency and further support is foreseen under the AAP 2012).

(b) The EU is providing substantial livelihood support to Internally Displaced People (IDP) in the post 2008 war context, mainly through the FAO, to upgrade living conditions of rural IDP.

(c) The EU is currently supporting Georgia in the field of regional development (SPSP, EUR 19 million), to reduce regional disparities and to stimulate economic growth. Many of regional development strategies will most likely have a strong agriculture orientation.

(d) On-going EU SPSP on vocational education and training, including agricultural training.

(e) Various successful pilot EU projects with Non State Actors which assisted farmers in creating farmers' associations on limited scale. The envisaged grant component of this programme will scale-up the successful experiences/results learned in these projects.

(f) The EU is also providing grant support (NSA and ENRTP) in the environment field and for disaster risk management. Lessons learned will also be taken into account in the implementation of this SPSP.

Besides the EU, USAID, the US Department of Agriculture, European bank for Reconstruction and Development (EBRD), Kreditanstalt für Wiederaufbau (KfW) and the Swiss Development Co-operation are the main donors providing assistance to the implementation of the strategy with the following projects:

Donor	Project	EUR million	Type	Duration
USAID	Agriculture mechanization project	4	Grant	2009/2012
USAID	New Economic Opportunities- value chains	15	Grant	2009/2015
USAID	Economic Prosperity Initiative	15	Grant	2010/2014
US Dept. of Agriculture	Animal Health Programme	1	Grant	2008/2012
Swiss Dev. Cooperation	Market Alliances' Against Poverty	7	Grant	2008/2014
World Bank	Integral Rural Development in Kakheti	29	Loan	Tbc
EBRD	Agriculture Loan Facility- banks	40	Loan	2011/2013
KfW	Agriculture Loan Facility- MFIs	9	Loan	2011/2013
DANIDA	Support to selected value chains	9	Grant	2012/2015

Of particular importance is the synergy of the proposed SPSP with the EBRD/KfW Loan facilities for a total of EUR 49 million. The EU funds a complementary grant (EUR 4.8 million, consisting of technical assistance to the financial institutions and a first loss recovery facility) via the Neighbourhood Investment Facility (NIF). The main focus of the loan facility is to facilitate access to the financial market for small farmers, mainly through existing farmer organizations (whereas this SPSP will focus mainly on establishing new ones). The SPSP will also build on on-going activities implemented by the FAO (e.g. on statistics and food safety) and UNDP (e.g. on extension services and higher education on agriculture).

The table below summarizes which would be the main donor(s) tackling each of the five priorities of the government's strategy on agriculture.

Strategy priority	Main donor(s)
(1) Competiveness improvement through private sector development	EU, EBRD, KfW, FDC, USAID
(2) Better performance of the institutions engaged in agriculture	EU, UNDP, FAO
(3) Food security	EU, FAO
(4) Support to food value chains	USAID, SDC, DANIDA
(5) Rural infrastructure	Funded by the Government

2.6. Donor coordination

Donor coordination is strong with formal intra-Donor Coordination in the agriculture sector having started in 2009, under the initiative of the EU Delegation. Currently, the Agriculture Donor's Co-ordination Group has 40 members (Ministry of Agriculture, all donors active in the sector, NGOs, individual experts, academe). The Group analyses and discuss sector topics and is divided in 5 sub-groups which have been set up in function of the five objectives of the agriculture strategy of the government. The Ministry of Agriculture, which has a fully fledged unit for co-ordinating its activities with donors (the European Integration and International Relations Division), is gradually taking the lead in this process. At the moment, the Ministry of Agriculture chairs the sub-groups meetings and is planning to take the same responsibility in the plenary meetings (which are currently chaired by FAO and co-chaired by the EU Delegation and the French Embassy).

