



ევროკავშირი
საქართველოსთვის
The European Union for Georgia



RURAL AND
AGRICULTURAL
POLICY AND
DEVELOPMENT
INSTITUTE



OXFAM

Evaluation of Preferential Agro Credit Program

May 2017



The present study was conducted with the financial assistance of European Union within the framework of the project “Improving Regional Food Security in the South Caucasus through National Strategies and Smallholder Production”.The content of the publication is the sole responsibility of Rural and Agricultural Policy and Development Institute expert Irakli Moistrapishvili and can in no way be taken to reflect the views of European Union and Oxfam.

Evaluation of Preferential Agro Credit Program

May, 2017

Content

	Page
1. Brief summary of research	4
1.1. Research objective	4
1.2. Research Methodology	4
2. Preferential Agro Credit Project overview	7
2.1. Preconditions	7
2.2. Project Description	8
2.3. Budgetary spending	14
2.4. Indicators and M&E	15
3. Summary and analysis of project statistics 2013-2016	18
3.1. Cooperatives	24
3.2. Perception of the programme by smallholder farmers	28
4. Macro and micro economic impact	31
5. Limiting factors and challenges	33
6. Conclusions and Recommendations	36
Annex 1. Questionnaire for focus group	38
Annex 2. Survey questionnaire	39

1. Brief summary of the research

1.1 Research objective

The goal of the research is to assess the Preferential Agro Credit Program, as a part of the OXFAM's overall aim to support government with more tailored policy planning that is in line with the Social-Economic Development Strategy of Georgia 2020. The findings of this research will be used to advocate and support the government with more tailored policy planning, with special emphasis made on the small-holder farmers (both, women and men) as well as provide input for the awareness raising campaign to the other stakeholders and general public of Georgia.

The research outlines the background information of the Preferential Agro Credit Program and identifies major facts and consequences to date, with special focus on small-holder farmers; identifies the limiting factors influencing the access to finance for small-holder farmers and agricultural cooperatives countrywide; looks at international examples of subsidized agricultural credit. Based on the analysis, the research offers the ways to address these challenges in given environment and provides recommendations to decision makers to address these challenges according to the best practices.

1.2. Research methodology

The process of research included desk research of the program, using the data obtained from the APMA and official statistical sources, and field research based on face-to-face interviews and focus group discussions, comprised of small-holder beneficiaries as well as subject matter experts to verify the qualitative data provided by the desk research and focus group activity.

Desk research

The desk research included collecting and analyzing existing statistical information, reports, data provided by APMA regarding the program, including the monitoring data available and existing research materials on the preferential agro credit programme. The desk research covers the whole period of program implementation, from the date of start to the end of year 2016. The desk research was also used to gather information on similar programs in other countries, current or in the past. Information was gathered from relevant stakeholders, with the implementing agency, APMA, being the main counterpart. RAPDI has conducted a general assessment of the Preferential Agro Credit in 2016 and all the documents and data obtained for that report, as well as the information available in the final report was used for this specific desk research.

Field research

3 research tools were used for the field research: focus group with subject matter experts, survey of beneficiaries, and face-to-face interviews.

Focus group with subject matter experts

The main objective of the focus group was to evaluate overall progress and success of the preferential agro credit programme up to date, to discuss the problems and challenges faced by the programme in relation to small holder farmers and cooperatives and to come up with recommendations on how to improve the programme efficiency on this target group.

To meet the above defined objectives, RAPDI has identified the subject matter experts that have been/are involved in the development, management and evaluation of the state programme. These include representatives of APMA management, representatives of banks (responsible for preferential agro-credit disbursement) and agricultural experts.

A detailed questionnaire for focus group is presented in Annex 1.

Survey of beneficiaries

Six meetings with program beneficiaries/applicants were conducted in 5 regions of Georgia: 2 in Kakheti, 1 in Kvemo Kartli, 1 in Shida Kartli, 1 in Samegrelo and 1 in Adjara. In total, 146 smallholder farmers were surveyed, out of them 29% were women farmers. The selection criteria of respondents are defined below:

- 1) Small-holder farmer - For the purpose of this research, the smallholder farmers are defined as farmers that applied for preferential agro-credit loans in the amount of 5,000-20,000 GEL in 2013-2014. In 2015-2016, in order to enhance establishment of cooperatives by smallholder farmers, the lower limit of loans was changed from 5,000 GEL to 20,000 GEL, therefore, for these last two years, the research focuses on statistics for cooperatives rather than smallholder farmers.
- 2) Gender – each out of four groups of beneficiaries to participate in survey should have a proportion of women of at least 20%. It should be noted here, that there are no separate statistics or data for women farmers, because the research results showed that there are no formal or informal barriers for limiting women farmers' access to the programme. However, there are no formal incentives as well.
- 3) Participant of Preferential agro credit programme and/or with experience of trying to obtain financing through this programme. The number of such respondents was 83, out of them 47% were women farmers.

The main goal of the survey was to identify whether the programme meets the needs of smallholder farmers; what are the main problems and challenges they face; and what was the impact of the programme over this target group.

A detailed questionnaire for survey is presented in Annex 2.

Face-to-face interviews

The main objective of the face-to-face interviews was to reconfirm/ supplement information gathered through desk research, focus group meeting and survey.

After conducting the survey and focus group meeting, the topics that required more elaboration were: problems and challenges faced by smallholder farmers; the impact of the programme on smallholder farmers and their perception of the programme and corresponding recommendations. Based on this, the interviews were conducted with several smallholder farmers, as well as some representatives of cooperatives.

2. Preferential Agro Credit Project overview

2.1 Preconditions

The project was initiated by the Ministry of Agriculture of Georgia and is implemented by the non-commercial (non-entrepreneurial) legal entity Agricultural Projects Management Agency (APMA). The project started on March 27, 2013. In 2013 it was financed by the non-commercial (non-entrepreneurial) legal entity Rural and Agricultural Development Fund and since January 1, 2014 – by the state budget. The research covers the period from the project inception until December 31, 2016, inclusive.

Agriculture development is a strategic and priority direction for Georgia, and the precondition for its development is to improve the processes of primary agricultural production, processing, storage and sale by providing farmers and entrepreneurs engaged in agriculture with long-term and preferential funds, as well as to create favorable conditions for obtaining and returning these funds.

The agriculture sector in Georgia was characterized with scarcity/absence of such financial resources. Agriculture has been regarded as a high-risk industry by banks and other financial institutions. As a result, the interest rates on the disbursed agro credits significantly exceeded the interest rates on other types of credits. Another reason for high interest rates was lack of and/or low value of farmers' assets needed for securing the credit. Real estate in rural areas and agricultural equipment (if any) were outdated, and the land did not have sufficient value for securing the credit. As a result, a loan-seeker could only get a small amount, high-interest and short-term credit, which would never ensure the business development in agriculture.

Due to the fact that agro loans represented only small part of their portfolios, the banks did not provide capacity building activities for agro loan officers and did not develop strategies for improving and expanding the agro credit services in this field.

Limited access to financial resources, especially to low-interest and long-term loans gave rise to many problems:

- Absence of timely and sufficient amount of quality agricultural production facilities;
- Lack of up-to-date and effective agricultural technologies and equipment;
- Insufficient, outdated and ineffective infrastructure for post-harvest handling, etc.

In this situation, it was important to increase financial support to the people engaged in agriculture, which would lead to providing simplified funding for agro-producers by the banking and financing sector, and to making credit resources cheaper and accessible in the

long run. With this purpose, APMA started to implement a Preferential Agro credit Project initiated by the Ministry of Agriculture in March, 2013.

15 largest banks out of 19 commercial banks of Georgia got involved in the project. Agricultural loans were disbursed by commercial banks. The projects were received, reviewed and then funding decisions were made only by the commercial banks, without the involvement of state agencies in this process.

2.2 Project description

Project Goals and Objectives

Goal – to provide long-term and preferential financial resources to farmers and entrepreneurs engaged in agricultural production with the purpose of improving primary agricultural production, processing, storage and sale.

Key Objectives:

- Facilitate local high quality production;
- Support infrastructure development for primary production, processing, storage and sale;
- Increase the production of goods for export;
- Strengthen the value chain components of agriculture;
- Create jobs for the rural people to improve their economic wellbeing.

Project Components

At the initial stage of Preferential Agro credit Project, APMA provided three types of preferential credits to the farmers and agribusinesses through financial institutions and suppliers of agriculture production facilities. These are:

1. Interest-free commodity loans for small farmers;

APMA conducted negotiations with financial institutions and suppliers, which resulted in signing agreements on the following: the supplier (store) issues a bill (invoice) to a farmer for the goods to be purchased, which is then paid by the financial institution. As a result, the farmer/producer has an opportunity to get production supplies from the store s/he may need during the full cycle of production, and the financial institution will make respective payment to the store within agreed timeframes, according to the purchase bill (invoice)

presented by the farmer. After the season is over, the farmer/producer will pay to the financial institution the total amount of the goods received since the approval of the loan, without accrued interest. By that time, the financial institution will have already paid the total amount of the approved loan to the supplier/store. In this case, the financial institution does not make the farmer pay any interest and instead, will retain the discount by the store, as a service fee.

