

Development Engagement Document
for
Inclusive Growth and Employment for Young Entrepreneurs in Georgia
(2016-2019)

Development engagement document

Introduction

The present development engagement document details the objectives and management arrangements for the development cooperation concerning Inclusive Growth and Employment for Young Entrepreneurs in Georgia (October 2016–December 2019) as agreed between the parties specified below. The development engagement document is annexed to the Bilateral Agreement with Implementing Partner, International Fund for Agricultural Development (IFAD), and constitutes an integrated part hereof.

Parties

Danish Ministry of Foreign Affairs (DMFA) represented by European Neighbourhood Programme (EUN) and International Fund for Agricultural Development (IFAD).

Documentation

“The Documentation” refers to the partner documentation for the supported intervention, which is “Georgia: Agriculture Modernization, Market Access and Resilience” Final project design report, 10 July 2014.

Background

Georgia is at a crossroad facing multiple challenges. Politically, the country is progressing well on its EU accession process. In 2014 an Association Agreement was signed, which included a Deep and Comprehensive Free Trade Area (AA/DCFTA). The Agreement significantly deepens political and economic ties with the EU in the framework of the Eastern Partnership. A further step towards EU accession has been the recent granting of visa-free access to EU, which is planned to come into effect later in 2016. A move that is widely praised in Georgia but also carries several downside risks for EU member states, in the form of potentially higher immigration from Georgia.¹ While relations with Russia have improved to a certain extent since the 2008 conflict, they remain tense and vulnerable to set-backs, with no hope of a solution to the South Ossetia and Abkhazia status in the short term.

Despite a modest decline in poverty observed over the past decade, poverty remains high with those categorised as being moderate poor constituting 69 percent of the population whereas the

¹ E.g. EU lifted visa restrictions for Moldova in 2014, resulting in around a half a million Moldovan citizens – 75,000 of them from Transnistria – made use of visa-free travel in the first year of its implementation (April 2014-April 2015). It is unknown how many of these overstayed.

extreme poor constitutes 32 percent. Particularly the rural areas are affected with a poverty rate of 41 percent and the urban poverty rate is 21 percent. The limited income opportunities in rural areas, where two-thirds of the country's working poor are engaged in semi-subsistence farming, presents a major challenge. The rural areas are particularly prone to emigration of young people to either larger Georgian towns or abroad. The unemployment rate among the youth (ages 20-34) amounts to 19 percent - versus 9 percent for the age group above 35. The youth unemployment can be explained by low motivation to engage with the agricultural sector and a preference for salaried jobs in other sectors. However, employment in rural areas is limited by the underdeveloped rural infrastructure and few off-farm opportunities coupled with the fact that many young people do not have the required skill sets and vocational training to find jobs outside the household. With the current development in rural areas, the outflow of young people leads to a loss of the entrepreneurial and innovative drive, a reduction of productivity, which is already at a low level and a draining of the wider rural society from upstream opportunities in e.g. processing and services. Thus a vicious circle is perpetuated.

Creating jobs is one of the top development priorities of the Georgian government. Evidence shows that ability to work is the most important asset of the poor in Georgia. Comparing Georgia with other countries in the region with advanced economic reforms, Georgia's record of entrepreneurship is mixed. Georgia has a relatively good business environment, but the pool of latent entrepreneurs is small. Furthermore, the share of small and medium-sized enterprises (SMEs) per 1,000 people is also relatively low in comparison to other countries in the region. The Danish support will address and strengthen these areas.

This project will provide alternative and attractive options for one of the most valuable resources of Georgia: its rural youth. The support is aligned with the government's Youth Policy from 2014 that particularly emphasises promoting economic development of rural regions, especially in mountainous areas that can retain youth.

Apart from the strategic alignment with the Georgian government's priorities, Denmark's support is integrated into a larger programme (AMMAR²) implemented by the Georgian Ministry of Agriculture (MoA) and International Fund for Agricultural Development (IFAD). The overall development objective of the larger programme is to create sustainable increase in incomes and to reduce poverty for men and women in rural Georgia. The programme is organised in two components: (1) irrigation and agricultural value chain investments, and (2) climate smart agricultural and value chain development. The Danish support described in the following, falls under both components and is integrated into the overall programme in terms of implementation, management and reporting.

² Agricultural Modernization, Market Access and Resilience Programme (AMMAR) of USD 31 million (2015-2019).

Development Engagement Objective³

The Danish support targets the youth with the overall aim to increase sustainable private led rural growth for targeted young talent in Georgia and the specific objective is to promote rural economic growth and reduce poverty by improving access to financial services, capacity development and entrepreneurship mentoring for rural youth in Kakheti, Shida-Kartli, Samegrelo and Adjara regions. These regions have been selected through a broad consultation process and were chosen because they show development potential within the value chains supported within the larger programme AMMAR (persimmon, peach, apple, kiwi, bay leaf, vegetables and honey).

