THE USAID-FERRERO GLOBAL DEVELOPMENT ALLIANCE: NEXT PHASE

CONTRIBUTIONS, LESSONS LEARNED AND RECOMMENDATIONS FOR NEXT STEPS

23 May 2014

This publication was produced for review by the United States Agency for International Development by Deloitte Consulting LLP.

THE USAID-FERRERO GLOBAL DEVELOPMENT ALLIANCE: NEXT PHASE

CONTRIBUTIONS, LESSONS LEARNED AND RECOMMENDATIONS FOR NEXT STEPS

USAID ECONOMIC PROSPERITY INITIATIVE

CONTRACT NUMBER: AID-114-C-10-00004

DELOITTE CONSULTING LLP

USAID | GEORGIA

23 MAY 2014

DATA

Author(s):	Dennis Hall
Reviewed by:	Nikoloz Chachkhiani, Tina Mendelson, Vince Morabito
Project Component:	Agriculture
Practice Area:	Hazelnut Value Chain Strategy Implementation
Key Words:	Ferrero, AgriGeorgia, Global Development Alliance (GDA), Hazelnuts

CONTENTS

FIGURES

I. EXECUTIVE SUMMARY

USAID's four-year Economic Prosperity Initiative (EPI) is designed to improve enterprise, industry, and country-level competitiveness in Georgia. Among the sectors EPI identified as having high potential, hazelnuts had the additional advantage of an existing tradition, high levels of rural employment, and a modest export base to build upon. Ferrero is among the world's largest consumers of raw hazelnuts. Their continued growth depends on an enormous volume and diversified supply of high quality hazelnuts. It is in Ferrero's strategic business interest to support the emergence of high quality hazelnut suppliers in geographies beyond Turkey, the dominant global supplier.

Recognizing the strategic synergies between Ferrero's business and USAID's development objectives, EPI convened stakeholders to establish a GDA, serving as both the alliance manager and a core contributor to the alliance.

FINDINGS

The impact of Ferrero's investment in the hazelnut sector in Samegrelo goes well beyond financial benefits. Ferrero has contributed capital and technical know-how, extensively engaged the community, and leveraged strong connections to hazelnut processors. Their presence and continued success has served as clear proof of Georgia's potential as a global leader in hazelnut production.

Both EPI and Ferrero will meet the level and value of the contributions they proposed in the GDA. Ferrero's contributions—all of which are complementary to EPI program goals and contributions—have fallen under three primary categories:

- **Knowledge Transfer and Extension Services**: Ferrero agronomists and the information they have access to have proven invaluable in the development of Georgian hazelnuts.
- **Infrastructure, Equipment and Office Support**: To demonstrate the value of modern post-harvest handling practices, Ferrero made two of its bin dryers available to farmers. The simple step of drying the nuts resulted in higher quality nuts and higher prices from the processors. Ferrero also provided office space, equipment and use of their facilities for the EPI team.
- **Development of a Viable Sector Association**: Recognizing the importance of a viable sector association to sustain the initiatives and progress under the GDA, EPI and Ferrero have collaborated extensively to support the establishment and sustainable development of the Georgia Hazelnut Grower's Association (GHGA).

As a result of efforts under the GDA, farmers were able to command price premiums as high as 10% over the market average. This demonstrates the results of the right incentives for farmers to adopt new technologies and practices. It also provided a real-world indication of what quality can mean in the market.

RECOMMENDATIONS

Based on expressed interest by Ferrero, USAID should consider extending the alliance into the future, building on the momentum that EPI and Ferrero have built to date. Specific recommendations include:

- **Provide for ongoing strategic and relationship management of the GDA**: USAID considers leveraging the USAID Regional Economic Growth (REG) program as GDA manager of both the USAID Caucasus relationship with Ferrero and expansion of the GDA.
- **Maintain and extend GDA initiatives in Georgia**: USAID actively sustains its GDA with AGG beyond the period of performance of the EPI activity. Following the model pioneered by EPI, USAID would leverage an existing (or upcoming) activity to take a role in the partnership.

- **Extend the GDA beyond Georgia**: Ferrero would work with USAID Azerbaijan and a current activity to duplicate success and leverage lessons learned in Azerbaijan.
- **Update and confirm the GDA's contributions**: As part of the final project report, EPI will conduct a final review of EPI's actual contributions through end of EPI project and validate the contributions with Ferrero.
- **Develop GDA lessons learned collateral and case study**: The alliance manager would develop a detailed case study to be more broadly distributed through the Lab and presented at upcoming partnerships events.

II. APPENDICES

A. BACKGROUND
B. METHODOLOGY
C. FINDINGS
D. RECOMMENDATIONS
E. ADDITIONAL INFORMATION

A. BACKGROUND

USAID's four-year Economic Prosperity Initiative (EPI) is designed to improve enterprise, industry, and country-level competitiveness in Georgia. The project serves as a catalyst to spur investments, increase employment, productivity, and access to local finance in agriculture and high-export manufacturing and service sectors. The project concentrates its efforts on improving agriculture sector competitiveness, improving competitiveness in targeted manufacturing and service sectors, and expanding and deepening Georgia's capacity for economic governance and business-friendly policy development. Targeted results of the program include increased productivity, exports, domestic and foreign investment, and employment in targeted sectors.