2. Preferential Agro credit for Medium and Large Farmers (short-term financing for purchase of current assets and supplies)

This component was designed to serve financial needs of medium and large farmers, who generate most part of their revenues from agro-activities. The state is interested in developing such kind of farmers, because their disappointment or high motivation is directly linked to the development of agriculture. Therefore, it is important to support this category of farmers through issuing preferable and tailored credits for ensuring stable development of agriculture.

3. Preferential Agro Credit for Agricultural Enterprises (long-term financing for purchase of fixed assets and technologies)

This component of preferential agro credit implies support to the development of large farms, infrastructure projects for post-harvest handling (storage, warehousing, packaging, cold storage and processing facilities), also other types of infrastructure projects (contemporary farms, greenhouse farms, irrigation systems) through provision of cheap and long-term financial resources.

At different stages of project implementation, it became necessary to make improvements and additions to it, which was caused by the desire to offer better financial services to the entrepreneurs in the field of agriculture. For example:

- There were 4th and 5th components added to the project in summer of 2013 – “preferential agro leasing” and component “for purchasing grapes”, and then the 6th component was added in the fall for “purchasing tangerine and apple for processing”;
- There was a 7th component added to the project in the spring of 2014 “preferential agro credit for the enterprises co-funded by the state”, and then there was an 8th component, which was a component for financing agriculture-related part of the state program “Produce in Georgia”.

With the purpose of unifying and simplifying the components, the project was redesigned in the fall of 2014. The components were defined based on the type of production assets (fixed or current), and types of financial products (credit, leasing, “produce in Georgia”). Before that, the components were defined based on the amounts of funds and purpose/goal of loans, e.g. funding of fixed or working capital, funding for the purchase of only grapes, tangerine, peach and/or apple for processing.

In 2015, in order to support development of cooperatives, the changes were made to both working capital and fixed assets components of the programme. Working capital component was widely used by micro and small farmers, but the effect was mainly social and it did not support agro-business development much. To ensure more productive use of the financial (government) resources, the component was redesigned to finance only seasonal projects for processing enterprises.

Another important change is linked to the lower limit of the loan amount, which was raised from 5,000 GEL to 20,000 GEL. The aim of this change was to enhance small farmers to unite and form cooperatives, which would enable them to expand production and to invest in technologies/equipment that they individually would not be able to afford. In the end, this would lead to stronger farmer in general, which would better drive development of agriculture.

In 2017, the changes were made regarding the loan currency and the loan term. In accordance with the decision made at government session, a preferential agricultural credit will be granted only in national currency. The above mentioned amendments are concurring with state plan of “Larization” of country and stimulate the provision of loans in GEL. The decision was a result of currency losses that many farmers experienced in last few years. Provision of long-term loans for beneficiaries in national currency is recommended for prevention of currency risks in the future. In addition, the changes were made to maximum term of loan within the fixed assets component. Before the amendment, maximum term was 7 years. Currently this limitation is cancelled. The term for co-financing of interest rate of the loan after the issuance of first tranche has been increased by the term of 66 months. Also, beneficiaries will have the opportunity to use the loans with fixed interest rate as well as the loans with floating interest rate and to make optimal choice.

During the research period, the Provision of the Preferential Agro Credit Project was finalized based on the Decree #246 of the Government of Georgia dated February 13, 2017.

At the moment, the Preferential Agro Credit Project (hereinafter – Project) consists of the following financial products:

1) “Preferential Agro Credit” with two components:

- **For working capital.** This component is designed for financing the working capital of the enterprises producing and processing agricultural products. Under the component of ‘Preferential Agro Credit for Working capital’ loans shall be given for financing agricultural activities for the following purposes (each subcomponent shall put into action under the resolution for the relevant year to be issued by the Government of Georgia):
 - a) Purchasing grapes for processing;
 - b) Purchasing grapes for producing alcohol;
 - c) Purchasing peach for sale and/or processing;
 - d) Purchasing substandard apples for processing;
 - e) Purchasing tangerine for sale and/or processing.
- **For fixed assets.** Under the component of ‘Preferential Agro Credit for Fixed Assets’ loans will be given for financing new agricultural enterprises and extension, modernization and/or repairing of the existing ones. Total amount under the Preferential Agro Credit for Fixed Assets shall be determined from 20 000 GEL through 1 500 000 Gel (for individuals - from 20 000 to 75 000 GEL). This component has following subcomponent:
 - a) Sub-component for grape processing enterprises (Alcoholic Beverages). According to the amount of preferential agro credit, vine processing enterprises (alcoholic drinks) are divided into two categories:
 - ✓ The vine processing enterprises with a total size of current balance of the preferential agrocredit (s) as part of this subcomponent from 20 000 GEL to 1 500 000 GEL inclusive;
 - ✓ The vine processing enterprises with a total size of current balance of the preferential agrocredit(s) as part of this subcomponent from 1 500 001 GEL to 5000 000 GEL.

2) “Agro Leasing”

The agro-leasing component serves the development of the agricultural products’ added value generating infrastructure. It is designed for the companies involved in creation of the agricultural products (modern farms, greenhouse, etc.) or engaged in any form of processing of agricultural products (storage, packaging, recycling), or producing packaging materials for

the agricultural products, as well as the companies, which have approved the state co-financing within scopes of the co-financing project.

3) State programme “Produce in Georgia”

The programme ‘Produce in Georgia’ is implemented by the Ministry of Economy and Sustainable Development of Georgia and the Ministry of Agriculture of Georgia.

Goals of the programme are to facilitate development of the industries focused on production, and to facilitate establishment of new enterprises and extension / upgrade of the existing ones.

The first component (working capital) of the preferential agro credit, as a financial product now combines the 2nd, 5th and 6th components of the former preferential agro credit project, and the second (fixed assets) component, as a financial product, now combines the former 3rd and 7th components.

The first component of the former preferential agro credit project was terminated, because there was no necessity to have the involvement of APMA, which can only be evaluated positively. There was quite a good result achieved within the frameworks of this component in the very first year after the project initiation. Interest-free commodity loans of up to 2 million GEL were provided to about 6,000 farmers for the essential agricultural supplies, such as inputs for sowing and planting, fertilizers, plant protection means, agricultural supplies, etc.

The termination of the component means that APMA involvement was discontinued, as far as there was no more need for facilitation. Other stakeholders who were actually involved in this component (e.g. microfinance organizations and suppliers) continued cooperation without APMA.

The 4th component of the former preferential agro credit project was defined as a separate financial product because it differs from loan with its financial contents.

The 8th component of the former preferential agro credit project was also defined as a separate financial product. Some reasons for this are:

- ✓ This component was a part of another state program Produce in Georgia (but only for beneficiaries involved in agriculture);

- ✓ The component had some subcomponents: infrastructural (property) support to beneficiaries and consulting services (management training, training of human resources, etc.);
- ✓ It envisaged funding of only startup enterprises;
- ✓ It was possible to issue a loan as well as leasing per beneficiary;
- ✓ Both fixed assets (creation of long-term assets) and working capital (including the startup capital) were financed within the frameworks of the component¹.
- ✓ Unlike other components, there was a more complex monitoring process in place, which also implied making commitments by beneficiaries, declaring the fulfillment of these commitments with some periodicity, and their long-term monitoring by APMA. E.g. the beneficiary was supposed to start operating the enterprise within 2 years after the disbursement of loan, and to maintain the enterprise profile within 2 years since the beginning of functioning.

Project Stakeholders

Components of the preferential agro credit project were developed by APMA based on the consultations with banking, financial and leasing institutions and providers of agricultural production supplies, as well as on the direct communication with beneficiaries. Their full involvement in the preferential agro credit project development was one of the key preconditions for the success. The stakeholders are making the following contributions to the project implementation:

Financial institutions:

- Provided interest-free commodity loans;
- Issue loans for financing working capital and fixed assets;
- Provide long-term leasing of fixed assets.

Suppliers:

- In agreement with financial institutions, determine 0% effective interest rate for the farmer, in case interest-free commodity loans (without APMA involvement since January 1, 2014).

APMA:

¹ The ratio of fixed and working capital in the loan amount was: minimum 80% for fixed assets and maximum 20% for working capital

- In accordance with the terms and conditions of the preferential agro credit, provides co-funding for the interest expenses on loans, in the amount of annual 8% in case of working capital, and annual 11% in case of fixed assets (9% and 12% for the loans disbursed before January 1, 2015);
- Provides financing of the fee for the leased fixed assets, in the amount of annual 12% (13% for fixed assets leased before January 1, 2015).
- Provides letters of guarantee for the half of the principal amount of the loan (secondary collateral);
- In case the loan is written off, and if the financial institution wishes so, purchases the land that was used as a collateral for securing the loan, in accordance with the normative price determined by the state;
- Monitors the processes to ensure that the terms and conditions for issuing and servicing preferential agro credits are adhered to.

It should be underlined again, that within the frameworks of the first component, APMA's function was only to facilitate interaction between financial institutions and suppliers of agricultural facilities, and only at the project inception stage. APMA is not involved in making decisions regarding the elaboration and disbursement of loans and/or leasing within the frameworks of any of the financial products, although it is APMA that determines the terms and conditions for issuing preferential agro credit and leasing and is provider of all the benefits. The banks and leasing companies process and disburse the loan in accordance with respective procedures and terms and conditions of the preferential agro credit project so that APMA does not interfere in their activities or in the decision making at any stage. After the loans are disbursed, APMA monitors the loans and leasing to see how their disbursement (by the banks) and utilization (by the beneficiaries) meet the terms and conditions of preferential agro credit projects.