This will lead to creation of additional jobs in the rural areas in total estimated 800-1000 permanent jobs created. The project will target young emerging talent (male up to 35 years and female up to 40 years old), of which at least 30 percent will be female. The programme will seek to increase the incentives available to retain this crucial segment of the population through a carefully composed package of credits, grants and advisory services, and links to the private sector, which combined can reverse the trend of increased rural poverty, widening of regional disparities and emigration.

A central obstacle for potential young entrepreneurs in rural Georgia is that they lack capital to start or invest in their business. Young people are unable to be approved for loans because they typically do not have any credit history or collateral. Therefore, the project is based on credit from banks and other private sources, which are already cooperating with the AMMAR programme, and a matching grant from the project as collateral for the youth. This will promote youth entrepreneurship, income and employment generation. Of the total financing package, the grant element constitutes 40 percent. The project assists in overcoming the difficulties in accessing financial services, which have only been exacerbated by the economic crisis. IFAD will implement the project in cooperation with the Agriculture Projects Management Agency (APMA), who currently is working and has agreements with 11 banks to implement the government's, IFAD's and other projects. It is expected that some beneficiaries themselves will be able to come up with the financing (60%) to match the grant (40%). The Danish support of DKK 30 million will contribute to IFAD's project by leveraging an additional DKK 45 million from the participating banks and/or the private sources.

Denmark will provide support to three key steps in the promotion of rural youth entrepreneurship and talent retention implemented by the IFAD Project Implementation Unit (PIU) in the Ministry of Agriculture:

- 1) Pre-financing support which will include information dissemination to attract young rural talent to the scheme, thus ensuring that the most impact in terms of income and job generation is achieved. Subsequently, potential applicants will receive pre-financing training aimed at filling any potential business gaps.

³ For a schematic break-down of the Development Engagement Objective, please see appendix 1.

- 2) *Finance and business launch facilitation* which will focus on assisting applications in developing realistic and fundable business plans, which comply with both the banks' and the programmes' requirements. The Danish support will through the project implementation unit (PIU) provide matching grant that constitute 40 percent of the investment cost up to app. DKK 170,000. The grants will be given to successful applicants who have secured private sources or a credit from a bank that constitutes 60 percent of the investment. The credit element matched from banks is subsidised from IFAD/the Ministry of Agriculture with an interest rate of up to 11-13% annually⁴.
- 3) *Post-financing support and impact evaluation*, will follow up on the businesses financed and assist those who face particular challenges thus ensuring higher success and repayment rates. Moreover, specific efforts will be made to evidence the impact made in terms of incomes, employment and rural poverty reduction.

The project will be **resource efficient** by pooling resources with IFAD. The Danish MFA will refrain from unilaterally establishing new PIUs, instead opting for reliance on already existing institutions, most of them permanent in nature and domestically anchored (e.g. banks and government departments). This will also allow for substantial reductions in transaction costs and for a more harmonised and aligned approach consistent with the growing emphasis of the Georgian government on improving aid effectiveness. Furthermore, IFAD is closely coordinated with other large programmes within the agriculture sector of e.g. the EU, USAID and WB ensuring complementarity and harmonisation.

The project builds upon **lessons learned** from the Danish support to IFAD programmes. In Moldova and Armenia the Danish MFA have had good experience working with IFAD supporting the youth. Particularly the programme in Moldova has been successful, where the programme from 2011 to 2014 showed good results creating more than 270 new businesses. The assessment of the support has been overall very positive and has shown a significant increase in creation of new jobs. The programme was challenged by a slow start, since it took longer than expected to create awareness among the youth, a challenge that might also appear in this project. Denmark has within the agriculture sector currently a programme *Rural Economic Development Program for the Southern Regions of Georgia* which is a joint Danish-Swiss project, project implementation has been delegated to the Swiss Agency for Development and Cooperation (SDC). The project promotes inclusive and sustainable economic growth in the two regions in the south of Georgia by supporting relevant market actors in the potato and dairy value chains. Resulting in higher incomes and improved living conditions. A new phase of the programme is not under planning. From the Danish side there is a wish to tap into the government of Georgia's programme to create a more sustainable change and to avoid independent project managements units.

⁴ This is the average interest rate in Georgia, in rural areas the interest rate might reach 20% and above.

Special considerations and priorities

The present support is in accordance with the Strategy for the Danish Neighbourhood Programme (2013-2017), in particular its second major objective, which includes sustainable and inclusive economic development, skills development and job creation. This includes support to micro, small and medium enterprises (MSMEs) in agriculture and agribusiness because the agricultural sector is central to economic activity in the majority of neighbourhood countries. Other relevant Danish strategies for supporting the private sector in Georgia are included in the “Right to a Better Life”. In addition, this project is in accordance with the new draft strategy for Danish development assistance by supporting the youth, entrepreneurship, partnership with the private sector and mobilisation of private investments.

