FINAL REPORT: STANDARDISATION OF AGRICULTURAL COOPERATIVES (GREEN DIPLOMA)

Capacity building to the Agriculture Cooperatives Development Agency (ACDA)

Project funded by The European Union

EUROPEAN NEIGHBOURHOOD PROGRAMME FOR AGRICULTURE AND RURAL DEVELOPMENT (ENPARD)

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Project implemented by

Expert

Jeffrey Lamont

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Disclaimer

“This Report was prepared with the financial assistance of the European Commission. The views expressed in this report are those of the consultant and do not necessarily reflect those of the European Commission”
### Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ACDA</td>
<td>Agricultural Cooperatives Development Agency</td>
</tr>
<tr>
<td>AE</td>
<td>Administrative Efficiency</td>
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<tr>
<td>AER</td>
<td>Asset Efficiency Rate</td>
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<tr>
<td>AGM</td>
<td>Annual General Meeting</td>
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<tr>
<td>AP</td>
<td>Adequacy of Provisioning</td>
</tr>
<tr>
<td>BoD</td>
<td>Board of Directors</td>
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<tr>
<td>BSPs</td>
<td>Business Service Providers</td>
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<tr>
<td>CoE</td>
<td>Code of Ethics</td>
</tr>
<tr>
<td>CPI</td>
<td>Cooperative Performance Index</td>
</tr>
<tr>
<td>CVB</td>
<td>Cost per Volume of Business</td>
</tr>
<tr>
<td>DLTA</td>
<td>Deposit Liabilities to Total Assets</td>
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<tr>
<td>EB</td>
<td>External Borrowings</td>
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<tr>
<td>EC</td>
<td>ENPARD Consortium</td>
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<tr>
<td>ENPARD</td>
<td>European Neighbourhood Programme for Agriculture and Rural Development</td>
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<tr>
<td>EOI</td>
<td>Expression of Interest</td>
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<tr>
<td>ESR</td>
<td>Earnings per Share Ratio</td>
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<tr>
<td>ETIs</td>
<td>Education and Training Institutions</td>
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<tr>
<td>FAO</td>
<td>Food and Agriculture Organisation</td>
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<tr>
<td>FFB</td>
<td>Food from Britain</td>
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<tr>
<td>GAC</td>
<td>Georgian Accreditation Centre</td>
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<td>GACA</td>
<td>Georgian Agricultural Cooperatives Association</td>
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<tr>
<td>GFA</td>
<td>Georgian Farmers Association</td>
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<tr>
<td>GoG</td>
<td>Government of Georgia</td>
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<td>ICA</td>
<td>International Cooperative Alliance</td>
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<td>ICCs</td>
<td>Information and Consultation Service Centres</td>
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<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
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<tr>
<td>IR</td>
<td>Inception Report</td>
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<td>IRR</td>
<td>Internal Rate of Return</td>
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<tr>
<td>META</td>
<td>Members’ Equity to Total Assets</td>
</tr>
<tr>
<td>METRICS</td>
<td>Measurements for Tracking Indicators of Cooperative Success</td>
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<tr>
<td>MoA</td>
<td>Ministry of Agriculture</td>
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<tr>
<td>MoE</td>
<td>Ministry of Education</td>
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<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
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<tr>
<td>NIC</td>
<td>Net Institutional Capital</td>
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<tr>
<td>NW</td>
<td>Net Worth</td>
</tr>
<tr>
<td>PGR</td>
<td>Profitability Growth Rate</td>
</tr>
<tr>
<td>PIU</td>
<td>Project Implementation Unit</td>
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<tr>
<td>PR</td>
<td>Profitability Ratio</td>
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<tr>
<td>PRT</td>
<td>Performance Rating Tool</td>
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<tr>
<td>RFP</td>
<td>Request for Proposal</td>
</tr>
<tr>
<td>RISC</td>
<td>Rate of Interest on Share Capital</td>
</tr>
<tr>
<td>RTA</td>
<td>Receivables to Total Assets</td>
</tr>
<tr>
<td>SAOS</td>
<td>Scottish Agricultural Organisation Society Ltd</td>
</tr>
<tr>
<td>SDP</td>
<td>Social Development Plan</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium-sized Enterprises</td>
</tr>
<tr>
<td>SoWs</td>
<td>Scope of Work</td>
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<tr>
<td>STTA</td>
<td>Short Term Technical Assistance</td>
</tr>
<tr>
<td>TA</td>
<td>Technical Assistance</td>
</tr>
<tr>
<td>TL</td>
<td>Team Leader</td>
</tr>
<tr>
<td>TNA</td>
<td>Training needs assessment/analysis</td>
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<tr>
<td>ToR</td>
<td>Terms of Reference</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<td>---------</td>
<td>--------------------------------------------------</td>
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<tr>
<td>ToT</td>
<td>Training of Trainers (Programme)</td>
</tr>
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<td>TR</td>
<td>Turnover Ratio</td>
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<tr>
<td>UAOS</td>
<td>Ulster Agricultural Organisation Society Ltd</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>VTA</td>
<td>Volume of Business to Total Assets</td>
</tr>
<tr>
<td>WAOS</td>
<td>Welsh Agricultural Organisation Society Limited</td>
</tr>
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<td>WD</td>
<td>Working days</td>
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Annex 8: Power Point Presentation
1. Summary