With the purpose of ensuring electronic communication, APMA has developed software that lets the project stakeholders to conduct the above-mentioned activities online. Obviously, this way it is more simplified and effective to carry out these activities in a coordinated mode. This software became a conceptual part of other state programs as well, e.g. the state program Produce in Georgia.

2.3 Budgetary spending

According to the APMA, since the launch of the preferential agro credit project until December 31, 2016, inclusive, APMA has provided a subsidy for co-financing the interest

payments of farmers and agro-producers with the total amount of 132,722,877 GEL for loans disbursed within the framework of both components (working capital and fixed assets). The subsidies provided to smallholder farmers (5,000-20,000 GEL loans in 2013-2014), as well as to cooperatives, are shown in tables below (Tables 1a and 1b):

Table 1a. Subsidy provided by APMA for co-financing the interest payments of smallholder farmers with the loan amount of 5,000-20,000 GEL (as of 31.12.2016):

Year	GEL	USD
2013	474,192	286
2014	5,014,105	1,274
Total	5,488,297	1,560

Table 1b. Subsidy provided by APMA for co-financing the interest payments of cooperatives (as of 31.12.2016):

Year	GEL	USD
2013		2,726
2014	6,195	5,029
2015	27,138	25,507
2016	48,489	93,673
Total	81,823	126,936

2.4 Indicators and M&E

At the initial stage of preferential agro credit project, it was impossible to determine the project success indicators due to several reasons. These are:

- Absence of limitations for industry financing by the state (except for some insignificant cases), which enabled the banks to issue loans in any industry they select;
- No involvement of the state in loan disbursement process. This way, the banks had a full right to issue loans per their discretion to any desired customer, e.g. individuals or legal entities, taxpayers or non-taxpayers.

Therefore, at the initial stage of the project, the only indicator of success was the growth of total portfolio of agro credits in the country, which was surely achieved.

Monitoring

In order to control the purposeful disbursement and utilization process of preferential agro credits, the Agricultural Projects Management Agency implements two types of monitoring – field and document monitoring. The purpose of document monitoring is to control the banks in the process of disbursement of preferential agro credits and to ensure that they adhere to terms and conditions set in agreements with the Agricultural Projects Management Agency. As for the field monitoring, its aim is to ensure purposeful utilization of obtained loans by the farmers and agribusinesses.

As of December 31, 2016, based on data obtained by the monitoring service, APMA has reduced the co-financing term for 104 loans disbursed in the framework of both components of preferential agro credit project, and has terminated the state co-financing for 249 loans.

Table 2. Number of loans with funding term reduced and terminated funding

Year	The funding term reduced	The funding terminated
2013	6	7
2014	48	36
2015	34	130
2016	16	76
Total	104	249

Out of the 104 loans with reduced term, none has become a problem loan and the borrowers kept on repaying them in accordance with the loan terms and conditions defined by the banks.

The two reasons for reducing the loan term are violation of loan issuance terms and conditions by the banks, and unpurposeful utilization of loans by the beneficiaries.

Table 3. The causes of funding term reduction

The causes of funding term reduction	The number of loans with reduced funding term through years				
	2013	2014	2015	2016	In total
Violation of loan issuance terms and conditions by the banks	-	37	13	12	62
Unpurposeful utilization of loans by the beneficiaries	6	11	21	4	42
Total	6	48	34	16	104

There was a third reason added to the above-listed reasons for terminating the state co-financing by APMA in 2015 – failure of beneficiaries to submit to APMA the documentation that would prove that the loan was utilized purposefully. APMA made a respective amendment to the Monitoring Provision in 2015, which envisaged the obligation for a beneficiary to submit the documents to APMA proving the purposeful utilization of the loan.

Table 4. The causes of the termination of the funding

The causes of the termination of the funding	The number of loans with terminated funding, through years				Total
	2013	2014	2015	2016	
Violation of loan issuance terms and conditions by the banks		5	11	13	29
Unpurposeful utilization of loans by the beneficiaries	7	31	81	31	150
Failure of beneficiaries to submit the documentation for proving the purposeful utilization of the loan	-	-	38	32	70
Total	7	36	130	76	249

Out of 249 loans with terminated funding, only 2 became problem loans, and APMA had to fulfill the secondary obligation of securing the loan in the amount of 18,004 GEL. The remaining 247 borrowers continued to repay their loans themselves, in accordance with the loan terms and conditions set by the bank.

3. Summary and analysis of project statistics 2013-2016

As mentioned already, this research aims to study and analyze the results of two components (fixed and working capital) of “preferential agro credit project” mostly in relation to small holder farmers and agricultural cooperatives, and to provide respective recommendations. Consequently, the statistical data is reviewed only regarding the loans disbursed within the frameworks of these two (fixed and working capital) components. Statistics of the first component combine the data of loans disbursed within the former 2nd, 5th and 6th components, and statistics of the second one – the data of loans disbursed within the former 3rd and 7th components.

It should be mentioned that the majority of data are obtained from the Agricultural Projects Management Agency. The data of the National Statistics Office of Georgia and the National Bank of Georgia often are incomplete or/and do not provide correct figures of the Preferential Agro Credit Project. It is especially problematic to record the data regarding the number and volume of disbursed loans, as well as the outstanding portfolio size by the National Bank. Unfortunately, the data of the National Bank cannot be consistent with the data of the Agricultural Projects Management Agency. The difference is caused by the classification assigned to the loans by the National Bank: agro loans disbursed to individuals within the framework of preferential agro credit project are classified as consumer loans by the National Bank.

According to the data provided by the Agricultural Projects Management Agency, since the launch of preferential agro credit project and as of December 31, 2016, 25,313 loans in GEL and 2260 loans in USD have been disbursed within the frameworks of both (working capital and fixed assets) components, with the total volume of 760,800,314 GEL and 240,067,498 USD. Total number of beneficiaries is 17,746. Among them, 13,849 are smallholder farmers.

Table 5. Number and volume of loans disbursed in 2013-2016

Year	Total, In GEL		Total, In USD		Total, converted to GEL	
	Number of loans	Volume disbursed	Number of loans	Volume disbursed	Number of loans	Volume disbursed
2013	5,818	158,117,323	399	54,702,618	6,217	302,904,213
2014	15,170	343,533,490	447	75,999,839	15,617	544,689,863
2015	3,269	185,486,310	579	56,985,143	3,848	336,314,586
2016	1,056	73,663,191	835	52,379,899	1,891	212,302,307
Total	25,313	760,800,314	2,260	240,067,498	27,573	1,396,210,969

If we convert all loans to GEL using the currency exchange rate of 31.12.2016 (2.6468 GEL/USD), we will have total volume disbursed of almost 1.4 bln. GEL.

For the current research, the smallholder farmers are defined as farmers that took loans in the amount of 5,000-20,000 GEL in 2013-2014. Based on this definition, the statistics of preferential agro credits disbursed to smallholder farmers are following:

Table 6. Number and volume of loans disbursed to smallholder farmers in 2013-2014

Year	Total, In GEL		Total, In USD		Total, converted to GEL	
	Number of loans	Volume disbursed	Number of loans	Volume disbursed	Number of loans	Volume disbursed
2013	3,892	38,971,158	1	12,000	3,893	39,002,920
2014	11,875	115,436,760	2	17,582	11,877	115,483,296
Total	15,767	154,407,918	3	29,582	15,770	154,486,216

Table 7. The loan volumes disbursed according to types of beneficiaries

Beneficiary type	Volume disbursed in 2013-2016		
	GEL	USD	Total, converted to GEL
All beneficiaries	760,800,314	240,067,498	1,396,210,969
Smallholder farmers	154,407,918	29,582	154,486,216
% of smallholder farmers	20.20%	0.01%	11.10%

Table 8. The number of loans disbursed according to types of beneficiaries

Beneficiary type	Number of loans disbursed in 2013-2016		
	GEL	USD	Total, converted to GEL
All beneficiaries	25,313	2,260	27,573
Smallholder farmers	15,767	3	15,770
% of smallholder farmers	62.29%	0.13%	57.19%

Based on data given in above tables, we can see that despite the fact that smallholder farmers' share in total number of loans is 57.19%, the corresponding volume is only 11.10%. If we look at the proportions of loans disbursed in GEL and USD, we can see that smallholder farmers mostly take loans in GEL.