DESCRIPTION

3.1. Objectives

The main objective of the Government's sector strategy is the development of agriculture through strengthening small households and forming profitable production chains. Five main results/priorities are outlined in the Government's sector strategy, namely: **(1)** competitiveness improvement through private sector development, including strengthening farmers' co-operation; **(2)** capacity building of the institutions and stakeholders engaged in agriculture; **(3)** development of food value chains; **(4)** rural infrastructure and **(5)** food security.

Given that other donors are already providing or planning to provide assistance to certain priority themes of the strategy the EU's SPSP will focus on specific aspects of the Government's sector strategy, which are not financed by the Government (as is the case for rural infrastructure), where other donors are not active and where the EU has an added value and/or background experience.

The general objective of the proposed SPSP is to increase food production in Georgia and reduce rural poverty.

The specific objective is to support the implementation of the national sector strategy and strengthening small farmers' organizations.

3.2. Expected results and main activities

Based on the above, the SPSP will focus on 4 main results, all of which are integral part of the Georgian agriculture strategy:

- **R1.** Strengthened co-operation amongst small farmers, including preparation and adoption of legislation on farmers' economic co-operation groups; awareness campaign by Ministry of Agriculture to promote small farmers' co-operation and the implementation of activities in support to newly created small farmers' organizations, including technical assistance and provision of inputs, equipment and/or small infrastructure for the farmers to increase production, gain economies of scale and to better access the markets (e.g. improved seeds, machinery, storage facilities, etc). Activities will target a limited number of three to four regions with a view to replicate this pilot experience in other regions with Governments' financial assistance. In line with the ENPARD initiative, European experiences such as the LEADER approach (EC initiative to assist rural communities in the EU in improving quality of life and economic prosperity by enhancing capacities of

local rural actors) and other support to farmers in the EU and in the EU pre-accession countries will be taken into account for defining the key features of this action.

- **R2.** Access to extension services by farmers is improved, via the establishment of a network of extension services and the provision of capacity building to the farmers' organizations.
- **R3.** Geographical Indications regulated and developed, via the establishment of geographical indications' self-regulatory bodies and licensing requirements
- **R4.** Better performance of the institutions engaged in agriculture, including, among others, the establishment of a capacity building/training Academy under the Ministry of Agriculture; production of a new Agriculture Census; improvement of the methodology and sampling of the agriculture surveys and capacity building activities to assist the agriculture-related academic institutions.

These results will be achieved through budget support and through project approach (grant scheme for implementing a small farmers' co-operation component, joint management with FAO for providing capacity building to the Ministry of Agriculture and with UNDP for implementing activities in the Region of Adjara, technical assistance for providing capacity building and for ancillary tasks).

3.3. Risks and assumptions

Risks: (1) Geopolitical tensions in the Caucasus or economic crisis divert Government's focus and resources allocated to agriculture; (2) The Agriculture Strategy's Action Plan is not approved by the Government, or the final version of the documents is not compatible with EU priorities/mandate (E.g. does not keep its focus on assisting small farmers); (3) High turnover of staff and associated loss of 'institutional memory' jeopardise the implementation of the strategy and Action Plan.

Assumptions: (1) No high geopolitical tensions/deep economic crisis to happen during the implementation period; (2) the Action Plan is approved and keeps its current focus on supporting small farmers; (3) strong commitment towards the Strategy and Action Plan by the Georgian Government remains in place during the implementation period. (4) Continued stability in the government's policies for the agricultural and rural communities after the Presidential and Parliamentary elections in 2012 and 2013.

Mitigating measures: (1) If high geopolitical tensions/deep economic crisis happen during the implementation period, the action will be revised accordingly; (2) The EU will provide technical assistance, together with other key donors, for the production of the Action Plans and will advocate with the Georgian government to ensure that the needs of the small farmers are appropriately taken into consideration; (3) the EU Delegation will continue its policy dialogue with the Georgian Government, during the programme implementation, advocating for a sustained strong commitment to the sector.

The SPSP has been designed in addressing sustainability beyond the duration of external support.

(1) Institutional sustainability: One of the core directions of the SPSP will be to provide capacity building to the Ministry of Agriculture and other key institutions engaged in the sector. This will ensure their readiness to continue delivering the foreseen results beyond the EU assistance will finish.