Currently Denmark does not have a strategy for the engagement with IFAD since the Danish core funding ended in 2015. However, this intervention is in line with previous strategies.

Theory of change for retaining rural talent and accelerating inclusive growth

The overriding change-vision is to catalyse increased investment in the rural economy by targeting young entrepreneurs who have a long term perspective and high potential for income and employment generation, utilising climate resilient technologies. The main vehicle will be a package of credit and grant administered by commercial banks, which has previously proven to be an effective means of promoting youth entrepreneurship.

If young entrepreneurs are supported with a grant and credit package complemented by information dissemination campaigns, pre-investment support (including business plan preparation), business coaching for successful applicants and post-investment support, then they will be able start businesses and they will have access to the required support to overcome challenges and grow and sustain their activities. By linking the intervention to value chains already selected under the larger AMMAR programme, participants gain access to the finance, training and market outlets necessary for them to succeed. If young entrepreneurs in rural Georgia are supported as described above, then it will contribute to higher incomes, creation of decent jobs, strengthening of value chains, a resilient rural economy and a strengthened voice and influence for the rural youth. This in turn will contribute to sustainable inclusive private growth, better opportunities for the youth in rural areas, decreased emigration, which will ensure talent retention and reduce rural poverty (see model in appendix 2).

Management arrangements

The programme is implemented in a delegated partnership with IFAD, who has implemented activities in Georgia since 1997 and has a close partnership with the Ministry of Agriculture as well as with the government. IFAD will assume overall responsibility (including financial) for the Danish contribution and ensure that the support programme is implemented in the letter and spirit of the agreement.

The Ministry of Agriculture will be the lead implementing agency through the Project Implementation Unit (PIU). Operational matters are overseen by the Ministry of Agriculture through their own established internal committees. The PIU will be responsible for coordinating and managing of the project's programmatic and fiduciary activities, along with the larger programmer (AMMAR).

The PIU will enter into a subsidiary agreement with Agriculture Project Management Agency (APMA) and will designate APMA to act as the matching grants administrator for young entrepreneurs. APMA has an extensive experience in managing and coordinating of diverse loan and grants facilities, and in this case it will manage the grants scheme for young entrepreneurs, along with the grants scheme of the larger programme (AMMAR) that are directed to support smallholders and rural/agricultural enterprises.

Monitoring and evaluation

Project monitoring and evaluation will be conducted in accordance with established IFAD procedures and the Result and Impact Management System. The Project Logical Framework provides indicators for project implementation along with their corresponding means of verification. These will form the basis on which the project's M&E system will be built. The M&E system will generate quantitative and qualitative verifiable information on the project's performance in a form that will assist the project to plan and finance their activities, compare physical progress against the planned targets and allow timely remedial action to be taken to correct problems encountered during implementation. The Danish MFA will receive bi-annual reports from IFAD. IFAD HQ and the PIU will ensure the quality control and the proper implementation of the programme.

The Danish MFA represented by the EUN Department will annually participate in IFAD's monitoring mission e.g. reviews and/or supervision.

The Danish MFA will have the right to carry out any technical or financial mission that is considered necessary to monitor the implementation of the programme.

Risk Management

The project is based on the risk management by IFAD. The PIU has to date managed the IFAD projects satisfactorily and provides a solid foundation for overall project management that will help mitigate various risks. Notwithstanding, the main potential risks to project success and mitigation strategies are summarised below:

- **Risk:** Low interest from young entrepreneurs to co-invest in the agricultural sector and to be involved in the value chains selected under AMMAR due to seemingly limited opportunities in rural areas and the competing pull effect from urban areas. **Mitigation Measure:** The matching grant for young entrepreneurs provides new opportunities for youth in rural areas. Specific value chains will only be considered for project support where the screening process identifies specific confirmed interest in the value chains from buyers as well as producers based on direct discussions and meetings with young entrepreneurs.

Furthermore, the areas for intervention have been carefully selected based on where there is development potential.