Classification of loan volumes disbursed (converted to GEL) according to purpose of loan (for working capital/fixed assets) is following:

Table 9. Loan volumes according to purpose of loan

Purpose	Volume disbursed in 2013-2016 (All beneficiaries)					
	2013	2014	2015	2016	Total	%
Working capital	109,199,726	197,029,512	113,562,551	40,486,898	460,278,686	33%
Fixed assets	193,704,487	347,660,352	222,752,035	171,815,409	935,932,282	67%
Total	302,904,213	544,689,863	336,314,586	212,302,307	1,396,210,969	100%

If we look only at volume disbursed to smallholder farmers, the statistics are following:

Table 10. Loan volumes according to purpose of loan for smallholder farmers

Purpose	Volume disbursed in 2013-2014 (Smallholder farmers)			
	2013	2014	Total	%
Working capital	20,435,225	55,530,962	75,966,187	49%
Fixed assets	18,567,695	59,952,334	78,520,029	51%
Total	39,002,920	115,483,296	154,486,216	100%

Table 11. Number of loans disbursed according to purpose of loan

Purpose	Number of loans disbursed in 2013-2016 (All beneficiaries)					
	2013	2014	2015	2016	Total	%
Working capital	2,983	7,327	1,201	67	11,578	42%
Fixed assets	3,234	8,290	2,647	1,824	15,995	58%
Total	6,217	15,617	3,848	1,891	27,573	100%

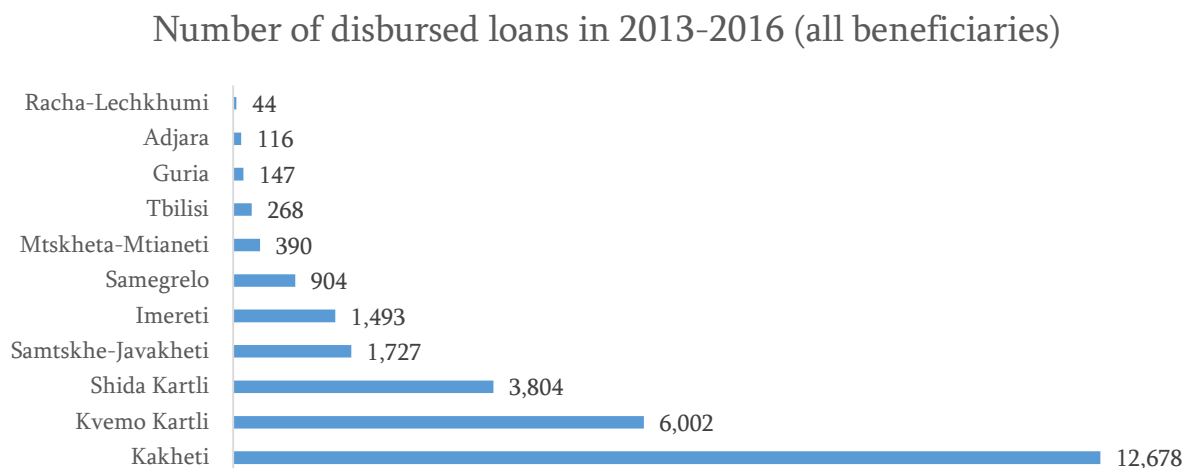
Table 12. Number of loans disbursed to smallholder farmers according to purpose of loan

Purpose	Number of loans disbursed in 2013-2014 (Smallholder farmers)			
	2013	2014	Total	%
Working capital	2,162	6,177	8,339	45%
Fixed assets	1,731	5,700	7,431	55%
Total	3,893	11,877	15,770	100%

Majority of loans were disbursed with the purpose of creating fixed assets, which can be evaluated as a positive fact, as their utilization during the production process will provide longer-term services to the farmers. As a result, low-cost financial resource will have a long-term positive impact on their expenditure structure.

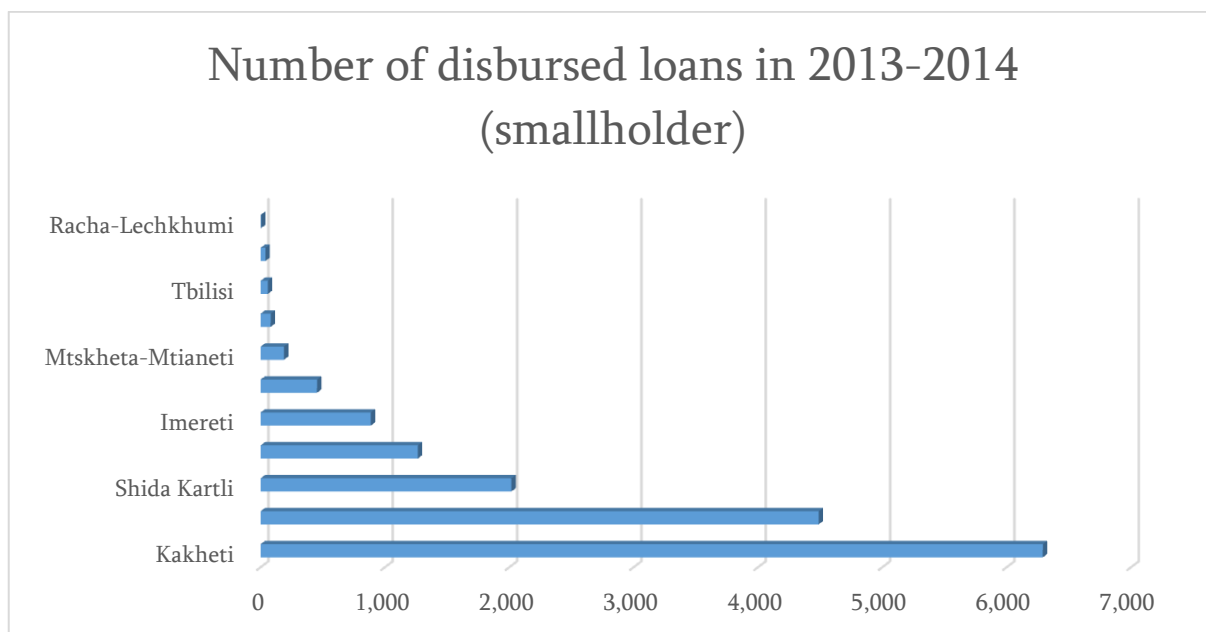
Kakheti is an unconditional leader among the regions based on the number of disbursed loans – with 12,678 loans disbursed. In this respect, Racha-Lechkhumi region is the last in the list.

Figure 1. Number of disbursed loans in 2013-2016 per region



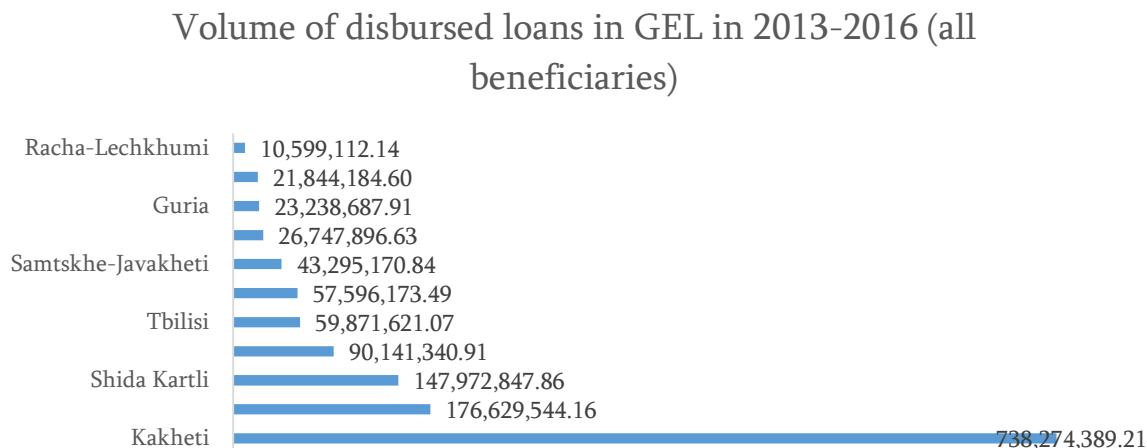
If we look at the regional distribution of loans disbursed to smallholder farmers, we can see that there is almost no difference compared to regional distribution of total loans:

Figure 2. Number of loans disbursed to smallholder farmers in 2013-2014 per region



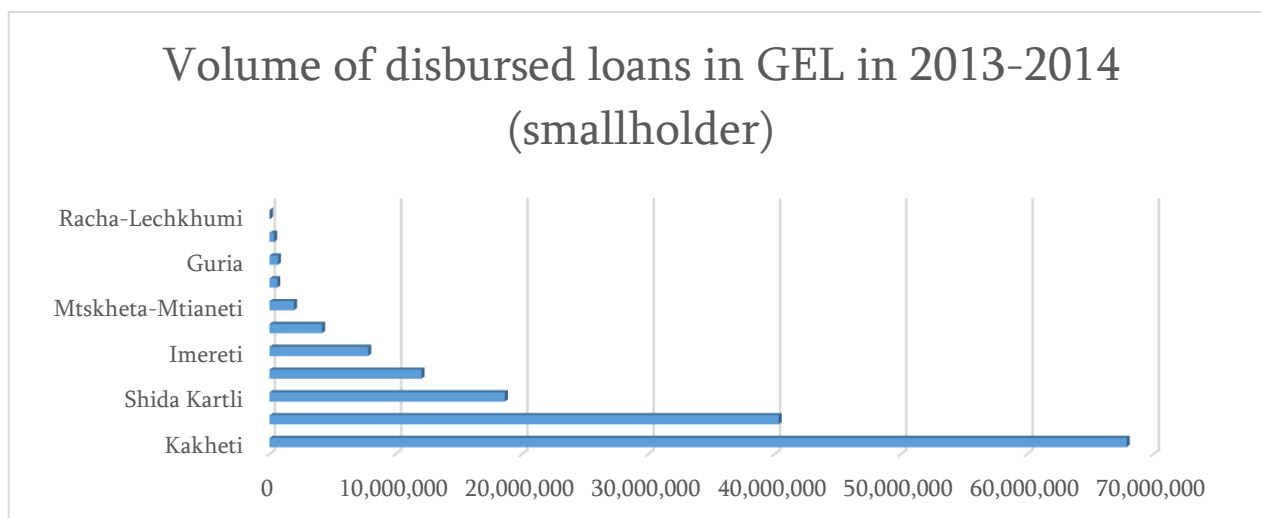
As for volume of loans disbursed, Kakheti is again the leader. More than half of the volume of all loans in all regions is in Kakheti:

Figure 3. Volume of disbursed loans in 2013-2016 per region



Volume of loans disbursed to smallholder farmers looks following:

Figure 4. Volume of loans disbursed to smallholder farmers in 2013-2014 per region



There are certain shortcomings in the data showing activity financing per region, which is caused on one hand by the differences between legal and actual addresses of producers, and on the other hand – by the fact that a company, which is registered in one region, in fact conducts its activities in several regions.