1a. The expert, Mr Jeffrey Lamont, was retained by the consulting company Evoluxer to conduct work within its 'Capacity Building to the Agriculture Cooperatives Development Agency (ACDA)' project in Georgia, a project funded by the European Union, and under the auspices of the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD);

1b. The expert’s Terms of Reference (ToR) are given in Annex 1 and his workplan in Annex 2;

1c. Within this capacity building project, the expert was responsible for the implementation of Activity 1.27, namely to ‘design and develop a Georgian model of agricultural cooperatives standardisation (working name Green Diploma)’;

1d. The objective of activity 1.27 is to develop national standards of excellence for agricultural cooperatives, to value their performance, to grant incentives, and to create motivation for others to improve their performance;

1e. The outputs from activity 1.27 are that cooperatives have incentives to become involved in different capacity building programmes and show progress in other directions;

1f. The indicators for activity 1.27 are that a normative act on the approval of the set of standards is issued;

1g. In developing ‘standards of excellence’ for Georgian agricultural cooperatives, it is recommended by the ENPARD Consortium (EC) that the following criteria should be included:

- Compliance to fundamental principles of cooperative organisation (ICA 1995);
- Engagement level of the entire community and the dynamic of increase of membership;
- Level of contribution to the economic growth of the community;
- Advanced management and operational control practices;
- Innovation potential;
- Contribution to the sustainable and safe use of natural resources and the integrity of its business to the natural environment;
- Youth involvement and gender equality;
- Contributing to the professional development of members;
- Least dependence on external support and subsidies;

1h. The primary clients of the assignment are the Agriculture Cooperatives Development Agency (ACDA) in Georgia, particularly through the auspices of the organisation’s Chairman Mr Giorgi Misheladze;

1i. Other stakeholders involved include the Ministry of Agriculture’s Information and Consultancy Centres (ICCs) in 59 municipalities (and providing services to all 76 Georgian municipalities), as well as the ENPARD Consortium Non-Governmental Organisations (NGOs) (CARE, Oxfam, People in Need and Mercy Corps);

1j. The approach/methodology consisted of the following six elements:

   i. Internet research on international best practice;
i. Analysis of international case studies (Annex 5);
ii. Interviews with key stakeholders in Georgia (Annex 6);
iii. Application of the expert's personal experience in working with the UK Agricultural Cooperative Development Organisations: The Scottish Agricultural Organisation Society Ltd (SAOS), the Welsh Agricultural Organisation Society Ltd (WAOS), The Ulster Agricultural Organisation Society Ltd (UAOS) and Food From Britain (FFB);
iv. Desk research of project documents;
v. Desk research of other experts' reports;

1k. Internet research, and particularly the information contained in the six case studies at Annex 5, illustrate that many countries have devised tools for establishing cooperative standards of excellence and for measuring cooperative performance against these standards. However, only in Georgia is there a proposal for going one step further and issuing a 'Green Diploma' based on high performance results;

1l. One of the main lessons from the case studies presented in Annex 5 is that standards of excellence should be devised for both qualitative and quantitative aspects of cooperative functioning. Qualitative aspects, or non-financial aspects, include parameters such as social aspects, governance, leadership, membership etc, while quantitative parameters include all aspects of financial functioning, such as standard financial ratios;

1m. Based on the above-mentioned considerations, the expert proposes the Georgian Agricultural Cooperatives Performance Rating Tool (PRT) as the mechanism for establishing and measuring standards of excellence. The PRT is presented in Annex 7;

1n. The proposed PRT presents standards of excellence for both non-financial and financial parameters, against which any Georgian agricultural cooperative can be scored;

1o. The non-financial parameters of the proposed PRT are divided into three sections, as follows:

i. ORGANISATIONAL PARAMETERS
ii. SOCIAL PARAMETERS
iii. ECONOMIC PARAMETERS;

1p. These three parameters are further broken down into the following functional areas:

i. ORGANISATIONAL PARAMETERS:

A. Leadership:-

Functions, duties and responsibilities
Qualifications and disqualifications
Composition
Continuing education and training
Financial literacy
Succession planning
Ethics

A. Human resources and management:-

Personnel policy
Staff development
Compensation and benefits
B. Membership:-
   Capitalisation
   Governance

C. Structure:-
   Organisational structure
   Operational structure

D. Systems and mechanisms:-
   Maintenance of books of account
   Manuals
   Business operation
   Compliance to Government requirements
   Statutory funds
   Retirement fund

   i. SOCIAL PARAMETERS:

   Social Development Plan (SDP)
   Budgetary allocation for SDP
   Utilisation of SDP budget

   ii. ECONOMIC PARAMETERS:

   Adequacy of internal control.