- Risk:** In the rural areas institutions serving farmers and young entrepreneurs are primarily newly established including the Ministry of Agriculture re-established district teams, farm service centres and mechanisation centres. This creates challenges for agricultural projects in building sustainable service delivery, and thus a risk to the quality and effectiveness of local service provision for agri-business, especially for the ones created by newcomers, i.e. young entrepreneurs. **Mitigation Measure:** In terms of agricultural services the risk will be managed through activities implemented within AMMAR: i) applying an inclusive approach to identifying and partnering with potential local service providers - allowing the project to work with the service providers most interested and able to deliver the necessary services in each area, ii) building the technical capacity of the local service providers on relevant technologies to priority value chains, and iii) at the central level, partnering with a credible national partner/experts' organisation with a proven track record to coach and supervise the local service providers and young entrepreneurs.
- Risk:** Political interference could undermine selection procedures established for identifying potential project beneficiaries, i.e. young entrepreneurs. **Mitigation Measure:** The project will use the multi-stakeholder process instituted under AMMAR to engage with project beneficiaries and identify young entrepreneurs. This will be combined with clear and transparent criteria for the final decision of awards for grants that will be included in the APMA Investment Guidelines and will be supervised by IFAD and PIU.

Budget

The budget below is indicative for three years of Danish funding and will have to be further detailed.

Outputs	2016	2017	2018	2019	Total DKK ('000)
1) Pre financing support	200	500	350	250	1,300
2) Finance and business facilitation	4,500	9,000	7,000	5,000	25,500
3) Post finance support and M&E	150	370	360	285	1,165
<i>IFAD Management Fee (5%)</i>	240	490	380	275	1,385
<i>Audits and Contingencies⁵</i>	50	200	100	100	450
<i>PD⁶</i>	-	100	-	100	200
Total	5,140	10,660	8,190	6,010	30,000

⁵ Contingencies can only be used in dialogue between IFAD and Danish MFA to cover unforeseen expenses for planned activities (budget margin for extraordinary price increases, money exchange losses, unforeseen expenses etc.).

⁶ This budget line will be administrated by Danish MFA for public diplomacy activities or the like.

Appendix 1: Development Engagement Objective

The overall objective of the development cooperation among the parties is: *“Sustainable private led rural growth for targeted young talent in Georgia has increased”*.

The Danish MFA will base the actual support on progress attained in the implementation of the engagement as described in the documentation. Progress will be measured through the IFAD’s monitoring framework.

For Danida’s reporting purposes the following key outcome and output indicators have been selected to document progress for this present project and for Danish funds only:

Project title		Inclusive Growth and Employment for Young Entrepreneurs in Georgia	
Project objective		Sustainable private led rural growth for targeted young talent in Georgia has increased	
Baseline	Year	2016	a) Zero young entrepreneurs have been supported to increase their investment in agribusinesses b) Zero increase in employment creation based on the investment c) Zero additional investment capital leveraged
Target	Year	2019	a) At least 150 young entrepreneurs will be supported to increase their investment, whereas 80% have increased their investment in agribusinesses by at least 20% b) At least an increase of 800 direct jobs based on the investment c) DKK 45 mil. additional investment capital leveraged
Outcome 1		Private investments in climate smart agribusiness are stimulated to increase incomes, strengthen resilience and reduce emigration of young entrepreneurs	
Outcome indicator		Targeted young entrepreneurs have increased their investment in agribusinesses	
Baseline	Year	2016	Zero of the the targeted young entrepreneurs have been supported in climate smart agribusiness
Target	Year	2019	At least 50% of the targeted young entrepreneurs have been able to record 20% of income increase
Output 1.1.		Enterprises owned by young entrepreneurs supported by matching grants	
Output indicator		Young entrepreneurs received matching grants to develop agricultural related businesses (at least 30% to women)	
Baseline	Year	2016	No young entrepreneurs received matching grants to develop agricultural related businesses
Target	Year	2019	At least 150 young entrepreneurs received matching grants to develop agricultural related businesses (at least 30% to women)
Outcome 2		Inclusive growth in climate smart agribusinesses is expanded providing through improved market opportunities for young entrepreneurs	

Outcome indicator		Targeted young entrepreneurs are linked to existing or new value chains	
Baseline	Year	2016	No targeted young entrepreneurs are linked to existing or new value chains
Target	Year	2019	At least 20% of the targeted young entrepreneurs are linked to existing or new value chains
Output 2.1.		Facilitate commercial linkages between young entrepreneurs and agro-producers	
Output indicator		Targeted young entrepreneurs accessed post-finance services and integrated into the value chain	
Baseline	Year	2016	No targeted young entrepreneurs accessed post-finance services and integrated into the value chain
Target	Year	2019	150 young entrepreneurs accessed post-finance services and integrated into the value chain
Output 2.2.		Business management training programmes designed and delivered to young entrepreneurs	
Output indicator		Young entrepreneurs provided with business linkage advice (as part of pre-financing support)	
Baseline	Year	2016	No targeted young entrepreneurs provided with business linkage advice
Target	Year	2019	500 young entrepreneurs provided with business linkage advice as part of pre-financing support (at least 30% being women)

Appendix 2: Theory of change

ToC - Retaining rural talent to accelerate inclusive growth and employment in Georgia

