

SECTION C - DESCRIPTION/SPECIFICATIONS/STATEMENT OF WORK

TITLE: THE NEW ECONOMIC OPPORTUNITIES (NEO) INITIATIVE

1. Introduction

The New Economic Opportunities (NEO) is designed to improve rural incomes; reduce poverty levels; improve food security; address critical, small-scale household and agricultural water constraints in targeted communities; enable targeted internally displaced persons (IDP) communities (old and new) to sustainably maintain their households; and assist communities distressed by natural or other disasters.

NEO will use the following broad approach to address these and other challenges faced by the rural poor, including disadvantaged, food insecure, vulnerable and/or internally displaced persons.

- In partnership with local communities, develop economic development planning tools, and assist targeted communities to prepare and/or if applicable, update existing community economic development plans (EDP).
- Resulting community level economic development plans will prioritize economic development needs based on regional and domestic market opportunities, and draw community members into defined EDPs. In coordination with local communities, implementing partner will provide technical assistance and targeted grants to develop market-based community-level economic activities.
- Within each selected community, technical assistance and grants will be used to specifically engage vulnerable groups in the social and economic development of their communities. Assistance and grants could also include assistance and linkages to employment opportunities that are not directly connected to or prioritized in community EDPs.
- Owing to the expected geographic overlap of NEO and the presence of large populations of old and new IDPs, the contractor will provide approximately \$2.6 million of services, commodities and grants to promote sustainability of IDP housing that has been constructed or rehabilitated with USG funds.
- And lastly, at the direction of the COTR, the contractor will provide grant assistance to areas impacted by natural disasters or other shocks that may occur in Georgia.

NEO will target at least seven municipalities throughout the country. There are, on average, twelve communities in each municipality. These municipalities will be selected through consultations with government authorities and USAID, and will be required to meet at least one of the following criteria:

- Highly disadvantaged as determined by:
 - The poverty headcount rate (measured by number of population registered as poor and vulnerable)¹

¹ The contractor will likely need to assist the Subsidy Agency at The Ministry of Labor, Health and Social Affairs of Georgia to pull records from their database in order to obtain the necessary information. State

Municipality budget (revenue rate)²

Accessibility (geographic, climate – difficult climate conditions, land availability etc)

- High concentration of a targeted vulnerable groups including internally displaced persons (from both old and new conflicts). This includes communities/cities where new houses are constructed / rehabilitated for old IDPs as well as new IDP communities
- Communities near conflict zone or highly impacted by the 2008 conflict with Russia.

It is also assumed that most communities assisted will have relatively low involvement of other donors or have clearly identifiable gaps of needed assistance.

NEO will benefit at least 70,000 households that are considered vulnerable. The USAID/Georgia performance management plan lists the following groups as vulnerable:

- internally displaced persons, including those recently displaced by the 2008 war with Russia;
- the country's poor, including the bottom quintile of income earners;
- rural households; and
- vulnerable populations in Abkhazia and South Ossetia.

2. Background and Problem Statement

The Government of Georgia (GoG)'s development policy includes the attainment of growth with poverty reduction in the context of an emergent predominantly private-sector market economy³. While Georgia obtained impressive growth during the middle part of the decade, poverty rates, particularly in rural areas, have remained high. According to recent data, 23.6 percent of Georgia's population is poor and 9.3 percent is extremely poor. Rural areas, which account for 47 percent of the total population, contain 59 percent of the population classified as poor and 62 percent classified as extremely poor⁴. These high poverty levels and economic asymmetries create a sense that there is a lack of 'economic justice' and subsequently threaten to the country's social, economic, and political stability.

The rural population is comprised mostly of low productivity, subsistent farmers, making eradication of poverty in rural areas extremely challenging. The main challenges to improving rural livelihoods include poor infrastructure; limited financial resources; and lack of information and required skills to bring change to communities and improve standards of life. As a result, food security remains an issue for many households. The share of individuals living in households who reported being food insecure is 9.8 percent, and about 18 percent of households cite the lack of adequate food consumption as their

Department of Statistic's Household Survey would be another document to refer for obtaining poverty data, although the data should be disaggregated by Municipalities, as it is now presented on the regional level

² The contractor will likely need to assist the Ministry of Regional development and Infrastructure of Georgia to pull records from their database in order to obtain the necessary information.