1q. The financial parameters of the proposed PRT are divided into four sections, as follows:

   i. PROFITABILITY PERFORMANCE
   ii. INSTITUTIONAL STRENGTH
   iii. STRUCTURE OF ASSETS
   iv. OPERATIONAL STRENGTH (STAYING POWER);

1r. The above-mentioned four areas of financial performance are quantified by the use of appropriate financial ratios, as follows:

   i. PROFITABILITY PERFORMANCE:

   Profitability ratio (PR)
   Earnings per share ratio (ESR)
   Profitability growth rate (PGR)
   Asset efficiency rate (AER)
   Rate of interest on share capital (RISC)

   i. INSTITUTIONAL STRENGTH:

   Net institutional capital (NIC)
   Adequacy of provisioning (AP)

   i. STRUCTURE OF ASSETS:
iv. **OPERATIONAL STRENGTH (STAYING POWER):**

Volume of business to total assets (VTA)
Solvency
Liquidity
Cost per volume of business (CVB)
Administrative efficiency (AE)
Turnover ratio (TR).

1s. As can be seen in Annex 7, all of the above-mentioned parameters, both non-financial and financial, are given a score depending on the performance of a particular agricultural cooperative. The total potential score is 196 (96 for non-financials and 100 for financials). This score is expressed as a %;

1t. Depending on the score achieved in the PRT, agricultural cooperatives in Georgia can be classified as shown in *Figure 4* below:

*Figure 4: Classification of Cooperatives, Based on PRT Scores*

<table>
<thead>
<tr>
<th>ADJECTIVAL RATING*</th>
<th>Medium Coops</th>
<th>Small Coops (Membership up to 12 members)</th>
<th>Micro Coops (Membership up to 5 members)</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Standard Performance (GREEN DIPLOMA)</td>
<td>91 - 100%</td>
<td>81% - 100%</td>
<td>75% - 100%</td>
</tr>
<tr>
<td>Very Satisfactory Performance (AAA COOPERATIVE)</td>
<td>81 - 90%</td>
<td>71% - 80%</td>
<td>61% - 74%</td>
</tr>
<tr>
<td>Satisfactory Performance (AA COOPERATIVE)</td>
<td>71 - 80%</td>
<td>61% - 70%</td>
<td>51% - 60%</td>
</tr>
<tr>
<td>Fair Performance (A COOPERATIVE)</td>
<td>61 - 70%</td>
<td>51% - 60%</td>
<td>41% - 50%</td>
</tr>
<tr>
<td>Poor Performance (B COOPERATIVE)</td>
<td>50% and below</td>
<td>50% and below</td>
<td>40% and Below</td>
</tr>
</tbody>
</table>

1u. Based on the specific PRT scores, the cooperative adviser can make recommendations regarding the non-financial and financial areas which need most attention in the coming year. This is illustrated on the final page of Annex 7;

1v. It is recommended that the Green Diploma Standard is implemented in **seven phases**, as follows:

PHASE 1: The model contained in this report should be carefully considered by the staff of ACDA and any required amendments communicated to the expert. In liaison with ACDA, the draft model can then be amended by the expert, and **a final model approved**;
PHASE 2: The standard should then be granted official status by registration with the Georgian Institute of Standards and Metrology;

PHASE 3: ACDA should be accredited as the grantor of the Green Diploma through institutional accreditation with the Georgian Accreditation Centre (GAC), through compliance with ISO 17065 (general requirements for accreditation bodies) and ISO 17067 (specific requirements for a new certification scheme);

PHASE 4: A normative act on the approval of the set of standards is issued;

PHASE 5: PRT administrators should be trained in the use of the tool, including ACDA Monitoring Staff, ICC cooperative specialists, ENPARD Consortium staff and other BSPs;

PHASE 6: The PRT is used in the field and classifications of Georgian Agricultural Cooperatives derived for the year ending 31st December 2017;

PHASE 7: PRT assessment exercise is repeated annually, in order to gauge trends in performance;

1w. It is recommended that the model contained in this report should be carefully considered by the staff of ACDA and any required amendments communicated to the expert. In liaison with ACDA, the draft model can then be amended by the expert, and a final model approved;

1x. It is recommended that the agreed standard should then be granted official status by registration with the Georgian Institute of Standards and Metrology;

1y. It is recommended that ACDA should be accredited as the grantor of the Green Diploma through institutional accreditation with the Georgian Accreditation Centre (GAC), through compliance with ISO 17065 (general requirements for accreditation bodies) and ISO 17067 (specific requirements for a new certification scheme);

1z. It is recommended that a normative act on the approval of the set of standards is issued

1aa. It is recommended that PRT administrators should be trained in the use of the tool, including ACDA Monitoring Staff, ICC cooperative specialists, ENPARD Consortium staff and other BSPs

1bb. It is recommended that the PRT is used in the field and classifications of Georgian Agricultural Cooperatives derived for the year ending 31st December 2017;
1cc. It is recommended that the PRT assessment exercise is repeated annually, in order to gauge trends in performance;

1dd. It is recommended that ACDA should exercise its professional discretion in the use or non-use of the precise list of financial ratios presented in the PRT, with alternative financial measurements being utilised as required, and potentially including Internal Rate of Return (IRR) and Net Worth (NW);

1ee. It is recommended that the financial terminology used in the PRT be clarified through the use of a financial glossary of terms: such a glossary having now been added to Annex 7;

1ff. It is recommended that ACDA should decide upon suitable local names for the different classifications of cooperatives (‘A’ ‘AA’ ‘AAA’ etc.…);

1gg. It is recommended that ACDA should decide upon the precise PRT percentage scores conferring a specific cooperative classification.