(2) Financial sustainability: A precondition for this programme is a sustained increase in public funding to the agriculture sector, which shall ensure the long-term impact of the programme results beyond the EU assistance. As for the financial sustainability of the actions in assistance to small farmers' organizations, the programme will contribute to increase the income of the member farmers and to improve their access to finance. The complementary support provided to the financing system by EBRD and KfW will further contribute to this aim.

(3) Technical sustainability will be carefully taken into account along the programme implementation, especially in relation to the provision of equipment and in the context of the support to the small farmers' organizations and also as part of the capacity building actions to the Ministry of Agriculture.

(4) Environmental sustainability: The programme will promote sustainable natural resources management (including soil and water conservation) in different forms, including via technical assistance to the farmers' organizations, training activities for the farmers in the extension centres.

3.4. Stakeholders

The Ministry of Agriculture of Georgia (Ministry of Agriculture) is the main stakeholder of the SPSP who will be responsible for the implementation of the Budget Support (BS) activities and will oversee/co-ordinate all the other actions under the SPSP. The Ministry of Agriculture of Adjara will undertake similar responsibilities in its region, with the technical support of UNDP. The FAO will lead the provision of TA to the Ministry of Agriculture. The state-owned Georgian Agriculture Fund (GAF) will support the Ministry of Agriculture in procuring equipment and inputs in the framework of the BS component and could also collaborate in the implementation of the Small Farmers Co-operation Component. The Agrarian Committee of the Parliament will support in drafting the required agriculture-related legislation. GEOSTAT will be responsible for producing the agriculture census and improving the agriculture survey. The NFA will assist in the implementation of the activities on food quality (Geographical Indications). International and national NGOs would be contracted for the implementation of the Small Farmers Co-operation Component. Farmers' organizations (cooperatives, associations) will be supported by this component of the Programme. The private sector –i.e. providers of agriculture services (service centres, veterinarian associations, machinery providers, etc) will provide services to the farmers' organizations. The academic institutions and extension providers will be engaged in providing TA to the farmers' associations. Other relevant stakeholders that will be engaged in various degrees are the other line ministries with thematic interfaces with the Ministry of Agriculture (E.g. Min. of Regional development, Min. of Environment), the local authorities, the banking sector and the donors active in the sector. The small farmers will be the main beneficiaries of the programme.

3.5. Crosscutting Issues

Environmental issues are integrated inter alia by (1) integrating environmental indicators in the Action Plan matrixes and (2) incorporating natural resources management activities under the grant modality. Disasters' Risk Management elements will also be integrated across all activities (E.g. inclusion of proper land management technologies amongst small farmers to avoid desertification; support to agro forestry practices to reduce risk of flash floods).

The SPSP will integrate the gender perspective into all stages of the implementation, including, amongst other actions, **(1)** specific activities within the grant component to promote equality of opportunity and outcomes between women and men, **(2)** pro-active actions to ensure a full equal participation for men and women in the small farmers' organizations to be created, and **(3)** ensuring that all statistics systems to be supported by the programme will reflect the realities of the of women and men engaged in agriculture.

Human rights have been fully taken into account as cross-cutting issues in the SPSP. Promotion of good governance is a core element of the budget support approach and of the ENPARD approach and, thus, will be fully embodied in the programme, including also by involvement of the sector's stakeholders and civil society organisations.

4 Implementation issues

4.1. Method of implementation

(1) Sector Budget Support

Funds will be implemented through sector budget support under direct centralised management. Support will be untargeted and channelled directly into the treasury account, after agreed conditions for payment are met.