Among the sectors EPI identified as having high potential to support higher levels of investment, expand exports and catalyze economic growth, hazelnuts had the additional advantage of an existing tradition, high levels of rural employment, and a modest export base to build upon. With a forward-looking strategy and targeted investment in capacity building, standards, access to capital and other enabling factors, EPI could support tangible improvements in the competitiveness of Georgia's hazelnut producers.[1]

The USAID Global Development Alliances (GDA) Program

The GDA program was established by USAID in 2001 to expand the range of USAID's potential partners beyond traditional project implementers. In its online program statement for GDAs, USAID notes that "the most sustainable and successful GDAs are grounded at the intersections [of] a business's core interests and one or more of USAID's development objectives."

GDAs require partner businesses to "bring significant new resources, ideas, technologies, and/or partners to development activities," and because they require at least one-to-one contributions to match USAID investment in meeting its objectives, successful GDAs make sure private sector partners have a real incentive for the initiative to succeed.

By leveraging the enlightened self-interest of private sector enterprises, well-conceived and -executed alliances expand the reach and effectiveness of USAID development assistance. By bringing private sector viewpoints, sensibilities and commitments to bear on persistent development challenges, GDAs can also result in more efficient, effective and growth-oriented solutions.

FERRERO AND AGRIGEORGIA LLC

As the makers of Nutella™ and a global leader in confections, Ferrero is among the world's largest consumers of raw hazelnuts. Their continued growth depends not only on an enormous volume of high quality hazelnuts, but also on a growing and diversified supply. It is in Ferrero's strategic business interest to support the emergence of high quality hazelnut suppliers in new geographies beyond Turkey, the dominant global supplier. The company's strategy is focused on sourcing sustainably harvested hazelnuts that apply the necessary quality, labor and environmental standards. To supplement this strategy, Ferrero has invested in a number of vertical integration initiatives around the world by launching its own production of hazelnuts. More than seven years ago, Ferrero selected Georgia as one of its production sites, based on favorable business conditions and a long history of hazelnut cultivation.

Ferrero Group established AgriGeorgia LLC (AGG) as a wholly-owned subsidiary[2] in 2007, and by the end of that year they would have 500 ha under hazelnut cultivation. By 2010 AGG had another 2,000 ha planted, and today they have some 4,000 hectares of agricultural land in the Samegrelo region.[3] Today some 3,200 hectares of this land carries hazelnuts in various stages of maturity and production, and through its corporate parent it has access to some of the world's leading agronomists and hazelnut experts. And indeed, Ferrero's technical experts have unparalleled experience with industrial-scale hazelnut plantation management. By bringing their market-leading technical capacity

[1] EPI is also investing in the processing side of the sector, but the focus of the GDA is on Georgia's hazelnut growers.

[2] Globally, the Ferrero Group operates with more than seventy affiliated companies, including thirty-eight business units, fifteen production plants and three social enterprises in more than one hundred countries.

[3] AgriGeorgia's land spans several districts in the Samegrelo region, including Abasha, Martvili, Senaki, Khobi, Zugdidi, Tsalenjikha and Chkhorotku.

and knowledge of global hazelnut markets, Ferrero and AgriGeorgia will greatly benefit the entire Georgian hazelnut industry even as they advance their own strategic goal of a stable, sustainable source of high quality hazelnuts.

SHARED GOALS AND AN ALLIANCE

Recognizing the strategic synergies between Ferrero's business and USAID's development objectives, EPI identified an opportunity to align stakeholders to a core goal of increasing both the quality and quantity of sustainably harvested hazelnuts produced by small-holder farmers in Georgia. EPI convened the stakeholders to establish a GDA, outlining the specific roles and responsibilities, objectives and contributions of each of the parties. From USAID contributions, EPI served both as the alliance manager and a core contributor to the alliance.

Now, two-and-a-half years into the alliance, the EPI program is closing in October 2014 and USAID has asked EPI to evaluate the results of the partnership, identify lessons learned, and provide recommendations for how USAID might use the GDA going forward after EPI's end.

B. METHODOLOGY

EPI maintains a close working relationship with Ferrero/AgriGeorgia, and we have leveraged the regular, ongoing communications of that relationship in the development of this report. The methodology is based on interviews and forward-looking strategy conversations with Daniel Dellacha, the Executive Director of AgriGeorgia and manager of the GDA relationship for Ferrero and AgriGeorgia.