³ IFAD – Agricultural support Project Report

⁴ See footnote 1

main problem⁵.

Both new and old IDP settled communities face similar challenges. Most of the IDPs from the recent 2008 conflict have no sources of income and largely depend on humanitarian aid provided by international organizations or the GoG. As a consequence of limited productive assets and irrigation, 81 percent of the IDP families rely on government allowances as their main source of income⁶. The next most important sources of earned income among IDPs are casual employment (23 percent) and regular employment (12 percent). A total of 42 percent of the IDPs report income of less than 100 GEL a month which is far below the minimum subsistence level of 216 GEL per month for an average family. Only 12 percent of IDPs describe their income higher than 200 GEL and only 8 percent reported to have regular income from employment. Hence, over 90 percent of the source of income for IDPs in settlements and collective centers are from humanitarian assistance and government allowances of 28 lari/person. While there have been many programs to provide support to IDPs, until recently most have focused on the provision of short-term humanitarian relief and not longer-term livelihood development. Many old case-load IDPs that are settled across the country also remain vulnerable, mostly due to unstable incomes and dependence on government support and remittances.

Within both new and old IDPs there are particularly vulnerable groups (e.g. elderly, disabled, women, and youth) that face unique challenges and require targeted assistance.

Basic infrastructure needs also remain unmet in many rural and IDP communities. Donor project experience along with a variety of documents, including those of the Ministry of Regional Development and Infrastructure's recent strategy, indicate that improved water, sanitation, and irrigation resources top the list of priorities at all levels of government (national, municipal, and community).

Underscoring these findings, one of the World Bank's (WB) studies recommends reducing poverty by "promoting investments in infrastructure and creating opportunities for off-farm employment in rural areas."⁷ At the same time there is still a considerable need and scope to improve small-scale farming practices and the use of agricultural inputs (seeds, access to irrigation, harvesting technologies, etc) in order to improve food security and income.

Furthermore, unique challenges exist in relation to income generation and poverty alleviation within and surrounding the zones of conflict. While a range of assistance activities are possible near the zones of conflict, there may also be opportunities, contingent upon USAID approval and availability of funds, to target communities within Abkhazia and South Ossetia with assistance to facilitate economic recovery by improving small-scale infrastructure, strengthening businesses, and developing markets and trade/business linkages with the rest of the country.

⁵ Georgia Poverty Assessment-WB April, 2009

⁶ "Emergency Food Security Assessment Caucasus Conflict Follow-Up." World Food Program. 2010

⁷ See footnote 3

Status of USG programs in Abkhazia and South Ossetia

Following the August 2008 conflict, the USG's conflict mitigation and reconciliation activities in South Ossetia and Abkhazia were suspended as the USG deemed it impossible for the programs to realize the confidence-building goals they were designed to achieve. In addition, travel restrictions and security conditions would not allow the USG's contractors to operate safely and securely, nor would they allow for USG monitoring to occur. If possible, however, the USG remains committed to assisting communities within South Ossetia and Abkhazia.

According to the limited information available, the economic situation within many communities in South Ossetia and Abkhazia is extremely poor. Limited access to social and economic resources leaves these communities with few opportunities to improve living conditions. Largely deteriorated infrastructure and a lack of basic business development and financial services, such as microfinance, only compound the difficulties these communities face, as does a general lack of information about economic opportunities or technologies that could improve incomes and productivity.

3. Previous and Current Community Development Planning Experience

Past experience from the Soviet era when the state was responsible for infrastructure or economic development of the country - including rural areas - has created passive citizen behavior in many communities, with expectations of assistance from the state. But the state lacks resources, organizational capacity, and tools for encouraging local development. Furthermore, the government is committed to a private-sector-led approach to growth that requires individuals and business become the primary drivers of economic growth. In support of this objective, USAID has a history of facilitating local economic development by empowering communities to jointly develop community development plans that include a focus on business development and methodologies to actively engage in attracting resources from not only government, but from other private or donor sources as well.