(2) Project approach

The method of implementation will be *direct centralised management* by means of procurement and grants. *Joint management* through the signature of a contribution agreement with an international organisation in accordance with Article 53d of the Financial Regulation is envisaged for the implementation of specific sub-components:

- With the FAO, in order to provide capacity building to the Ministry of Agriculture in implementing the sector strategy and Action Plan. The selection of FAO for implementing this component of the programme is justified due to the background of FAO assisting Georgian agriculture policy in the past, its capacity to provide specialised expertise across a whole range of policy themes. Finally, the Ministry of Agriculture has requested the EU for the FAO to be the entity responsible for this action.
- With the UNDP to implement a sub programme in support to agriculture in the Autonomous Region of Adjara, which shall mirror the overall-programme but specifically target this region. The selection of UNDP is based on its background working on agriculture in Adjara and the specific request by the Adjara Ministry of Agriculture.

Both international organisations comply with the criteria provided for in the Financial Regulation and are covered by the Financial and Administrative Framework Agreement (FAFA) of 29 April 2003 signed between the United Nations and the Commission..

The change of management mode constitutes a substantial change except where the Commission "re-centralises" or reduces the level of tasks previously delegated to the beneficiary country, international organisation or delegatee body under, respectively, decentralised, joint or indirect centralised management.

4.2. Procurement and grant award procedures

(1) Contracts: All contracts implementing the action must be awarded and implemented in accordance with the procedures/standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question. Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by the ENPI. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in art 21(7) of the ENPI.

(2) Specific rules for grants: The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EU external actions. They are established in accordance with the principles set out in Title VI 'Grants' of the Financial Regulation applicable to the General Budget. When derogations to these principles are applied, they should be justified, in particular in the following cases:

- Financing in full (derogation to the principle of co-financing): the maximum possible rate of co-financing of grants is 80% of total eligible cost. Full financing may only be applied in the cases provided for in Article 253 of the Commission Regulation (EC, Euratom) No. 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of the Financial Regulation applicable to the General Budget.

- Derogation to the principle of non-retroactivity: a grant may be awarded for an action which has already begun only if the applicant can demonstrate the need to start the action before the grant is awarded, in accordance with Article 112 of the Financial Regulation applicable to the General Budget.

(3) Joint management: All contracts implementing the action will be awarded and implemented in accordance with the procedures and standard documents laid down and published by the International Organisation concerned.

4.3. Budget and calendar

The programme will have 2 main components, with the following indicative financial distribution:

(1) Budget Support – EUR 18 million allotted in 3 individual tranches, dependent on compliance with the general and specific conditions set out in the Financing Agreement. The indicative calendar for disbursement is the following:

- Financing Agreement signature/disbursement 1st (fixed) tranche (EUR 6 million) – Last quarter 2012
- Disbursement of 2nd (fixed and variable) tranche (EUR 6 million) – 1st quarter 2014
- Disbursement of 3rd (fixed and variable) tranche (EUR 6 million) – 1st quarter 2015

(2) Project Approach – EUR 22 million which will cover several elements:

(2.a) an estimated EUR 15 million for the implementation of the Small Farmers Co-operation Component in order to support the establishment of small farmers' business-oriented organizations. This component will be implemented via a set of grant contracts (tentatively 3 contracts, +/- EUR 5 million each) to be awarded to NGOs in a call for proposals, each

grantee taking responsibility for supporting the establishment of a certain number of business-oriented organizations in certain region(s). The small farmers' organizations to be established will be supported by the NGOs through technical assistance and training (legal support, business' plans/capacity building, extension/agriculture) and by providing to the organizations basic supplies/equipment/small infrastructure (normally in-kind, sub-granting would be exceptional and limited to the applicable thresholds). Internal and external monitoring mechanisms will be established to assess the grants' implementation.

(2.b) EUR 2 million contribution agreement (joint management) – with the FAO- in order to provide capacity building to the Ministry of Agriculture in implementing the sector strategy and action plan including eventually the establishment of a Ministry of Agriculture's Agency/Academy for internal training. The contribution agreement is expected to be signed within one year following the entry into force of the Financing Agreement.

(2.c) EUR 3 million contribution agreement (joint management) – with the UNDP- in order to implement the sub programme in support to agriculture in the Region of Adjara. The contribution agreement is expected to be signed within one year following the entry into force of the Financing Agreement.