In reporting the outputs and results supported by the GDA, this report draws on EPI's performance monitoring plan (PMP) process. The estimated value of resources for the partners is based on actual or estimated expenditures against the original budget line items included by the parties in the Memorandum of Understanding (MOU) that forms the basis of the GDA. For EPI, figures are based on actual and accrued figures included in regular project reporting and invoices through April 30, 2014. Figures for Ferrero/AgriGeorgia's in-kind contributions under the GDA to date are based on AgriGeorgia's own estimates as reported to EPI.

C. FINDINGS

The impact of Ferrero's involvement in the agricultural sector and in the Samegrelo region goes well beyond financial benefits, and Ferrero support has felt across all segments of the community there. As a responsible corporate citizen, Ferrero, through its subsidiary AGG, has contributed its capital and technical know-how, engaged the community extensively, and leveraged its strong connections to hazelnut processors. The knowledge they have transferred includes the very best cultivation and post-harvest technologies and techniques, employment of hundreds of Georgians, and their presence and continued success has served as clear proof of Georgia's potential as a global leader in hazelnut production.

OBJECTIVES OF THE GDA

The memorandum of understanding (MOU) that forms the basis of the GDA identifies a number of shared goals between USAID, represented by EPI, and Ferrero/AGG.[4] At the highest level, these encapsulate the same shared purposes that brought EPI and Ferrero into discussions:

[4] The MOU was signed between USAID, Ferrero Group and AgriGeorgia, with EPI (through Deloitte Consulting LLP) as a witness. For the purposes of this document, we refer to "Ferrero" to describe the overall contributions of the Ferrero Group and its AgriGeorgia subsidiary in Georgia.

- Development of Georgian hazelnut producing industry,
- Improved quality of Georgian hazelnuts with the introduction of modern practices and technology, and
- Improved yield of existing hazelnut orchards as a result of the above.

To accomplish these objectives, the MOU details the primary areas areas in which EPI and Ferrero would cooperate and the contributions they would make in support of their shared goals. Figure 1 below summarizes the two parties' proposed contributions as they were summarized in the GDA memorandum.

Figure 1: EPI and AGG Proposed Contributions to the GDA

USAID EPI Contributions	AGG Contributions
▪ Administrative assistant ▪ Value chain manager ▪ Two field specialists ▪ Interns ▪ Drivers ▪ Logistics cost and transportation of farmers ▪ Promotional material ▪ Cost of agronomists for year two and three after completion of TOT. ▪ Media campaign	▪ Training of farmers and training of trainers ▪ Demonstration plots - Value of old and new plots - Renovation of old plots ▪ Equipment for renovation of demonstration plots ▪ Technical knowledge for cost benefit analysis ▪ Training curriculum ▪ Office space ▪ Value of school building ▪ Management costs ▪ Legal ▪ Ferrero brand name

When the MOU was signed, it was agreed that EPI's in-kind contribution to the GDA would focus on the program management and logistics support required to deliver results. Ferrero's contribution would focus primarily on building the capacity of hazelnut farmers and supporting the development of the institutions that facilitate sector cooperation and growth.[5] To that end, Ferrero's investment was to be in subject matter expertise, technology, and the supporting "infrastructure" represented by AGG's investment itself. By contributing its own world-class agronomists, training materials, and investment in land and facilities, Ferrero would become an accelerator of EPI's support to the hazelnut value chain.

In keeping with USAID's requirements that the total value of private sector contributions to the GDA must be at least equal to those of USAID, the ratio of EPI's estimated in-kind contributions to Ferrero's represented a leverage ratio of 1 to 1.13.

PUTTING IT INTO PRACTICE

As the MOU that forms the basis of the GDA indicates, the implementation of the GDA has been entirely funded through the EPI project on the USAID side and through complementary, in-kind support from AgriGeorgia. Money did not change hands.

At the very beginning of the EPI project, EPI engaged Ferrero's country representatives to discuss possible options of collaboration. After the initial discussions, EPI leadership agreed with the Georgia-based Ferrero team to meet with their corporate leadership in Italy. EPI leadership was able to leverage the existing client relationship Deloitte Italy had with the Ferrero Group to prepare for the

[5] In practice, these institutions have included farm groups, the Georgia Hazelnut Growers Association (GHGA) and, more recently, cooperatives formed under the new Georgian Cooperatives Law.

meeting and better understand the corporate dynamics and business challenges facing by Ferrero. EPI then participated in a strategic planning session at the Ferrero's headquarters in Italy, Alba, attended by Ferrero executives from Procurement/Sourcing division and their CSR department to discuss the format of collaboration in Georgia. The discussion focused on anticipated results that the alliance would bring to the company, the GDA format of the partnership, contributions, and the alliance management process. At the meeting, Ferrero leadership in Italy offered their full support and commitment to engage in the alliance.