USAID has supported municipal development programming since 2000. From 2000 to 2004 the Georgia Community Mobilization Initiative worked to develop community plans and fund small-scale infrastructure rehabilitation efforts. In 2004, USAID initiated the Georgia Employment and Infrastructure Initiative (GEII), which worked at the community level to develop community development plans that later were integrated into municipal economic development planning. GEII also provided small grants with the requirement of community contributions to meet some of the priority objectives identified by these community plans. In addition, the European Commission (EC) has implemented community mobilization projects that have also developed respective community development plans in Zugdidi, Akhalkalaki, Tsalka and Dmanisi districts. Other donor efforts have also supported work related to community planning and development⁸.

⁸ See Section 6 below

In 2006, in response to the introduction of the Law on Self-Government, which established 64 municipalities in place of community councils, USAID's GEII and Community Empowerment for Local Decision Making (CELD) projects shifted focus and developed 50 Municipal Economic Development (MED) plans in alignment with the new administrative boundaries. In total, 60 of 64 municipalities have MEDs developed through support from USAID, UNDP, and the European Commission. GEII worked with municipalities to develop MED plans based on CHF's Long-Term Civic Enterprise Development (LCEP) methodology, which is designed to equip local communities with the skills to identify problems and opportunities for local economic development. GEII started working with the same communities to initiate a series of Local Economic Development (LED) activities (e.g., enterprise innovation grants to facilitate micro and small business start-up and expansion, trade events and other promotional activities, training and extension services, farmer cross-visits, and assistance to business service organizations).

In order to adjust MED plans to reflect needs after the August 2008 conflict with Russia, the CELD project updated all 14 MEDs in Shida Kartli. GEII has contributed to this process by updating plans at the community level and introducing focus groups in the planning process in order to facilitate integration between IDPs and host community members. 14 community development plans were developed/updated by GEII including for IDP resettled communities in Kvemo Kartli.

The GoG has recently made attempts to help address rural community development needs. This includes the development of a task force by the Ministry of Regional Development and Infrastructure to develop a Regional Development Strategy of Georgia to reduce poverty and create new jobs. These efforts are complemented by the government's Village Assist project, which provides small grants to communities for infrastructure development projects, and a REGNET program to facilitate communication and involvement of community leaders in strategic planning. While the basic structure of the Village Assist Program and REGNET Programs are established, there may be scope to continue to refine implementation methodologies and to directly link these projects to other efforts. The government, however, has very limited resources to develop new methodologies or management capacity to address programmatic issues; or to develop a comprehensive poverty reduction strategy and action plan that addresses the many factors behind rural poverty and low productivity levels.

Current GOG Efforts

To support regional development efforts, in CY2009 the GoG allocated GEL 1,170 million that included around 800 million for road infrastructure; including GEL 20 million for the new "Village Assist" project. The project proved to be successful, and the GoG doubled the project budget in CY2010 to GEL 40 million. However, there is currently no model of participatory priority needs identification beyond village meetings, and therefore there are opportunities to develop a more comprehensive approach with tighter linkages to the development of strategies at all levels.

4. Community Economic Development Program

NEO is structured to achieve specific outputs, results and outcomes. Outputs are required intermediate products that will be used by the contractor to achieve results (e.g., number of persons trained). The term “result” is used to describe higher-level targets (e.g. sustained increase in agriculture production). “Outcomes” is used to qualitatively describe end-states expected to be achieved by the end of the contract. In most cases outcomes will not include specific targets. While the contractor may be able to meet the terms of the contract without achieving all results, the success of the program will be measured against the ability of the project to meet the component level results and outcomes.

NEO will provide assistance to local governments, enterprises and individuals to create community-level economic opportunities and raise incomes in up to ten yet to be selected municipalities. It is generally expected that the following challenges will be present and addressed in each municipality:

- insufficient local government economic planning capacity and/or plans
- poor infrastructure
- high level of unemployment due to limited employment opportunities
- structural unemployment (i.e., workforce lacking the skills in demand)
- limited technology (e.g., agriculture practices, internet) dissemination
- limited financial services, business inputs, or extension services
- limited to no access to markets
- food insecurity
- distressed demographics

In developing local capacity, whenever feasible the contractor will provide resources and services through Georgian systems (e.g., through subcontracts and grants) and employ local staff. The contractor will develop a housing sustainability model that includes IDPs as participants and beneficiaries. Ideally this model will be expanded to areas throughout Georgia to all IDP housing structures by GoG or other donors.