(2.d) EUR 2 million to finance technical assistance for a capacity building project for training institutions engaged in agriculture (e.g. the Ministry of Agriculture's Agency of Human Resources and Trainings, the Agrarian University, etc) as well as for evaluation and audit; visibility actions; independent external review missions to assess the fulfilment by the Government of Georgia of the conditions for disbursements, resulting in three to five service and framework contracts.

The tentative budget breakdown for each implementation modality is as follows:

1. Budget Support	EUR 18 million
2. Service contracts	EUR 2 million
3. Grant contracts	EUR 15 million
4. Contribution agreements	EUR 5 million

Unspent funds from one component may be re-allocated to the other components.

Given the size and the complexity of the programme, the indicative duration of the programme will be 60 months as from entry into force of the Financing Agreement. Procurement procedures, including for grants, are expected to be launched within 24 months and contracts concluded within 36 months following the entry into force of the Financing Agreement.

4.4. Performance monitoring and criteria for disbursement

Besides macroeconomic stability and PFM-related conditions, the key general condition for the release of the fixed tranches will be satisfactory progress in the implementation of the sector policy as evidenced by the adoption of a relevant and credible Sector Action Plan, the

establishment of the SPSP Co-ordination Body, and by the augmentation in the percentage of government funding allocated to the Ministry of Agriculture.

For the variable tranches, the SPSP will be subject to a number of conditions and benchmarks (drawn directly from the Agriculture Sector Strategy) focusing on the following criteria **(1)** Adoption of legislation on farmers cooperatives, which removes the current disincentives (tax or otherwise) for small farmers to join co-operation groups; **(2)** new State-owned agriculture service centres constructed and ready to provide services to farmers and **(3)** at least 50 agriculture services' and/or marketing co-operatives established and operating.

Disbursements will depend on the degree of compliance with the conditions stipulated in the Financing Agreement.

4.5. Evaluation and audit

Oversight of the SPSP will be entrusted to the SPSP Co-ordination Body to be established as a general pre-condition for the budget support. This Body will organise sector coordination meetings three times a year involving the EU Delegation, the Ministry of Agriculture and other Georgian line ministries and agencies to assess progress in the implementation of the Agriculture Sector Strategy. Other development partners, Non State Actors and local government representatives will be invited if needed. Day-to-day technical and financial monitoring will be a continuous process as part of the Ministry of Agriculture. To this aim, the Ministry of Agriculture shall establish a permanent internal, technical and financial, monitoring system to the project, which will be used to elaborate the progress reports. The Budget Support will also be subject to internal audit and PFM controls of the Chamber of Control of Georgia. External Review missions will verify compliance with relevant Policy Reform Matrix conditions prior to the release of each instalment (i.e. joint annual appraisal).

Each grant under the Small Farmers Co-operation Component will perform its own internal monitoring system, which shall include regular reporting and surveys to assess the results. Each grant will also be subject of expenditure verification, according to the general conditions ruling EU external actions grant contracts for.

Mid-term and final evaluations, as well as a final audit will also be conducted for the Project Approach. In case of joint management, and where applicable, the provisions included in the relevant Framework Agreements signed with the International Organisations will apply.

4.6. Communication and visibility

Communication and visibility will be organised in coordination with the Ministry of Agriculture and other institutions involved in the implementation of the Programme, in accordance with the orientation of the "Communication and Visibility Manual for EU External Actions". The European Commission will, together with these institutions, organize appropriate public events so as to keep the general public informed of the Programme's developments and achievements. A Communication and Visibility Plan will be drafted and coordinated between the EU Delegation and the Government of Georgia in the first semester after signing of the Financing Agreement. Financial resources for visibility will be integrated within the grants and contributions agreements to be awarded, and assistance on visibility will be contracted with resources from the technical assistance provision.

In case of joint management, and where applicable, the provisions included in the relevant Framework Agreements signed with the International Organisations will apply.