To illustrate this, the loans attributed to Tbilisi are a good example. Some part of the loans disbursed in Tbilisi are intended for farms, agro-enterprises and processing enterprises

operating in rural settlements that fall within the territorial unit of Tbilisi. The other part of loans attributed to Tbilisi is disbursed to those farmers or agro-enterprises, which have a legal address in Tbilisi, but in fact they carry out their activities in another region(s). Similar facts are applicable to other regions, but not to the same extent as Tbilisi.

There are 45 primary production, processing and infrastructural industries financed within the frameworks of the preferential agro credit project. Based on the type of enterprises, number and volume of disbursed loans is following:

Table 13. Number and volume of loans per enterprise category (all beneficiaries)

Enterprise category	Loans disbursed in 2013-2016 (All beneficiaries)			
	Number	Share	Volume in GEL	Share
Processing	88	0.32%	56,907,067	4.08%
Infrastructural	31	0.11%	10,853,258	0.78%
Primary	6,040	21.91%	175,140,497	12.54%
Purchasing (seasonal subcomponents)	55	0.20%	56,747,826	4.06%
Packaging materials	3	0.01%	3,255,564	0.23%
Total 2013	6,217	22.55%	302,904,213	21.69%
Processing	143	0.52%	96,524,484	6.91%
Infrastructural	28	0.10%	9,576,864	0.69%
Primary	15,358	55.70%	341,577,741	24.46%
Purchasing (seasonal subcomponents)	82	0.30%	93,564,110	6.70%
Packaging materials	6	0.02%	3,446,663	0.25%
Total 2014	15,617	56.64%	544,689,863	39.01%
Processing	127	0.46%	45,370,633	3.25%
Infrastructural	72	0.26%	7,616,916	0.55%
Primary	3,558	12.90%	212,730,775	15.24%
Purchasing (seasonal subcomponents)	84	0.30%	68,690,054	4.92%
Packaging materials	7	0.03%	1,906,209	0.14%
Total 2015	3,848	13.96%	336,314,586	24.09%
Processing	174	0.63%	45,729,264	3.28%
Infrastructural	186	0.67%	23,469,422	1.68%
Primary	1,473	5.34%	106,210,232	7.61%
Purchasing (seasonal subcomponents)	56	0.20%	36,795,456	2.64%
Packaging materials	2	0.01%	97,932	0.01%
Total 2016	1,891	6.86%	212,302,307	15.21%
TOTAL	27,573	100.00%	1,396,210,969	100.00%

As we can see from the table above, the number of loans for primary production has decreased in 2015-2016. This can be explained by the change of lower limit to 20,000 GEL. The same data, but for smallholder farmers is following:

Table 14. Number and volume of loans per enterprise category (smallholder farmers)

Enterprise category	Loans disbursed in 2013-2014 (Smallholder farmers)			
	Number	Share	Volume in GEL	Share
Infrastructural	3	0.02%	0	0.00%
Primary	3,890	24.67%	38,965,920	25.22%
Total 2013	3,893	24.69%	39,002,920	25.25%
Processing	2	0.01%	28,000	0.02%
Infrastructural	3	0.02%	37,400	0.02%
Primary	11,870	75.27%	115,385,475	74.69%
Purchasing (seasonal subcomponents)	2	0.01%	32,421	0.02%
Total 2014	11,877	75.31%	115,483,296	74.75%
TOTAL	15,770	100.00%	154,486,216	100.00%

We can see from the above table that smallholder farmers that are involved in the preferential agro credit programme, are usually engaged in primary production. Therefore, removal of working capital component from the programme and tendency to prioritize processing companies can be regarded as an excluding factor for small holder farmers.

3.1. Cooperatives

One of the main goals named by APMA for changing the lower limit of the loans in 2015 was enhancing growth of farms and supporting their cooperation. Table 17 shows the small growth in the loans disbursed to cooperatives:

Table 17. Number and volume of loans disbursed to cooperatives

Year	GEL		USD		Total, converted to GEL	
	Number of loans	Volume disbursed	Number of loans	Volume disbursed	Number of loans	Volume disbursed
2013			1	45,000	1	119,106
2014	1	100,000	2	157,000	3	515,548
2015	13	494,100	5	553,000	18	1,957,780
2016	16	1,178,500	11	565,600	27	2,675,530
Total	30	1,772,600	19	1,320,600	49	5,267,964

As we can see, there are total of 49 cooperatives financed through the Preferential Agro Credit Project, with the total amount of disbursed loans approximately 5,3 mln. GEL. The statistics regarding distribution of loans disbursed to cooperatives by project component, enterprise types, regions and industries are provided in tables 18-21:

Table 18. Number and volume of loans disbursed to cooperatives according to purpose of loan

Purpose	GEL		USD		Total, converted to GEL	
	Number of loans	Volume disbursed	Number of loans	Volume disbursed	Number of loans	Volume disbursed
2013			1	45,000	1	119,106
Working capital					-	-
Fixed assets			1	45,000	1	119,106
2014	1	100,000	2	157,000	3	515,548
Working capital	1	100,000			1	100,000
Fixed assets			2	157,000	2	415,548
2015	13	494,100	5	553,000	18	1,957,780
Working capital	6	275,000			6	275,000
Fixed assets	7	219,100	5	553,000	12	1,682,780
2016	16	1,178,500	11	565,600	27	2,675,530
Working capital					-	-
Fixed assets	16	1,178,500	11	565,600	27	2,675,530
Total	30	1,772,600	19	1,320,600	49	5,267,964
Working capital	7	375,000	0	0	7	375,000
Fixed assets	23	1,397,600	19	1,320,600	42	4,892,964

Based on the type of enterprises, number and volume of loans disbursed to cooperatives is following (31.12.2016):

Table 19. Number and volume of loans disbursed to cooperatives according to enterprise category

Enterprise category	GEL		USD		Total, converted to GEL	
	Number of loans	Volume disbursed	Number of loans	Volume disbursed	Number of loans	Volume disbursed
2013			1	45,000	1	119,106
Processing			1	45,000	1	119,106
2014	1	100,000	2	157,000	3	515,548

Infrastructural			1	109,000	1	288,501
Primary	1	100,000	1	48,000	2	227,046
2015	13	494,100	5	553,000	18	1,957,780
Processing			2	133,000	2	352,024
Infrastructural	1	32,000	1	230,000	2	640,764
Primary	12	462,100	2	190,000	14	964,992
2016	16	1,178,500	11	565,600	27	2,675,530
Processing	5	306,000	2	255,000	7	980,934
Infrastructural	1	114,000			1	114,000
Primary	10	758,500	9	310,600	19	1,580,596
Total	30	1,772,600	19	1,320,600	49	5,267,964

The number of regions where agricultural cooperatives were financed has also grown over the years:

Table 20. Regional distribution of loans disbursed to cooperatives

Region	GEL		USD		Total, converted to GEL	
	Number of loans	Volume disbursed	Number of loans	Volume disbursed	Number of loans	Volume disbursed
2013			1	45,000	1	119,106
Samtskhe-Javakheti			1	45,000	1	119,106
2014	1	100,000	2	157,000	3	515,548
Imereti			1	48,000	1	127,046
Kakheti	1	100,000			1	100,000
Shida Kartli			1	109,000	1	288,501
2015	13	494,100	5	553,000	18	1,957,780
Adjara	3	95,000	1	58,000	4	248,514
Kakheti	3	115,000	2	360,000	5	1,067,848
Mtskheta-Mtianeti	1	20,000			1	20,000
Racha-Lechkhumi	1	37,000			1	37,000
Samegrelo	1	20,000			1	20,000
Samtskhe-Javakheti	2	75,100			2	75,100
Kvemo Kartli	2	132,000	1	75,000	3	330,510
Shida Kartli			1	60,000	1	158,808
2016	16	1,178,500	11	565,600	27	2,675,530
Guria	1	76,000			1	76,000
Imereti	1	45,000	1	25,000	2	111,170
Kakheti	1	80,000	3	388,000	4	1,106,958
Mtskheta-Mtianeti	3	267,500			3	267,500

Racha-Lechkhumi			1	8,600	1	22,762
Samegrelo	7	525,000	2	39,500	9	629,549
Samtskhe-Javakheti	2	90,000			2	90,000
Kvemo Kartli	1	95,000	1	25,000	2	161,170
Shida Kartli			3	79,500	3	210,421
Total	30	1,772,600	19	1,320,600	49	5,267,964