NEO will use the following approach to address these and other challenge to develop economic opportunities at the community level, to improve livelihoods of vulnerable households and persons, to promote sustainability of IDP housing, and respond to natural disasters or other large shocks to livelihoods if requested by USAID.

Component 1. Community level economic development planning

In partnership with local communities, develop economic development planning tools, and assist targeted communities to prepare and/or if applicable, update existing community economic development plans (EDP). At a minimum such plans should consider identification and prioritization of economic sectors, infrastructure, domestic and regional trade, measures to attract investment or businesses, and social safety nets or

opportunities for vulnerable groups. A particular focus should be placed upon agricultural productivity, microenterprise development, water/sanitation requirements, and irrigation needs. Such plans should provide an entry point and guide interventions under NEO as they will prioritize economic development needs based on regional and domestic market opportunities, and draw community members into defined EDPs. To ensure sustainability the contractor shall develop the capacity of appropriate government personnel and/or community leaders to maintain planning tools, generate plans and measure results. All EDPs will be submitted to appropriate municipal governments for inclusion in stand-alone MEDs. Those municipalities will be provided necessary technical assistance to adequately update municipal economic plans, attract investments in their municipalities (in infrastructure and economic projects) and increase interest from businesses to work with or operate in communities assisted.

Within the 7 (at least) municipalities (approximately 84 communities), specific small-scale infrastructure projects from community economic development plans will be identified, with a priority placed on rehabilitating or upgrading water, sewage, and irrigation systems, and other projects with very direct economic benefits. At least one such project shall be funded by NEO in each community. Whenever feasible, financing from national or local governments and/or in-kind contributions from beneficiaries will be sought to leverage the impact of small-scale infrastructure projects. Cash for work opportunities involving local unskilled labor force should be considered whenever feasible. There may also be opportunities to support the adoption of energy efficiency or green technologies, and these should be explored whenever they are in line with the projects overall results objectives. Each infrastructure project will be required to contain a sustainability plan that clearly identifies required maintenance, costs, and funding sources; as well as an economic impact analysis.

Outputs:

1. Community economic development plan model in place
2. Community EDPs developed/updated
3. MEDs developed/updated
4. Funding leveraged from government and/or other donor programs
5. Small-scale infrastructure projects implemented
6. Infrastructure sustainability plans developed (each project)

Result:

1. A sustained increase of at least a 20 percent in the number of adult individuals that perceive that the local government understands and is responsive to their needs over initial benchmark levels

Outcome: An adapted/improved community economic development planning methodology is developed that includes a sustainable methodology to identify infrastructure development needs, potential economic sectors for development and other community requirements. This methodology is 'owned' and understood by the benefiting communities and is successfully utilized to prioritize needs and obtain funding from a variety of sources for local infrastructure projects and other activities. Household

awareness of government plans and priorities for their communities is strengthened and sustained.

Component 2. Rural Economic Development

Community level economic development planning described above will prioritize economic development needs based on regional and domestic market opportunities, and draw community members into defined EDPs. In coordination with local communities the following assistance will be made available to implement the economic development plans.

- Provide technical assistance and targeted grants to develop sustainable market-based community-level economic activities. Interventions include:
 - Assist with forming groups of individuals into organized economic entities (e.g., partnerships, cooperatives, producer organizations, associations)
 - Provide demand-based vocational training, agriculture practices or other technical assistance to develop targeted economic opportunities (e.g., horticulture, vegetable, livestock, handicraft, service provision, etc) from production through market linkages
 - Establish or strengthen linkages between horizontal and vertical actors that are critical to developing targeted economic opportunities (e.g., consolidators, wholesalers, processors)
 - Improve access to information and communication technologies
 - Improve productivity by improving access to inputs, and introducing new technologies, practices or methodologies
 - Facilitate viable linkages with regional and or domestic markets
 - Establish small-scale incubators, business services centers, economic meeting centers, or physical markets
 - Strengthen and promote access to financial service providers
 - Promote linkages and cooperation between economic actors in selected communities
- Contribute to designing and funding small economic infrastructure projects (e.g. irrigation channels, farm to market roads), and to the extent possible link such projects to others being implemented at the municipal, regional or national levels
- Establish linkages between communities and appropriate/applicable Georgian education institutions, think tanks, NGOs and other sustainable providers of information, training and technical assistance
- Promoting off-farm employment opportunities, providing needed skills and facilitating linkages to potential employers
- Develop capacity of community leaders to lobby municipal governments to promote community-level infrastructure and or economic investment opportunities