2. Introduction and description of the context in which the assignment was conducted

The expert, Mr Jeffrey Lamont, was retained by the consulting company Evoluxer to conduct work within its ‘Capacity Building to the Agriculture Cooperatives Development Agency (ACDA)’ project in Georgia, a project funded by the European Union, and under the auspices of the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD).

The reference number of the project is Europe Aid/136454/DH/SER/GE.

At the time of writing this report, the expert has worked 18 working days (wd) from a total contract of 22 wd.

The expert’s Terms of Reference (ToR) are given in Annex 1 and his workplan in Annex 2.

Within this capacity building project, the expert was responsible for the implementation of Activity 1.27, namely to ‘design and develop a Georgian model of agricultural cooperatives standardisation (working name Green Diploma)’.

The objective of activity 1.27 is to develop national standards of excellence for agricultural cooperatives, to value their performance, to grant incentives, and to create motivation for others to improve their performance.

The outputs from activity 1.27 are that cooperatives have incentives to become involved in different capacity building programmes and show progress in other directions.

The indicators for activity 1.27 are that a normative act on the approval of the set of standards is issued.

In the light of developing and agreeing on the performance indicators based on which the regular evaluation of agricultural cooperatives performance is envisioned by ACDA (activity 1.21), it is important also to create certain ‘standards of excellence’ in order not only to assess
but also to value the performance and to develop indicators of success that should not be grounded on purely quantitative indicators but also on qualitative indicators. In addition, it is important to develop certain incentives that would motivate management and members of cooperatives to improve their performance, not only because of the economic perspective but also because of social recognition and respect from society as a whole.

Despite certain differences all over the world, cooperatives fundamentally share all the commonly agreed standards of the cooperative model, namely the definition, values and operational principles enshrined in the International Cooperatives Alliance (ICA) Statement on Cooperative Identity (Manchester 1995) and in the International Labour Organisation (ILO) recommendation 193 on the promotion of cooperatives (Geneva 2002). At the same time they also possess important distinctive characteristics.

Since the origins of the cooperative movement, and in accordance with the above-mentioned internationally-agreed standards, cooperatives in general have been based on people's joint needs and aspirations and therefore possess a social dimension, regardless of type of cooperative. In addition, the seventh cooperative principle clearly mentions the cooperative's concern for community.

The most distinctive characteristic of cooperative organisations is that they explicitly have a general interest mission which they carry out in the production of goods and services of general interest. Work integration, which is a key mission of many cooperatives, is considered as a service general interest to all intents and purposes, regardless of the types of goods or services which they produce.

In developing ‘standards of excellence’ for Georgian agricultural cooperatives, it is recommended by the ENPARD Consortium (EC) that the following criteria should be included:

- Compliance to fundamental principles of cooperative organisation (ICA 1995);
- Engagement level of the entire community and the dynamic of increase of membership;
- Level of contribution to the economic growth of the community;
- Advanced management and operational control practices;
- Innovation potential;
- Contribution to the sustainable and safe use of natural resources and the integrity of its business to the natural environment;
- Youth involvement and gender equality;
- Contributing to the professional development of members;
- Least dependence on external support and subsidies.

3. Description of the primary clients of the assignment and the stakeholders involved
The primary clients of the assignment are the Agriculture Cooperatives Development Agency (ACDA) in Georgia, particularly through the auspices of the organisation’s Chairman Mr Giorgi Misheladze.

Other stakeholders involved include the Ministry of Agriculture’s Information and Consultancy Centres (ICCs) in 59 municipalities (and providing services to all 76 Georgian municipalities), as well as the ENPARD Consortium Non-Governmental Organisations (NGOs) (CARE, Oxfam, People in Need and Mercy Corps).

ACDA:

In July 2013, in Georgia the new law on Agricultural Cooperatives was adopted and the Ministry of Agriculture prepared a proposal to establish the Agricultural Cooperatives Development Agency. The ACDA began working on the 1st October 2013 and has a Statute with the main objectives stated as being:

- Supporting the revival of villages and agriculture, through the development of agricultural cooperatives
- Supporting village socio-economic development
- Improving agricultural production and competitiveness
- Implementing Government support programmes for agricultural cooperatives.

Since establishment, the ACDA have carried out extensive information/awareness campaigns outlining the broad goals and objectives of market led agricultural cooperatives and primarily through workshops held in the regions and extensive TV and mass media coverage. They have also set up a cooperative registration database and ACDA have prepared a draft statute for a model cooperative, rules for award and termination of cooperative status and prepared information materials, including an agricultural cooperative promotion booklet and a website.