Table 21. Industry distribution of loans disbursed to cooperatives

Industry	GEL		USD		Total, converted to GEL	
	Number of loans	Volume disbursed	Number of loans	Volume disbursed	Number of loans	Volume disbursed
2013			1	45,000	1	119,106
Dairy processing			1	45,000	1	119,106
2014	1	100,000	2	157,000	3	515,548
Cold storage			1	109,000	1	288,501
Greenhouse			1	48,000	1	127,046
Mixed plant growing	1	100,000			1	100,000
2015	13	494,100	5	553,000	18	1,957,780
Crop production	1	60,000			1	60,000
Gardening			2	190,000	2	502,892
Horticulture	1	100,000			1	100,000
Viticulture	1	15,000			1	15,000
Fishing	3	95,000			3	95,000
Cattle-breeding	2	75,100			2	75,100
Bee-keeping	2	57,000			2	57,000
Storages	1	32,000	1	230,000	2	640,764
Dairy processing			1	58,000	1	153,514
Greenhouses	1	20,000			1	20,000
Slaughterhouses			1	75,000	1	198,510
Mixed plant growing	1	40,000			1	40,000
2016	16	1,178,500	11	565,600	27	2,675,530
Honey processing	1	45,000			1	45,000
Hazelnut processing	1	76,000			1	76,000
Gardening	4	376,000	4	177,500	8	845,807
Fishing			1	25,000	1	66,170
cattle-breeding			1	38,000	1	100,578
Bee-keeping			2	25,100	2	66,435
Pig farming	3	267,500			3	267,500
Dairy processing	3	185,000			3	185,000

Greenhouses	2	65,000	1	45,000	3	184,106
Slaughterhouses			1	25,000	1	66,170
Mixed	1	50,000			1	50,000
Mixed infrastructural enterprises	1	114,000			1	114,000
Fruit processing			1	230,000	1	608,764
Total	30	1,772,600	19	1,320,600	49	5,267,964

As we can see from the above tables, both regions and industries where cooperatives have been financed have been increasing in number over the years (2013-2016), but at slow pace. The number of cooperatives financed in the framework of the programme is still quite small. The share of cooperatives in total volume of disbursed loans is only 0.38%. Clearly, more effort is needed to enhance financing of cooperatives.

3.2. Perception of the programme by smallholder farmers

In the framework of the conducted survey, the attitudes and perceptions of smallholder farmers regarding the Preferential Agro Credit Programme were studied. Majority of respondents believe that the programme supports the development of agriculture in Georgia (87%) and that the programme has been successful (80%). 77% of respondents say that they would participate in the programme in the future.

However, when asked whether the programme meets the needs of smallholder farmers, 40% of respondents answered that it is not designed for smallholder farmers and is more oriented to benefit larger farmers, especially after the lower limit of the loans was changed from 5,000 to 20,000 GEL. But if we look at the statistics, we can see that the share of number of loans utilized by smallholder farmers is quite large:

Table 22. Share of loans disbursed to smallholder farmers according to purpose of loans

Purpose	Share of loans disbursed to smallholder farmers		
	2013	2014	Total
Working capital	72.50%	84.30%	72%
Fixed assets	53.50%	68.70%	47%

The perception of smallholder farmers that programme is better suited for larger farmers, can be explained by the fact that despite the given statistics regarding the participation of smallholder farmers in the programme, in general, only small percentage of smallholder farmers countrywide is involved in the programme. If we look at data published for another

project implemented by APMA – “Small farmers spring works assistance project” – which covers smallholder farmers in the country, the number of smallholder farmers is 767,018² for 2016. Thus, if we take this number as total number of smallholder farmers in the country, then the share of small farmers that are beneficiaries of the Preferential agro credit programme is only 1.80% (13,849 beneficiaries).

Impact of the programme on smallholder farmers

According to the results of the conducted study, most of the beneficiaries used the “preferential agro credit for working capital” component (41%)¹, followed by “interest-free commodity loans” (26%) and “preferential agro credit for fixed assets” (23%). The purpose of the agro-credit was following: 59% for financing current needs; 38% for expanding existing business; 5% for starting new business and 5% for other purposes.

One of the main goals of the survey was to find out whether the preferential agro credit programme supported small-holder farmers in achieving their goals. 67% of respondents answered “yes” to this question, 31% - “partly” and only 2% - “no”. When evaluating the importance of the programme, 15% of respondents said they would not be able to achieve their goals without using the preferential agro credit. 39% said they would be able to do so only partly. 31% noted they might still have achieved their goals, but it would had taken longer time. And 16% said, they would be able to do so even without participating in programme.

As for the economic impact of the programme, we asked programme beneficiaries how their annual incomes from business were affected by the programme. For most of them (62%) the incomes had increased. For 34% the incomes did not change much, and for 3% - the incomes declined. Apart from business incomes, for most respondents (62%), the feeling of their own/their family’s social/economic stability also increased, while for rest of them (38%) it did not change much.

Difficulties and problems faced by the smallholder farmers

In conducted survey, 15% of the respondents applied for preferential agro credit, but were rejected. The 2 main problems they faced were: 1) The banks evaluated their collateral with lower than market price (55% of respondents that were rejected); and 2) the banks gave

² Government Decree # 52 of 18.01.2016, <https://matsne.gov.ge/ka/document/view/3178423>

negative evaluation to their business idea (36% of respondents that were rejected). Both problems were reconfirmed in the interviews with the smallholder farmers.

The first problem (collateral value estimation) is the problem that most farmers name, both programme beneficiaries and those that were rejected. According to them, banks give preference to those applicants that have high value property, preferably apartments in big cities (e.g. in Tbilisi). Such property is more attractive for banks, because in case of default, it is easier to sell. Therefore, banks give lower than market estimations to other types of property, to be on the safe side. Many farmers perceive banks as “making rich farmers even richer” and do not believe that their applications will be considered unless they have a lot of money (and good collateral accordingly).

The second problem (negative evaluation of the business idea) has several reasons. Some applicants claim that bank staff does not have enough knowledge in agriculture to properly evaluate their ideas. On the other hand, many beneficiaries do not have enough business skills or management experience to properly describe/implement their ideas. Taken together, this creates a gap between banks and applicants, which results in rejecting ideas by banks.

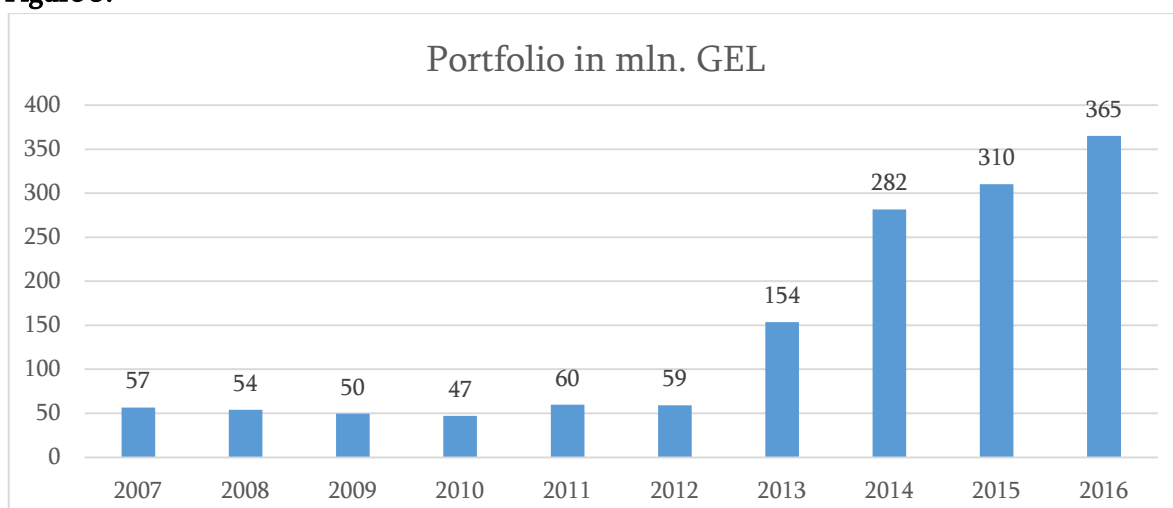
Another problem named by respondents of the survey and interviews is insufficient grace period for the loans. According to them, the grace period is not enough to allow them start receiving income from their investments, which makes it quite difficult to repay the loans for them. Most of the respondents (40%) named “increasing the grace period” as one of the features of the programme they would change.

The problem named by representatives of cooperatives is also related to banks. They say that even though the cooperative as whole has a good business idea, good incomes and good collateral, their applications were still rejected by the banks. The reason was that a member of cooperative (as an individual) has a bad credit history and because of one member, the cooperative cannot become a beneficiary of the preferential agro-credit programme.