The contractor will establish at least one model joint-use center near Abkhazia or South Ossetia to provide a location for business services including processing/marketing facilities, training, community space, input supply sales and information, and/or microfinance services. These centers could be established by refurbishing existing

structures or new construction. By facilitating income generating activities, the centers will serve the donor communities and government as successful models for rural micro-industrial zones that could be replicated around the country.

Outputs:

1. Grants awarded
2. Individuals trained in business skills, agricultural sector productivity, new technologies, etc.
3. Businesses assisted to invest in enterprise growth to increase productivity and sales
4. Short-term jobs created
5. Joint-Use centers established (at least one required)
6. Firms assisted in accessing bank loans or private capital
7. Special funds/loans facilitated for target groups, beneficiaries linked to microfinance institutions
8. New technologies or management practices introduced;
9. Partnerships established with local NGOs, businesses, educational institutions and other sustainable providers of information, input supplies, training and technical assistance

Results by the end of this project:

1. A sustained increase of at least 25 percent in the average value of household production (income + market value of agricultural or other production obtained but not sold) of targeted households over initial benchmark levels.
2. Diversified sources of income for households.
3. Long-term employment created.

Outcome: Communities and targeted beneficiaries are empowered to improve their livelihoods and capture business opportunities. Linkages exist for vulnerable households and individuals to participate in community wide economic opportunities.

Component 3. Assistance to strengthen highly vulnerable households and individuals

Within each selected community, NEO will address food insecurity; assist at risk individuals, and socially disadvantaged persons. Interventions will largely include providing technical assistance and grants to enable households and individuals to be self-sufficient, and to engage in the social and economic development of their communities.

Illustrative interventions include:

- Assist with forming groups of individuals into organized social entities (e.g., associations, youth groups, NGOs)
- Support the established groups by targeted grants and technical assistance to overcome their vulnerability and be more socially proactive
- Assist households and individuals produce foods at respective subsistence levels
- Provide demand-based skills, vocational or technical training targeting existing or prospective employment opportunities

- Provision or short-term subsidization of agriculture inputs to increase on farm production and to promote private sector agri-business, or other micro-enterprise ventures
- Provide technical assistance to improve agriculture practices of subsistence or below subsistence farmers
- Develop business acumen and market awareness of beneficiaries whenever feasible
- Develop capacity of vulnerable groups to communicate their social and economic conditions and needs to municipal and central governments

Outputs:

1. Micro-grants awarded
2. Individuals trained
3. Women assisted to improve their household income.
4. Ethnic minority households assisted to improve incomes.
5. Youth receiving training to build employment or income generation skills.
6. Households classified as poor or vulnerable assisted to improve income or food security.
7. Households classified as extremely poor assisted to improve income or food security.
8. Individuals at risk and socially disadvantaged persons integrated into the communities

Results by the end of this project:

1. A sustained increase of at least 15 percent in the average value of household production (income + market value of agricultural or other production obtained but not sold) of targeted households.
2. 25 percent of targeted vulnerable households and individuals raised to the official subsistence level.

Outcome: Needs of the most vulnerable groups within communities are met by enabling individuals to integrate into local economic and social life, and to obtain sustainable levels of food and other basic necessities.

Component 4. Promoting Sustainability of IDP houses being rehabilitated with support from the USG

A variety of actions could be used to ensure that the rehabilitated housing units do not fall into disrepair. This \$2.6 million component will promote community-based participation of IDPs in the maintenance, repair, and management of rehabilitated IDP collective centers and new IDP settlement infrastructure (water and sewage systems). The contractor will ensure the provision and delivery of technical assistance, training, and small grants to assure overall physical and financial sustainability of the housing and infrastructure program. Approaches to address the long-term sustainability of IDP housing will include:

- Establish Homeowners Associations for IDP Housing Communities. The key function of the homeowners associations will be to prevent the housing and infrastructure from falling into disrepair. It will provide a vehicle for residents to collectively manage the common spaces of the housing area. Ideally, the homeowners associations will generate income by providing tenant support services (e.g., home repair). In addition, USAID will assist the Ministry of Refugees and Accommodation (MRA) and local municipalities to develop an effective mechanism for communication with the housing associations.
- Provide training in sustainable housing and infrastructure maintenance. Poor housing infrastructure maintenance is a widespread problem. As most of the IDP beneficiaries come from a farming background, they are often unfamiliar with the repair of modern household systems. Training will be provided to beneficiaries in routine home maintenance. (The training will be particularly important if new and innovative infrastructure technologies are used.). This could include provision of basic maintenance tool kits. In the long-term, a program could be set up within the Ministry of Regional Development and Infrastructure to employ trained IDPs to conduct routine housing maintenance.
- Strengthen the capacity of local municipalities. In order to assure long-term sustainability, the MRA needs to work closely with local authorities during the implementation of the IDP durable housing program. Only then can decisions made by the MRA in Tbilisi be effectively implemented at the local-level. With this in mind, local municipalities need obtain the skills to:
 - Provide input into MRA's decisions regarding IDP durable housing solutions (e.g., selection of buildings and IDP participants) and infrastructure upgrading; and
 - Monitor IDP housing activity implementation or order to assure consistency with the MRA's Guiding Principles, Criteria and Procedures Governing the Process of Durable Housing Allocation.

In order to address this issue, the contractor will work closely with the USAID/Georgia's "Good Governance in Georgia (G3)" activity. USAID will ensure that IDPs are included as beneficiaries of improved services development under G3.

Details of G3 will be available for NEO's first year work plan.

Outputs:

1. Sustainable housing and infrastructure (water and sewage) management systems (e.g., homeowner's associations) established;
2. People trained in home maintenance; and
3. Local officials trained in housing services.

Results by the end of this project for at least 7,000 IDP households:

1. A long-term sustainable approach to manage and maintain approximately 100 IDP rehabilitated buildings and 38 IDP new settlements is in place and has existed for at least one year of unsubsidized operations.

Outcome: Housing associations (or other mechanisms) are functioning after one year of operation, including the existence and use of sustainable housing maintenance programs. Local municipalities have the capacity to provide services to IDP houses.

5. Grants

A critical theme of NEO is enabling vulnerable groups to engage in the social and economic life of their respective communities. Grants will be an important tool to accomplish this objective and will be used in all components. Whenever feasible, financing from national or local governments and or in-kind contributions from beneficiaries will be sought to leverage the impact of grant-funded activities, and to foster ownership or buy-in from beneficiaries. Grants will be used to support and complement related training, technical assistance or demonstrations. The total amount of grants will not exceed \$5 million over four years, and no grant will exceed \$100,000 in size without specific approval from USAID. At the direction of the COTR, the contractor shall respond to natural or man-made disasters or similar emergencies that may occur in Georgia. Such responses would be in the form of grants to local or international NGOs that are appropriate to the emergency needs. \$200,000 per year will be reserved and if a lesser amount is disbursed in a year, then the difference shall be used to address other contract requirements. In addition to the discussion of the use of grants in each component, grants will be utilized to:

1. Implement small-scale infrastructure projects that will contribute to economic development in targeted communities. Priority will be placed on rehabilitating or upgrading water, sewage, and irrigation systems.
2. Establish or enhance community level economic activity, including constructing or rehabilitating farm to market roads, community market centers, or other infrastructure necessary to increase trade or access to markets.
3. Form groups of individuals into organized economic entities, and contribute to their development and engagement in market-based, demand driven activities.
4. Support the development, enhanced capacity, and competitiveness of individuals, enterprises or other organizations in sectors targeted for economic development.
5. Assist economic enterprises (e.g., partnerships, cooperatives, producer organizations, associations, individuals) to start or expand operations.
6. Introduce and disseminate applicable and appropriate technologies concurrent with providing technical assistance to individuals, enterprises or other organizations.
7. Establish or expand access of rural poor to information, inputs and or financial services.
8. Assist highly vulnerable households and individuals to start micro business activities and/or to engage in social and economic activities in their community.
9. Promote partnerships between education institutions, NGOs, private sector and communities.