Figure 2: The GDA Signing Ceremony

Returning to Georgia, EPI effectively served as a broker to conceptualize and form an alliance between USAID, Ferrero, and its subsidiary, AGG. The alliance was made official through the formal signing of an MOU on July 12, 2012 (see Figure 2). EPI helped define funding mechanisms and leverage by all parties, conducted a full due diligence process on the alliance partners, and served as a primary liaison on USAID behalf with the Ferrero team. EPI assumed the role of GDA manager, overseeing the implementation of all activities and managing the relationship with the alliance partners. EPI also supported Ferrero to engage the USAID ACT project in Azerbaijan and identify opportunities to connect the ACT team to activities implemented by EPI/Ferrero in Georgia.

Figure 3: First Year Results of the GDA

Development Impact	Ferrero	USAID Caucasus
• Over 1,000 Georgian hazelnut producers trained on new practices • Improved yield and quality results in 16% revenue increase • A new group of 1,000 producers began their program this year • Local agronomists trained on best agricultural practices for extension service • Training program used as an entry point for other project activities	• Improved reputation in Georgian community • Program highlighted in Annual CSR Report • The foundations has been established for supply chain sourcing improvements	• Signed its first GDA • Ability to leverage private sector expertise and funds in light of budget pressures • Increases profile at the USAID Washington office • Special mention of the alliance by Administrator's USAID Forward Annual Report

As an alliance broker, EPI also continued to measure and report on activities, build the relationship between Ferrero and USAID, and identify business and development opportunities for additional phases of the alliance. Already after the first harvest, the GDA had achieved significant impact (see Figure 3 above). The GDA has also been used as case study by USAID's IDEA office as an example of a successful alliance, and it has featured in a training program for other USAID Missions globally as an example of alliance building.

LESSONS LEARNED

EPI reviewed the alliance practices, successes and challenges to date to identify lessons learned for USAID, other development partners, and private companies to guide them in the process of identifying, conceptualizing, measuring, reporting, expanding and completing the alliance.

Figure 4: Lessons Learned in Developing and Delivering the GDA

Phase	Lessons Learned
Alliance Identification	• Spend sufficient time to analyze and understand the business challenge of a private company • Use business language and terminology instead of donor/development language
Alignment of Stakeholder Objectives	• Be aware of potential non-alignment of the development and business objectives during a short-term program (3-5 year USAID program vs. long-term business vision) • Understand distinction between the company's Corporate Social Responsibility (CSR) and core business/ procurement objectives
Alliance Management	• Engage Private company as a partner and not as contractor • Leadership and staff of all parties have to understand and contribute toward the GDA's objective • Appoint an effective alliance manager and identify alliance points of contacts for each party • Use consultative approach and consensus-driven solutions to resolve issues and challenges, recognizing diverse objectives of each party
Communications	• Monitor and evaluate the impact of the partnership to identify new areas of collaboration or areas of potential exit • Share successes and impact achieved broadly – to increase profile of all parties and as a learning tool for other similar alliances
Alliance Expansion	• Collaborate and build trust with the private company in order to identify opportunities to expand the GDA to additional activities, countries or stakeholders (other donors, other companies, USAID projects etc.)

INITIATIVES AND OUTCOMES UNDER THE GDA

In the course of implementation, both EPI and AGG are on track to substantially meet, and indeed exceed, the level and value of the contributions they proposed in the MOU that underpins the GDA. Substantively, Ferrero's contributions—all of which are complementary to EPI program goals and contributions—have fallen under three primary categories: Knowledge Transfer and Extension Services, Infrastructure, Equipment and Office Support, and Development of a Viable Sector Association.

KNOWLEDGE TRANSFER AND EXTENSION SERVICES

A central benefit of the GDA with AGG is the access it provides to the expertise and experience the world's leading industrial producer and processor of hazelnuts. The Ferrero Group's agronomists and the technical and historical information they have access to have proven invaluable to the progress EPI was able to achieve for the development of the Georgian hazelnut sector. Since December 2012, Ferrero has:

- Drawn on the global knowledge and experience of the Ferrero Group to design an accessible, hands-on curriculum for hazelnut farmers. This included the content of detailed, user-friendly training materials designed to support instruction to large groups of farmer trainees and serve as an "offline" reference for farmers to use outside of training.
- Provided intensive train-the-trainer (ToT) training to two of EPI's field specialists, including EPI Hazelnut Value Chain Manager Alex Antoniuk and Nugzar Jinjikhadze.
- Trained 35 Georgian agronomists to deliver the adapted Ferrero curriculum and training program. These trainer-trainees included agronomists employed by the Senaki and Khobi farm service centers, agronomy professors at the Senaki Vocational College, and agronomists from Agro-Service Association (ASA),[6] among others.
- After observing the full group of potential trainers deliver training in the first growing season under the alliance, AGG contracted the twelve most effective ones for 2013 and 2014 growing seasons.
- Financed the training fees and other costs associated with engaging leading Ferrero Group trainers from Italy. These leading subject matter experts and trainers have participated in EPI hazelnut training sessions four times per year.