4. Macro and micro economic impact

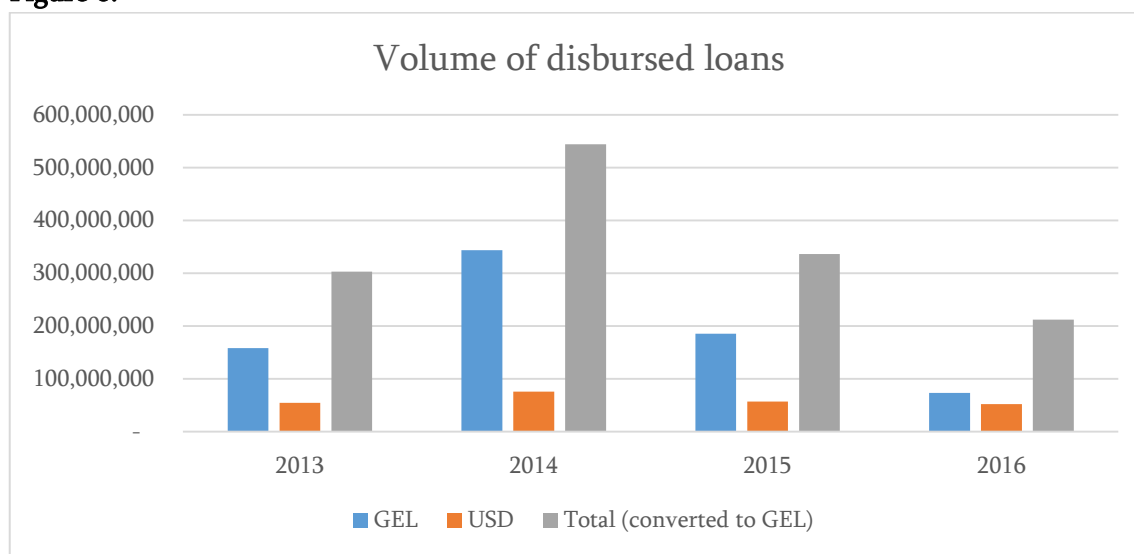
According to the National Bank of Georgia, the volume of loans classified as “agriculture, forestry, fishery” loans that were disbursed by the commercial banks in national and foreign currency to the resident legal entities and individuals before and after the launch of preferential agro credit project, looks like this:

Figure 5.



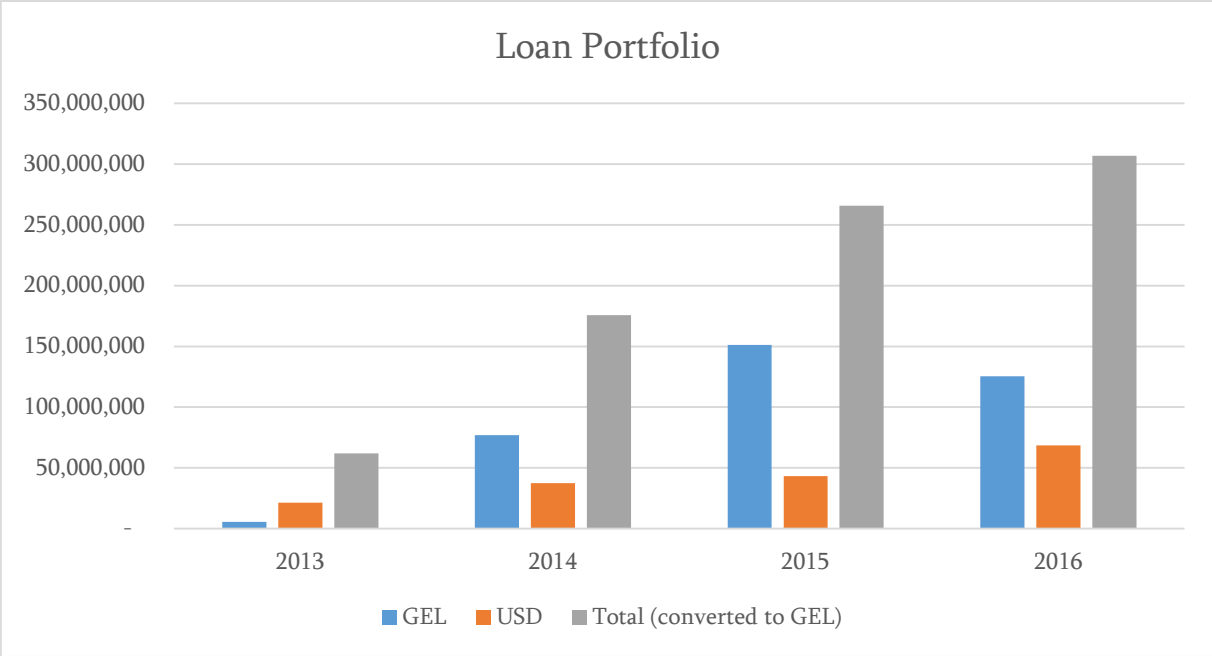
There is an evident growth of agricultural loans that the National Bank has registered using its classifier. According to the information provided by the Agricultural Projects Management Agency, the volume of preferential agro credits disbursed after the launch of the project distributed per years is following:

Figure 6.



Despite the reduction in number of disbursed loans in 2015-2016, the total portfolio³ of agro credits is still growing:

Figure 7.



³ Portfolio means the residual value of the disbursed loans

5. Limiting factors and challenges

The number of loans disbursed in 2015 and 2016 has decreased compared to previous (2013-2014) years, which can be explained by several reasons:

- The main reason is a saturation of agro credit market (the biggest majority of qualified borrowers already took loans in 2013-2014). In other words, the banks provided maximum financing to farmers and agro-producers, whom they considered to be creditworthy.
- According to the banks, due to the reduction of interest expenditures (which is mostly thanks to the project), some part of farmers and agro-producers were able to mobilize their revenues, and to finance their current assets for the next economic year. This refers to those farmers and agro-producers that do not or cannot expand their activities due to some subjective or objective reasons.
- According to the evaluation by banks, the agro credit market was saturated in all sectors except for cattle breeding sector. This is due to the fact that APMA introduced an obligation to meet food safety standards, which reduced the farmers' demand on loans in the field of cattle breeding.
- In case of smallholder farmers, we can consider the change of lower limit of loans from 5,000 to 20,000 GEL in 2015 as a limiting factor, which left a large group of small farmers out of programme. To compensate this, government allowed financing of cooperatives. This should have enhanced small farmers to unite and apply for loans as cooperatives. However, this has not yet shown any adequate response from farmers or banks' side.

Apart from decreasing number of loans, the following problems and challenges were identified during the research:

Communication strategy. Both programme beneficiaries and subject matter experts (APMA, experts, as well as banks) state that there is a problem with information dissemination. This is especially evident in the regions, where internet usage is low and the banks are not as well represented. As the results of the conducted survey show, 38% of respondents received incomplete information or received it with delays. According to the results of the research conducted by People in Need and Association of Young Economists of Georgia ("Assessment of the Preferential Agro Credit Project from Farmers' Needs and Requirements Perspective"), the information regarding the project was not disseminated in an accurate manner and therefore it failed to be interpreted correctly and wrong expectations were created.

Perception of banks. Many farmers still perceive banks very negatively and think that banks want to make them bankrupt and “steal their property”. Also banks are perceived as making rich farmers even richer and creating barriers for small farmers. Some farmers mentioned in the interviews that they have not tried applying to the preferential agro credit programme because banks give loans only to big farmers with good property. Some other findings related to farmers’ perceptions of banks offered by the “Assessment of the Preferential Agro Credit Project from Farmers’ Needs and Requirements Perspective”, conducted by People in Need and Association of Young Economists of Georgia, are:

- There is a widely-spread stereotype among farmers that it is essential to have the so-called “connections” to receive a preferential loans’
- Often farmers do not have information about the discontinuation of a project component and think that these are banks’ own decisions;
- Farmers find it difficult to understand bank standards and procedures and feel that banks intentionally created artificial barriers to complicate the process of participation in the project.

Cooperatives. As statistics for cooperatives show, the number of loans disbursed to cooperatives is increasing, but at a very slow pace. Representatives of the cooperatives surveyed in the framework of research conducted by People in Need and Association of Young Economists of Georgia believe that only the accessibility to financial means is not sufficient. The main problem according to them is in farmers, because they find it difficult to reach an agreement even on smallest issues. The respondents said that additional conditions should be created for cooperatives. In addition, banks find it difficult to make a positive decision on cooperatives. There were instances when certain cooperative units met bank requirements but the members of these cooperative units had problematic individual loans that created additional obstacles⁴.

Collateral requirements. There is still a problem with providing collateral to banks. Banks want collaterals that have good value and liquidity. Some farmers say that banks require apartments in Tbilisi (or similar, high-value real estate) for collateral and block small farmers that do not meet such requirements.

Grace period. The grace period is not long enough to allow farmers to start receiving income from their investments, which makes it quite difficult to repay the loans for them.

⁴ “Assessment of the Preferential Agro Credit Project from Farmers’ Needs and Requirements Perspective”, conducted by People in Need and Association of Young Economists of Georgia

Agricultural experts in banks. The respondents surveyed in the framework of research conducted by People in Need and Association of Young Economists of Georgia believe that in some cases banks have difficulty to properly evaluate the project idea impartially and professionally, especially if it deals with agriculture innovations, which is caused by lack of agriculture experts in banks⁵.

⁵ “Assessment of the Preferential Agro Credit Project from Farmers’ Needs and Requirements Perspective”, conducted by People in Need and Association of Young Economists of Georgia

6. Conclusions and Recommendations

The goal of the research was to assess the Preferential Agro Credit Program, with the special focus on smallholder farmers and cooperatives.