Senior staff members attended study visits to Serbia, the Czech Republic, Romania, Moldova and Spain to better understand the workings of independent and voluntary cooperatives working in a competitive market environment. A report on the Spanish study tour is given in Annex 3.

Figure 1 lists specific trainings undertaken by ACDA staff in the period 2016-2017.
The ACDA have also cooperated closely with EU ENPARD and implementing NGOs as well as the Food and Agriculture Organisation (FAO) of the United Nations (UN) during the development and implementation of their activities.
During June 2014, the ACDA drafted an outline strategy and action programme and submitted it to the Ministry of Agriculture for approval and to the Ministry of Finance for budget support. The focus for the strategy is on:

- Providing grants to cooperatives to upgrade technology and equipment for primary production of agriculture products, processing, storage and packaging (25 million Lari)
- Providing technical support and training to farmers and support agents including on cost sharing principles, business planning and legislation as well as technical production issues (5 million Lari)
- Development of an agricultural machinery leasing programme
- Further awareness raising of group development amongst farmer members and management
- Special programmes for high mountain and remote region group development.

ACDA also have other plans for development and in particular to establish and implement an effective group monitoring system to determine compliance with the law and group stature as well as to collect statistical data on the sector – such as grain/dairy yields, numbers, contracts etc. ACDA maintain regular contact with FAO, MoA and the ENPARD NGO implementing partners in order to aid coordination and development.

Since it was formed in October 2013, more than 1,500 farmer groups/cooperatives have registered with ACDA. The large majority are registering as “multi-activity” groups with less than 5 members and have total capital assets of less than 20,000 GEL (8,000 USD). There are significant differences between cooperatives and across regions in relation to numbers of members, operational type and mobilized cooperative capital.

The large majority of groups in Georgia are small, inexperienced in management, have few capital reserves and are relatively unfocused in their operations or in their planning. The most successful ones have generally received substantial support from NGOs and donor programmes through training, information, advice and asset support.

It is now the intention of ACDA management to continue to carry out its statutory responsibilities for registering and monitoring cooperatives but also to provide a range of technical, training, information and other services for cooperative development. To achieve this aim ACDA will need to develop a stronger credibility amongst farmers, Government and donors/investors and have clear vision for the future and plan for achieving it.

An Organogram of ACDA is provided in Figure 2.
ICCs:

The creation of Information and Consultation Service Centre (ICC) offices has been a part of the Strategy of the Georgian Government since 2012 (Article 2 in the Ministerial Decree No: 2-63). There are currently 59 Information and Consultation Service centres across the 13 regions of Georgia. Of these 53 district ICC offices, in nine regions, are subordinated to the Department for Agriculture and Food of the Ministry of Agriculture of Georgia, and 6 located in the Autonomous Republic of Adjara, under the Ministry of Agriculture of Adjara. The numbers of staff in the district offices varies between 4-6 persons. In total there are over 291 persons employed in ICCs (July 2015) and as summarised in Figure 3.

ICC offices are 100% funded by Government and there is no mechanism for them to provide chargeable services, to enter into any contract with third parties, or to have extra-budgetary funding. Extra-budgetary support can only provided indirectly, in-kind, through the resources of donor projects. Primarily the ICC role is to carry out the requests of central Government to effectively implement the Strategy for Agriculture and associated measures and this can include a variety of activities, such as workshops, demonstrations, information, seminars and on-farm technical support. They also provide the MoA with a monthly report, including data updates, analysis, information on consultations and training provided, infra-structure problems and development proposals.

One member of staff in each ICC is allocated as an agricultural cooperatives specialist.
Considerable training of ICC staff has taken place, and is highlighted in Annex 4.

*Figure 3: Structure of the ICCs*

**ENPARD Consortium NGOs:**

**Mercy Corps** (in association with ABCO Agroservice and GIPA) are operating in 16 municipalities and across 5 regions (Kakheti, Shida Kartli, Kvemo Kartli, Imereti, Samtskhe-Javakheti in the east and west of Georgia. They have been in operation since 2014, with a budget of 4.6 million Euros.

Mercy Corps also use regional information centres and agri-service providers as points of contact and aim to strengthen around 60 service providers through training and advisory support. Currently 74 agricultural cooperatives are being funded and a further 25 in pre-selection phase. They are also supporting the development of the Georgian Agricultural Cooperatives Association (GACA) as a national representative body.

Mercy Corps provide training to 52 of Georgia’s 59 municipalities, with the remaining 7 municipalities being covered by Oxfam.

Mercy Corps specify the following as the three main inhibitors of agricultural cooperative development in Georgia:

- Lack of trust
- Poor knowledge on how to manage a business
- No accounting systems in place.
CARE International in the Caucasus (in association with ISET Policy Institute and Regional Development Association) covers the areas of Khobi, Abasha, Senaki, Ozurgeti, Lanchkhuti, Chokhatauri, Tsager and Lentekhi. CARE is also assisting the Georgian Farmer's Association (GFA) to improve their organizational structure and develop a sustainable business model. They also intend to involve the private sector to get additional funding for “cooperative” projects. Currently 43 cooperatives are supported; 30 co-financed with EU funds, 10 co-financed with social investors’ funds, and 3 co-financed with funds returned through a revolving system.