In addition to the direct training support and the development of training materials, AGG effectively leveraged its investment as a training resource. Specifically, AGG:

- Provided access to its five new hazelnut plantations and nursery as a training area for farmers.
- Developed five knowledge plots on AGG's fenced land to demonstrate technologies, techniques and ideas to training participants.
- Paid all costs associated with the development and operation of the knowledge plots designated as part of the "EPI Hazelnut Knowledge Plot Program."
- Incorporated lessons at old orchards—those that predated AGG's investment—to demonstrate how farmers could renovate and rejuvenate their own aging trees. These lessons made new technologies, techniques and practices more relevant to experienced farmers. Once applied at their own orchards, new practices enabled them to achieve better quality and productivity from their underperforming trees.
- Invested more than EUR 200,000 (USD 273,220) to renovate a school building in Tsalenjikha, which AGG will provide under a no-cost, long term lease to the emerging Georgian Hazelnut Growers Association (AGHA). The multi-purpose building will serve as a spacious training center for ongoing training programs.

INFRASTRUCTURE, EQUIPMENT AND OFFICE SUPPORT

Ferrero and EPI identified weak post-harvest handling practices as one of key contributors to the persistent low quality of Georgian hazelnuts. To reinforce the messages delivered through knowledge plot training programs, Ferrero made two of its bin dryers available to EPI-supported farm groups and members of the growing GHGA ahead of the 2013 harvest season.[7] The two dryers had enough capacity to process only a tiny fraction of the total 2013 harvest in Georgia, but they served to provide a powerful example of the benefits of drying the hazelnuts. The so-called "association hazelnuts"

---

[6] ASA is a grantee of the EPI project and plays an important supporting role in delivering the training program to hazelnut farmers. This includes mobilizing farmers to participate, managing transportation, and providing the bevy of logistical and other support services required to move, feed and transport hundreds of farmers per session.

[7] The decision to limit use of the dryers to beneficiary farm groups and Association members was purely based on the capacity of the two dryers. The machines were run at full capacity through the season to process the volume of this limited supply.

benefitted from improved cultivation techniques imparted through training, which coupled with the simple step of drying the nuts resulted in higher quality nuts and higher prices from the processors.

Specifically, Ferrero contributed the following as part of the GDA:

- Provided dryers to association farmers, vastly improving quality of those hazelnuts and demonstrated the value of improved post-harvest handling and drying
- Introduced a business model for enterprising farmer groups (cooperatives) who are investing in dryers themselves.
- Distributed jute bags from their chocolate production chain to improve the packaging and storage of hazelnuts.

AGG also provided office space, relevant equipment and use of their facilities for the EPI team and the ASA, EPI's grantee, at AGG office in Chitastkari. EPI also collaborated with the AGG IT manager to develop a simple hazelnut pricing information system that was piloted as part of the 2013 harvest.

DEVELOPMENT OF A VIABLE SECTOR ASSOCIATION

As more farmers have sought to access EPI training and extension services, EPI and Ferrero have supported the establishment and early institutional development of the Georgian Hazelnut Growers Association (GHGA). The GHGA remains a nascent organization, but it is already emerging as an institutional focal point for the sector, and AGG has invested its own capital in the people and infrastructure that will ensure that progress is sustained long after EPI closes down at the end of September 2014.

Through its sector managers and field team, EPI has collaborated closely with AGG to continually reinforce the perception of the GHGA as the natural successor to EPI and all of the training and technology that EPI and AGG have made available to farmers. In the 2013 harvest, the emergence of the term “association hazelnuts” as an informal mark of higher quality provided some confidence that the effort was succeeding, and the GHGA was ultimately forced to stop taking in new members for fear of being overwhelmed.

To sustain and effectively meet the sudden and growing demand to be a part of the new association, one of the principal goals of the EPI/AGG collaboration has been to support the GHGA to establish a suitable **institutional and organizational model**. Already, the GHGA is strained to maintain effective service relationships with its 2,500 members, 19 village groups and four cooperatives, and there are more than 40,000 hazelnut farmers across Georgia. In order to sustain critical training programs, advocate for supportive policies, and provide valuable, quality-enhancing services to its members, the GHGA needs to quickly adopt a permanent management framework and service delivery model that are both adaptable and scalable. A functioning and growing GHGA will provide a permanent repository for the knowledge, programs and business support mechanisms that have been a direct result of EPI and AGG's cooperation under the GDA.

With support from AGG, EPI supported GHGA to procure the services of the Argentine Association of Regional Consortia and Agricultural Experimentation (AACREA, from its acronym in Spanish) to provide technical assistance to quickly adapt and stand up an organizational model to meet the challenge. Adapting the AACREA model will allow the GHGA to scale up and expand on the services and support GHGA has been able to offer on a so-far limited basis.