After reviewing and analyzing the preferential agro credit project, we have developed some recommendations for project implementers. We think that taking them into account will make the project more diverse, consumer-oriented and effective.

Develop more advanced communication strategy. As described above, there are certain problems with disseminating information about programme among the potential beneficiaries.

Many farmers have incomplete information or wrong perceptions regarding the programme. In many cases, farmers are not aware of changes made to the programme components, e.g. discontinued or newly initiated components, changes in the funding limits, etc. It is very important to conduct intensive information campaign at all stages of programme implementation, so that farmers have accurate and up-to-date information to make proper decisions that will benefit them.

The conducted survey showed that the most effective communication channels are TV, radio and Internet, followed by professional/friends circle and banks that are involved in the programme. As TV has the largest reach, it is essential to utilize this channel more intensively. APMA should ensure that any adjustments to the programme are well covered in news. Also, it is possible to use regional channels for better disseminating information. Many regional channels have agricultural shows, which can be used for presenting success stories, etc.

Make adjustments to loan terms to better support the beneficiaries. This applies to grace periods, which should be better designed by banks. The government can also participate in this. A good example is a product developed by TBC Bank in the frameworks of the "Preferential Agro-Credit Project" - agro-investment loans, with a maximum grace period of 5 years. It represents an opportunity for the parties interested in perennial plantations to make principal payments of the loan (credit) only after the orchard, planted with the Agro-Investment Loan, yields commercial benefits. The grace period, during which the borrower does not have to cover the principal payment, depends on the planting culture. Government could create incentives for banks to develop similar products.

Make collateral requirements more relevant. As discussed earlier, collateral requirements still remain a burden for smallholder farmers and are often a reason for being rejected by the banks. Government should interfere to make banks reconsider their collateral strategy. Although at the moment APMA provides up to 50% secondary collateral for fixed loans, it is evident that this does not solve the problem.

Develop better terms for financing cooperatives. In case of cooperatives, collateral requirements are even greater burden. The banks often make negative decisions on financing cooperatives in case the members of these cooperative units have problematic individual loans. More emphasis should be made on cooperative's property as a whole rather than on its members.

Develop farmers' business skills and knowledge. Many smallholder farmers have good agriculture-related knowledge, but lack business skills. Very often, they cannot prepare good business plans and communicate their ideas to banks properly. In order to support such farmers, government should establish/expand consulting/training centers for them.

Conduct trainings for bank staff. As discussed earlier, in some cases bank staff do not have enough agricultural knowledge to properly evaluate farmers' business ideas. The good solution to this problem would be conducting more intensive and regular trainings to bank staff.

Support women and youth involvement. Although there are no restrictions for women farmers/youth to participate in the programme, still they are underrepresented. Government could create subprogramme/subcomponent to enhance women/youth involvement in the programme.

Develop priority components as dictated by sector development. This refers to those sectors where Georgia has comparative advantage compared to other countries. Such action would support export and ensure country's strong positions in international trade.

Add financing for working capital for some sectors. Especially, this refers to highly productive sectors like cattle-breeding, greenhouses, etc. Supporting these sectors positively affects the rapid development of agriculture in the country and making such exclusions would be beneficial for everyone.

Annex 1 Focus group questionnaire

Objective #1: Evaluate relevance of the project's objectives.

- 1) In your opinion, what are the main objectives of the project? Do they meet the needs of the small-holders (including men and women)?
- 2) What should be the main goal of such project?
- 3) Are there any additional components that should be included in such project, but are not? Which ones?

Objective #2: Evaluate impact of the project.

- 1) In your opinion, what are the main achievements of the project? What changes did it bring to target groups?
- 2) What are the strengths and weaknesses of the project?
- 3) What was the effect of the project on various target groups (small-holders, women)? Has project supported economic development and poverty reduction?

Objective #3: Evaluate problems and challenges

- 1) How inclusive is the project of the following groups: small-holders, women?
- 2) If the project is cancelled, what will be the effect on target groups?
- 3) What are the main problems identified during the course of the project?
- 4) Are there any additional components that should be added to the project to make it more efficient and sustainable?

Objective #4: Provide recommendations

- 1) What would you change in the project (components/procedures/target groups, etc)?
- 2) How can the project create even more benefits?
- 3) What is your main recommendation?

Annex 2. Survey questionnaire

1. General information

- a) Date of survey
- b) Address
- c) Sex

2. Is agriculture your main activity?

- a) Yes
- b) Partly
- c) It is supplementary activity for me

3. What is your status?

- a) Employer
- b) Employed
- c) Self-employed

4. What type of agricultural activity are you involved in?

- a) Primary production
- b) Processing

5. How many ha of land do you own?

_____ ha

6. How many tones do you produce annually?

7. Have you heard of Preferential Agro Credit Programme?

- a) Yes, I know the programme details
- b) I have heard about the programme, but do not know the details
- c) No

8. How did you get the information about the programme? *(You can select several answers)*

- a) TV, radio, Internet
- b) Print media (brochures, posters, etc)
- c) Personal conversations with fellow farmers/friends
- d) Commercial banks involved in the programme
- e) Other (please indicate) _____

9. Please describe the quality of the information you got about the programme (*You can select several answers*):

- a) I received incomplete information
 - b) I received information too late
 - c) I received the complete information on time
 - d) Other (please indicate)
-

10. Have you participated in the programme?

- a) Yes
- b) No (Please continue from question # 24)
- c) I applied for the loan, but got rejected (Please continue from question # 20)

11. Please indicate which component of the programme have you used (*You can select several answers*):

- a) Interest-free commodity loans
- b) Working capital
- c) Fixed assets
- d) Preferential agro leasing
- e) Subcomponent for purchasing grapes
- f) Subcomponent for purchasing tangerine and apple for processing
- g) "Produce in Georgia"

12. For what did you use agro credit?

- a) To finance ongoing needs
- b) To expand my business
- c) To start new business
- d) Other _____

13. Please, indicate the details of your loan:

- a) Number of loans:
- b) What was the amount you requested?
- c) Date of first approved loan:
- d) Amount of first approved loan:
- e) Term of first approved loan (number of months):
- f) Currency of the first approved loan:
- g) Interest rate of the first approved loan:

14. What type of collateral did you use?

- a) Commercial real estate
- b) Apartment (please, indicate city/village)
- c) House (please, indicate city/village)
- d) Agricultural land
- e) Other _____

15. Did the preferential agro loan support you in achieving your goals?

- a) Yes
- b) Partly
- c) No
- d) Other _____

16. Would you be able to achieve your goals without participating in the programme?

- a) Yes
- b) Yes, but it would take more time
- c) Partly
- d) No

17. As a result of participating in the programme, how did annual income related to your agricultural activity change?

- a) Increased
- b) Decreased
- c) Did not change

18. As a result of participating in the programme, how did your family's social /economic stability change?

- a) Improved
- b) Did not change
- c) Deteriorated

19. Did you face any problems in the process of repaying your loan?

- a) No
- b) My monthly payments increased due to currency rate fluctuations
- c) Natural disasters caused problems to my business and I had a problem with monthly repayments
- d) Other _____

20. In the process of applying for loan, or afterwards, have you faced any artificial barriers that you think were discriminating/ unfair? (You can select several answers):

- a) No
- b) Yes, gender-related barriers
- c) Yes, ethnicity-related barriers
- d) Yes, religion-related barriers
- e) Yes, language-related barriers
- f) Other _____

21. Did you manage to overcome the barriers mentioned in the question #20?

- a) Yes
- b) Partly
- c) No

22. (Please answer this question in case your applicatuion was rejected)

What types of problems did you face in the process of applying to the programme?

- a) The banks evaluated my collateral with lower than market price
- b) The bank rejected my collateral
- c) I could not manage to provide co-investment amount required
- d) The banks gave negative evaluation to my business idea
- e) I did not face any problems
- f) Other _____

23. (Please answer this question in case your applicatuion was rejected)

Did you manage to implement your plans after being rejected by banks?

- a) No
- b) Yes, with my own money
- c) Yes, by applying to regular consumer/business loan
- d) Yes, by borrowing money from other sources

24. (Please answer this question in case you have never applied for participation in the programme)

Why have you never applied to the programme?

- a) I did not need any additional capital
- b) I need additional capital for my business, but I did not apply to the programme because:
 - Interest rate is high
 - Grace period is too small
 - Lower limit of loan amount is high

• Other _____

c) I believe there was no sense in applying to programme, because the bank would reject my idea anyway

d) Other _____

25. Do you think that Preferential Agro Credit Programme supports development of agriculture in Georgia?

a) Yes

b) No

26. Do you think that the programme is designed to meet the needs of smallholder farmers?

a) Yes, I think it meets needs of farmers of any size

b) No, it is designed to meet the needs of larger farmers

27. In general, would you describe the programme as successful?

a) Yes

b) No

28. Would you participate in the programme in the future?

a) Yes, definitely

b) Yes

c) I do not have answer right now

d) Never again

e) Other _____

29. Which features of the programme would you change to make it better?

a) Interest rate

b) Lower limit of loan

c) Possibility to choose currency

d) Grace perio

e) Other _____

30. Please share any additional comments, thoughts, etc.