CARE provides agricultural cooperative training in business planning, organisational development and general agricultural topics.

Oxfam (in association with Elkana, Action Against Hunger and the Rural Communities Development Agency) work in 13 target municipalities of five different regions (Shida Kartli region: Kaspi and Gori municipalities, Samegrelo region: Zugdidi, Tsalenjikha and Chkhorotsku municipalities, Mtskheta Mtianeti region: Tianeti, Dusheti and Mtskheta municipalities, Kvemo Kartli region: Dmanisi, Tsalka and Bolnisi municipalities, Kakheti region: Telavi and Akhmeta municipalities).

Oxfam have prepared a cooperative guide and development tool kit and are developing demonstration plots to focus on defined products, specifically; hazelnuts, fruit and vegetables, and non-timber forest products (forest fruits). Oxfam only support groups involving up to 20 persons.

People in Need (in association with Elkana and Young Economists’ Association) are currently supporting 9 cooperatives in the regions of Imereti and Racha.

4. Definition of the objective of the assignment and its scope

Within this capacity building project, the expert was responsible for the implementation of Activity 1.27, namely to ‘design and develop a Georgian model of agricultural cooperatives standardisation (working name Green Diploma)’.

The objective of activity 1.27 is to develop national standards of excellence for agricultural cooperatives, to value their performance, to grant incentives, and to create motivation for others to improve their performance.

The outputs from activity 1.27 are that cooperatives have incentives to become involved in different capacity building programmes and show progress in other directions.

The indicators for activity 1.27 are that a normative act on the approval of the set of standards is issued.
5. Overview of the approach / methodology and the tools used

The approach/methodology consisted of the following six elements:

vi. Internet research on international best practice;

vii. Analysis of international case studies (Annex 5);

viii. Interviews with key stakeholders in Georgia (Annex 6);

ix. Application of the expert's personal experience in working with the UK Agricultural Cooperative Development Organisations: The Scottish Agricultural Organisation Society Ltd (SAOS), the Welsh Agricultural Organisation Society Ltd (WAOS), The Ulster Agricultural Organisation Society Ltd (UAOS) and Food From Britain (FFB);

x. Desk research of project documents;

xi. Desk research of other experts' reports.

6. Detailed proposal on developing the standards of excellence for agriculture cooperatives

Internet research, and particularly the information contained in the six case studies at Annex 5, illustrate that many countries have devised tools for establishing cooperative standards of excellence and for measuring cooperative performance against these standards. However, only in Georgia is there a proposal for going one step further and issuing a 'Green Diploma' based on high performance results.

One of the main lessons from the case studies presented in Annex 5 is that standards of excellence should be devised for both qualitative and quantitative aspects of cooperative functioning. Qualitative aspects, or non-financial aspects, include parameters such as social aspects, governance, leadership, membership etc, while quantitative parameters include all aspects of financial functioning, such as standard financial ratios.

Based on the above-mentioned considerations, the expert proposes the Georgian Agricultural Cooperatives Performance Rating Tool (PRT) as the mechanism for establishing and measuring standards of excellence. The PRT is presented in Annex 7.

The proposed PRT presents standards of excellence for both non-financial and financial parameters, against which any Georgian agricultural cooperative can be scored.

The non-financial parameters of the proposed PRT are divided into three sections, as follows:

iii. ORGANISATIONAL PARAMETERS

iv. SOCIAL PARAMETERS

v. ECONOMIC PARAMETERS.

These three parameters are further broken down into the following functional areas:

iii. ORGANISATIONAL PARAMETERS:

E. Leadership:-
Functions, duties and responsibilities
Qualifications and disqualifications
Composition
Continuing education and training
Financial literacy
Succession planning
Ethics

F. Human resources and management:-

Personnel policy
Staff development
Compensation and benefits

G. Membership:-

Capitalisation
Governance

H. Structure:-

Organisational structure
Operational structure

I. Systems and mechanisms:-

Maintenance of books of account
Manuals
Business operation
Compliance to Government requirements
Statutory funds
Retirement fund

iv. SOCIAL PARAMETERS:

Social Development Plan (SDP)
Budgetary allocation for SDP
Utilisation of SDP budget

v. ECONOMIC PARAMETERS:

Adequacy of internal control.

The financial parameters of the proposed PRT are divided into four sections, as follows:

iv. PROFITABILITY PERFORMANCE
v. INSTITUTIONAL STRENGTH
vi. STRUCTURE OF ASSETS
vii. OPERATIONAL STRENGTH (STAYING POWER).