As EPI comes to an end, AGG is looking to GHGA to provide a sustainable focal point for its ongoing investment in the sector—which would ideally continue to be complemented by its partnership with USAID through the GDA:

- Continued access to Ferrero's agronomists and continuation of EPI/AGG's very successful **training and extension services** program

- Recognizing the importance of a strong sector association, AGG has already indicated its intention to continue investing in the technical support and advisory services of **AACREA** after EPI support comes to an end, as an additional benefit to GHGA.
- AGG has pledged effectively permanent use of the renovated **Tsalenjikha facility** to the GHGA. Filled with $21,758[8] of furnishings and equipment transferred from the EPI project, the facility will provide a permanent training facility for ongoing training. The building will also present a source of rent income for the GHGA, which has already begun to explore co-location subleases with a number of service providers for farmers, including banks.

OUTCOMES AND RESULTS

The exceptional quality of the 2013 hazelnut harvest—less than 1% of the nuts in some samples demonstrated damaged kernels—motivated Ferrero and other European buyers to increase both the volume and the price they paid for Georgian hazelnuts. GDA-supported farmers consistently commanded price premiums as high as 10% over the market average for their hazelnuts. This “quality premium,” which we expect to grow in coming years, is one of the key achievements under the GDA to date. It clearly demonstrates how the concerted effort between USAID and Ferrero was able to create the right incentives for the farmers to adopt new technologies and practices, while supporting their commercial success. It also provided farmers well beyond the network of EPI beneficiaries with a real-world indication of what focusing on quality can mean in the market, both in terms of price premiums and through market linkages with higher-value buyers.

In summary, the table below highlights the key achievements under the GDA achieved .

Figure 5: The Ferrero/AgriGeorgia GDA by the Numbers

Output/Result	Through FY13	FY14 YTD
Trainers trained by Ferrero Agronomists (total)	24	-
of which, trainers hired by Ferrero to implement program	*12*	-
Number of hazelnut farmers trained	2,633	906
Increased productivity of supported farmers (kg/ha)	+ 700kg/ha	+470kg/ha
“Quality” premium over average market price (GEL/kg)	+ GEL 0.20 – 0.30	-
Increase in the value of hazelnut exports (est.)	+ USD 12.9 million	-
Farmer groups formed	17	-
Cooperatives formed	3	1

D. RECOMMENDATIONS

In its two-and-a-half years of partnership, the USAID-Ferrero GDA has provided significant value to the hazelnut industry in Georgia. Based on expressed interest by Ferrero, USAID should consider extending the alliance into the future, building on the momentum that EPI and Ferrero have built to date. In the sections below, specific recommendations are included for USAID’s consideration.

[8] Based on the acquisition value of the furnishings and equipment.

PROVIDE FOR ONGOING STRATEGIC AND RELATIONSHIP MANAGEMENT OF THE GDA

One of the lessons learned from this GDA is the importance of a dedicated alliance manager that can effectively manage the relationship and sense of partnership between the participants—EPI, AgriGeorgia, Ferrero and the USAID Mission—and their respective representatives. It was ongoing, personal engagement with Ferrero through EPI that contributed to the depth and expansion of the alliance to achieve results for the Georgian hazelnut industry.

EPI recommends that USAID considers the USAID Regional Economic Growth (REG) program as an alliance manager for both the USAID Caucasus relationship with Ferrero and the expansion of the GDA to Azerbaijan. EPI has already facilitated collaboration between USAID competitiveness programs in Georgia and Azerbaijan, including Azeri agronomists' participation at EPI/Ferrero knowledge plot trainings. Ferrero has also expressed interest in expanding the GDA to Azerbaijan and duplicating their success there.

For a very modest continued investment by USAID, REG will be able to maintain Deloitte as the bridge to Ferrero and sustain what has become a very productive and strategic relationship. REG can facilitate Ferrero's collaboration with ongoing USAID agricultural activities in Georgia, Azerbaijan and potentially Armenia, and it can monitor, evaluate and report on the ongoing results and impact of the alliance.

MAINTAIN AND EXTEND GDA INITIATIVES IN GEORGIA

As a result of the GDA, EPI will have trained close to 4,000 hazelnut farmers by the end of the program, and GDA-enabled extension services will have reached thousands more. While this is a significant achievement that will have long-lasting positive implications for the sector, it still represents only a fraction of the more than 45,000 hazelnut farmers in Georgia. Building on the GDA momentum, there is an opportunity for USAID to engage its other economic growth programs in Georgia and other donors to continue and extend GDA initiatives.

Similarly, in close collaboration with AGG, EPI has made enormous progress in developing the capacity and a sustainable operation model of the GHGA. As a sustainable organization that is able to grow with its membership, the GHGA will grow into a natural "home" and focal point for AGG's continued engagement with—and investment in—the sector.

Finally, while there is little doubt AGG will continue to invest in raising the productivity and quality of Georgian hazelnuts, the expiration of the GDA will dramatically diminish the scale and reach of AGG's positive influence on the sector. The knowledge transfer that comes with farmers interacting with the world's leading producer, processor and end user of hazelnuts will inevitably be reduced without the partnership with USAID.