The above-mentioned four areas of financial performance are quantified by the use of appropriate financial ratios, as follows:

iii. PROFITABILITY PERFORMANCE:
Profitability ratio (PR)
Earnings per share ratio (ESR)
Profitability growth rate (PGR)
Asset efficiency rate (AER)
Rate of interest on share capital (RISC)

iv. INSTITUTIONAL STRENGTH:
Net institutional capital (NIC)
Adequacy of provisioning (AP)

v. STRUCTURE OF ASSETS:
% of non-earning assets to total assets (NEATA)
Members equity to total assets (META)
Deposit liabilities to total assets (DLTA)
External borrowings (EB)
 Receivables to total assets (RTA)

iv. OPERATIONAL STRENGTH (STAYING POWER):
Volume of business to total assets (VTA)
Solvency
Liquidity
Cost per volume of business (CVB)
Administrative efficiency (AE)
Turnover ratio (TR).

As can be seen in Annex 5, all of the above-mentioned parameters, both non-financial and financial, are given a score depending on the performance of a particular agricultural cooperative. The total potential score is 196 (96 for non-financials and 100 for financials). This score is expressed as a %.

Depending on the score achieved in the PRT, agricultural cooperatives in Georgia can be classified as shown in Figure 4.

Figure 4: Classification of Cooperatives, Based on PRT Scores

<table>
<thead>
<tr>
<th>ADJECTIVAL RATING*</th>
<th>Medium &amp; Large Coops</th>
<th>Small Coops (Membership up to 12 members)</th>
<th>Micro Coops (Membership up to 5 members)</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Standard Performance (GREEN DIPLOMA)</td>
<td>91% - 100%</td>
<td>81% - 100%</td>
<td>75% - 100%</td>
</tr>
<tr>
<td>Very Satisfactory Performance (AA COOPERATIVE)</td>
<td>81% - 90%</td>
<td>71% - 80%</td>
<td>61% - 74%</td>
</tr>
<tr>
<td>Satisfactory Performance (A COOPERATIVE)</td>
<td>71% - 80%</td>
<td>61% - 70%</td>
<td>51% - 60%</td>
</tr>
<tr>
<td>Fair Performance (B COOPERATIVE)</td>
<td>61% - 70%</td>
<td>51% - 60%</td>
<td>41% - 50%</td>
</tr>
<tr>
<td>Poor Performance (C COOPERATIVE)</td>
<td>50% and below</td>
<td>50% and below</td>
<td>40% and Below</td>
</tr>
</tbody>
</table>

*A small weighting is given depending on the size of the cooperative (number of members), in favour of smaller groups.
The use of the PRT (Performance Rating Tool) is summarised in Figure 5.

Figure 5: Proposed Use of the PRT

Based on the specific PRT scores, the cooperative adviser can make recommendations regarding the non-financial and financial areas which need most attention in the coming year. This is illustrated on the final page of Annex 7.

7. Detailed action plan how this standard should be implemented

It is recommended that the Green Diploma Standard is implemented in seven phases, as follows:

PHASE 1: The model contained in this report should be carefully considered by the staff of ACDA and any required amendments communicated to the expert. In liaison with ACDA, the draft model can then be amended by the expert, and a final model approved;
PHASE 2: The standard should then be granted official status by registration with the Georgian Institute of Standards and Metrology;

PHASE 3: ACDA should be accredited as the grantor of the Green Diploma through institutional accreditation with the Georgian Accreditation Centre (GAC), through compliance with ISO 17065 (general requirements for accreditation bodies) and ISO 17067 (specific requirements for a new certification scheme);

PHASE 4: A normative act on the approval of the set of standards is issued;

PHASE 5: PRT administrators should be trained in the use of the tool, including ACDA Monitoring Staff, ICC cooperative specialists, ENPARD Consortium staff and other BSPs;

PHASE 6: The PRT is used in the field and classifications of Georgian Agricultural Cooperatives derived for the year ending 31st December 2017;

PHASE 7: PRT assessment exercise repeated annually, in order to gauge trends in performance.

8. Conclusions and Recommendations

1. A normative model has been presented for the standardisation of Georgian Agricultural Cooperatives;

1. Informed by personal experience in working with the UK agricultural cooperative development organisations, plus lessons learned from the case studies presented at Annex 5, the expert has constructed a cooperative Performance Rating Tool (PRT) illustrated in Annex 7;

2. The PRT uses international standards of cooperative performance to rate the performance of Georgian agricultural cooperatives;

3. The PRT rates cooperative performance for both non-financial and financial parameters;

4. Non-financial parameters can generally be classified into the following three categories:

   i. ORGANISATIONAL PARAMETERS
   ii. SOCIAL PARAMETERS
   iii. ECONOMIC PARAMETERS;

5. Financial parameters are classified into the following four categories:
i. PROFITABILITY PERFORMANCE
ii. INSTITUTIONAL STRENGTH
iii. STRUCTURE OF ASSETS
iv. OPERATIONAL STRENGTH (STAYING POWER);

6. On the basis of PRT scores, Georgian Agricultural Cooperatives can be classified into the following five categories:

<table>
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<th>ADJECTIVAL RATING*</th>
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<td>Poor Performance</td>
<td>60% and below</td>
<td>50% and below</td>
<td>40% and Below</td>
</tr>
</tbody>
</table>

7. As can be seen from the table at 7 above, those cooperatives which attain an International Standard Performance are eligible to be awarded a ‘Green Diploma’ by ACDA;