With all of these ongoing and very real benefits at stake, EPI recommends that USAID actively sustain its GDA with AGG beyond the period of performance of the EPI activity. Following the model pioneered by EPI, this would require USAID to leverage an existing (or upcoming) activity with compatible scope to take on the role of EPI in the partnership. With a mandate from USAID, the activity (or activities) selected to continue to leverage AGG support through the GDA would coordinate with the REG project in its role as strategic manager of the GDA. Ultimately, the new implementing partner would work with AGG in EPI's stead to continue to deliver results.

EXTEND THE GDA BEYOND GEORGIA

The REG project's strategic leadership of the GDA would be more important beyond Georgia, where there is a lot of potential to duplicate the activities and results of the USAID-Ferrero collaboration. Ferrero has already expressed its interest in leveraging its GDA experience in Georgia and applying it in Azerbaijan.

As part of an expanded GDA, Ferrero would work with USAID Azerbaijan and its current or future projects (such as ATLAS) to establish sustainable demonstration plots, provide smallholder farmers access to its saplings, facilitate the development of sustainable farmer groups or associations, and facilitate the adoption of improved post-harvest handling practices and quality standards. Ferrero would also support the development of market linkages for farmers and processors.

UPDATE AND CONFIRM THE GDA'S CONTRIBUTIONS

Whether USAID decides to expand or complete the GDA with Ferrero, EPI will conduct a final review of EPI's actual contributions through end of EPI project and validate the contributions with Ferrero. The results of this review will be included in EPI's Final Report.

If USAID chooses to continue the GDA, the alliance manager will coordinate between the signatories to update contributions to date (EPI and Ferrero) and estimate the value of additional contributions by all parties (USAID Caucasus, USAID E&E bureau, Ferrero, AgriGeorgia etc.). The results of these efforts would support an amended MOU with extended timelines and new activities.

DEVELOP GDA LESSONS LEARNED COLLATERAL AND CASE STUDY

The lessons learned from the successful GDA with Ferrero are significant, and they can enrich USAID's and the overall development community's understanding of how the private sector can be constructively and productively engaged. The case study and lessons learned should be shared with the US Global Development Lab, a new entity within USAID that focuses on innovation, technology and partnerships to promote development. The alliance manager would develop a detailed case study to be more broadly distributed through the Lab and presented at upcoming partnerships events.

E. ADDITIONAL INFORMATION

A. GDA MEMORANDUM OF UNDERSTANDING

MEMORANDUM OF UNDERSTANDING

among

United States Agency for International Development

and

LLC AgriGeorgia

and

Ferrero Group

I. Purpose

The United States Agency for International Development (hereinafter referred to as "USAID"), *AgriGeorgia LLC a* Ferrero Group Company, (hereinafter referred to as *"AGG")* have a common interest in *improving the Hazelnut Producing Sector in Georgia*.

USAID through its Economic Prosperity Initiative, a USAID-funded project implemented by Deloitte Consulting LLP, envisions private sector led development as a key driver in achieving economic prosperity in Georgia. Agriculture dominates Georgia's economic landscape, but the sector has challenges that inhibit productivity and growth. Inadequate market access, inefficient production practices, limited access to capital and poor infrastructure are among them. Resolution of these issues combined with linkages to potential markets will have far-reaching benefits for Georgia. EPI will target these challenges by linking Georgian agriculture producers and processors to new markets and by increasing their competitiveness in meeting the requirements of those markets.

AGG is a limited liability company created under the laws of Georgia by the Ferrero Group, the largest global purchaser of hazelnuts, and maintains a long-term strategic vision of both growing and diversifying the supply of hazelnuts.

As such, the purpose of this Memorandum of Understanding ("MOU") is to establish an alliance among USAID, AGG/Ferrero Group (hereinafter each referred to as a "Party" and collectively as "Parties") to further the goals set forth below (the "Goals"), and to outline the understandings and intentions with regard to these shared Goals. The Parties seek to share their respective strengths, experiences, technologies, methodologies, and resources (including human, in-kind, and monetary) in order to achieve these Goals.

The Parties share the following goals:

- Development of Georgian hazelnut producing industry,
- Improved quality of Georgian hazelnuts with the introduction of modern practices and technology, and
- Improved yield of existing hazelnut orchards as a result of the above.

The Parties intend to focus joint activities around the following objectives:

- Train Georgian farmers,
- Use new hazelnut plantation and nursery owned by AGG as demonstration area and create knowledge plots to demonstrate relevant technologies to Georgian hazelnut farmers and agronomists, and

- Use existing old orchards owned by AGG to demonstrate the technologies required to renovate old orchards to higher standards with the aim to achieve higher quality nuts and increased hazelnut yields in the future.