8. It is recommended that the model contained in this report should be carefully considered by the staff of ACDA and any required amendments communicated to the expert. In liaison with ACDA, the draft model can then be amended by the expert, and a final model approved;

9. It is recommended that the agreed standard should then be granted official status by registration with the Georgian Institute of Standards and Metrology;

10. It is recommended that ACDA should be accredited as the grantor of the Green Diploma through institutional accreditation with the Georgian Accreditation Centre (GAC), through compliance with ISO 17065 (general requirements for accreditation bodies) and ISO 17067 (specific requirements for a new certification scheme);

11. It is recommended that a normative act on the approval of the set of standards is issued;

12. It is recommended that PRT administrators should be trained in the use of the tool, including ACDA Monitoring Staff, ICC cooperative specialists, ENPARD Consortium staff and other BSPs;

13. It is recommended that the PRT is used in the field and classifications of Georgian Agricultural Cooperatives derived for the year ending 31st December 2017;

14. It is recommended that the PRT assessment exercise is repeated annually, in order to gauge trends in performance.
9. Addendum (Post-presentation conclusions and recommendations)

On Tuesday 28th February 2017, the consultant delivered a powerpoint presentation to an audience of ACDA and ENPARD staff, detailing the findings of the draft report. The powerpoint presentation is given in Annex 8.

The aim of the presentation was to stimulate discussion of, and to get formal feedback on, the contents of the draft report and in particular on the draft conclusions and recommendations.

The meeting provided feedback as follows:

- Full endorsement of the consultant’s remit, as well as the objectives, outputs and indicators for activity 1.27;
- Full endorsement of the guiding parameters of cooperative standards as provided in the ToR;
- Full agreement on the uniqueness of Georgia in proposing the awarding of a Green Diploma to agricultural cooperatives achieving the highest standards of excellence;
- Full endorsement of the consultant’s proposal to measure both quantitative and qualitative standards of excellence;
- General endorsement of the proposed PRT as the mechanism for establishing and measuring cooperative standards of excellence;
- Full endorsement of the universality of the proposed PRT, enabling the tool to be utilised in the measurement of standards of excellence for a diverse range of agricultural cooperatives, including small and large groups, first and second tier groups, processing groups, marketing groups, production groups etc;
- Full endorsement of the use of the following three categories of non-financial parameters in the PRT: 1. Organisational parameters, 2. Social parameters, 3. Economic parameters;
- General endorsement of the use of the following four categories of financial parameters in the PRT: 1. Profitability performance, 2. Institutional strength, 3. Structure of assets, 4. Operational strength (staying power);
- That ACDA should exercise its professional discretion in the use or non-use of the precise list of financial ratios presented in the PRT, with alternative financial measurements being utilised as required, and potentially including Internal Rate of Return (IRR) and Net Worth (NW);
- That the financial terminology used in the PRT be clarified through the use of a financial glossary of terms: such a glossary having now been added to Annex 7;
- Full endorsement of the principle of classification of agricultural cooperatives from low-scoring ‘B’ cooperatives up to high-scoring ‘Green Diploma’ cooperatives;
- That ACDA should decide upon suitable local names for the different classifications of cooperatives (‘A’ ‘AA’ ‘AAA’ etc…);
- That ACDA should decide upon the precise PRT percentage scores conferring a specific cooperative classification;
- Full endorsement of the proposed implementation plan.

Hence, four additional specific recommendations arise from the presentation and discussion:

1. That ACDA should exercise its professional discretion in the use or non-use of the precise list of financial ratios presented in the PRT, with alternative financial measurements being utilised as required, and potentially including Internal Rate of Return (IRR) and Net Worth (NW);
2. That the financial terminology used in the PRT be clarified through the use of a financial glossary of terms: such a glossary having now been added to Annex 7;

3. That ACDA should decide upon suitable local names for the different classifications of cooperatives ('A' 'AA' 'AAA' etc....);

4. That ACDA should decide upon the precise PRT percentage scores conferring a specific cooperative classification.

These recommendations have been added to the specific overall recommendations at Section 1 (Summary).

List of Annexes

Annex 1: Terms of Reference of the Expert
Annex 2: Expert's Workplan
Annex 3: Report on ACDA Spanish Study Tour
Annex 4: List of ICCs Trained
Annex 5: Case Studies from other Countries
   5.1 USAID Rwanda Cooperative Performance Index
   5.2 Cooperative Performance Measurement Tool for the French Wine Industry
   5.3 A New Mechanism for the Performance Evaluation of Cooperatives in the Czech Republic
   5.4 USDA Tool for Measuring the Performance of Agricultural Cooperatives in the USA
   5.5 USAID 'Measurements for Tracking Indicators of Cooperative Success' (METRICS)
   5.6 International Labour Organisation (ILO) Model for Assessing Agricultural Cooperatives in the West Bank
Annex 6: List of Stakeholders Interviewed/Consulted
Annex 7: Proposed Georgian Agricultural Cooperatives Performance Rating Tool (PRT)
Annex 8: Power Point Presentation