The Parties enter into this MOU while wishing to maintain their own separate and unique missions and mandates, and their own accountabilities. The cooperation among the Parties as outlined in this MOU shall not be construed as a partnership or other type of legal entity or personality or pursuit of "joint activity" as defined by the laws of Georgia. Each Party shall accept full and sole responsibility for any and all expenses incurred by it relating to this MOU. Nothing in this MOU shall be construed as superseding or interfering in any way with any agreements or contracts entered into among the Parties, either prior to or subsequent to the signing of this MOU. Nothing in this MOU shall be construed as an exclusive working relationship. The Parties specifically acknowledge that this MOU is not an obligation of funds, nor does it constitute a legally binding commitment by any Party or create any rights for any third party.

II. Partner Roles, Responsibilities and Notices

1. USAID

USAID Background
USAID supports international development and advances U.S. foreign policy objectives by supporting economic growth, agriculture and trade, global health, democracy and conflict mitigation and management; and humanitarian assistance. USAID has provided more than $1billion in humanitarian and development aid to Georgia since assistance began in 1992. Their objectives in Georgia are focused on strengthening and making sustainable Georgia's democratic, free-market, Western-oriented transformation.

USAID Role
Under the Alliance, it is expected that USAID's role in Georgia will be carried forward by its implementing partner for EPI, Deloitte Consulting LLP. This implementing partner will coordinate the implementation of activities of other USAID projects in Georgia, including Abkhazia Community Revitalization (implemented by UNDP) and New Economic Opportunities.

All notices to USAID Georgia shall be sent to the following USAID Point of Contact:
Douglas Balko
Director, Economic Growth Office
USAID/Caucasus Mission
11 George Balanchine Street
0131 Tbilisi, Georgia
Tel: +995 (32) 254 40 00
dbalko@usaid.gov

Monika Gorzelanska
Deputy Director, Economic Growth Office
USAID/Caucasus Mission
11 George Balanchine Street
0131 Tbilisi, Georgia
Tel: +995 (32) 254 40 00
mgorzelanska@usaid.gov

USAID/EPI Background

USAID's four-year Economic Prosperity Initiative (EPI) is designed to improve enterprise, industry, and country-level competitiveness in Georgia. The project serves as a catalyst to spur investments, increase employment, productivity, and access to local finance in agriculture and high-export manufacturing and service sectors. The project concentrates its effort in: improving agriculture sector competitiveness, improving competitiveness in targeted manufacturing and service sectors, and expanding and deepening Georgia's economic governance. Targeted results of the program include increased productivity, exports, domestic and foreign investment, and employment in targeted sectors.

USAID/EPI Role

Under the Alliance, it is intended that USAID/EPI will:

a. support publication, translation, and distribution of training materials as well as the cost of publicizing results of the EPI Hazelnut Knowledge Plot Program;
b. coordinate with mass media and support the promotion of the hazelnut knowledge-plot training events in order to mobilize a sufficient number of farmers to attend;
c. provide all transportation for farmers participating in the training program;
d. provide, as necessary, additional small equipment and devices (such as pruning shears, back-pack sprayers, etc.) needed to give farmers hands-on experience during the training sessions as well as consumables for the knowledge plots;
e. mobilize farmers and provide administrative and logistic support to carry out the EPI Hazelnut Knowledge Plot Program;
f. provide in-kind support of a Value Chain Manager, two Field Specialists, and one half salary of a shared Administrative Assistant, and additional student interns to assist AGG, in the training, administration, registration, data tracking, and farmer mobilization needed to carry out the training program, provide administrative/performance evaluation assistance, maintain a database for all trainees, and assist the Value Chain Manager in serving as community liaison;
g. engage additional trainers, trained by AGG, from the regional Farm Service Center, Senaki Vocational College, Agro-Service Association and other service providers to accompany AGG trainers, increasing the number of trainers available to farmers at each knowledge plot;
h. Jointly with AGG, assess the viability of establishing and renovating a building provided by AGG to be designated as a school for training and education in hazelnut cultivation;
i. Jointly with AGG, provide assistance to increase capacity of an association of the hazelnut producers of Georgia, if and when established by hazelnut producers;
j. Coordinate activities with other USAID implementing partners, including implementers of New Economic Opportunities and Abkhazia Community Revitalization.

All notices to EPI shall be sent to the following Point of Contact
Tina Mendelson
Chief of Party
6 Samghebro Street, Tbilisi
+995 (5)77 99 11 36
+995 32 243 89 27
Tmendelson@deloitte.com

2. AGG and FERRERO

AGG Background

AgriGeorgia LLC is a Georgian limited liability company registered under the laws of Georgia in 2007, fully owned by the Ferrero Group. The Ferrero Group operates with more than seventy affiliated companies (including thirty-eight business units, fifteen production plants and three social enterprises) in more than one hundred countries worldwide.

The Ferrero Group, a world leader in confections, has invested in specific vertical integration initiatives, in particular in the development of an agricultural production chain of hazelnuts. Under this strategy, the Ferrero Group has established AGG. The company owns 4,000 hectares of agricultural land located in western part of Georgia (the following districts in the Samegrelo region: Abasha, Martvili, Senaki, Khobi, Zugdidi, Tsalenjikha and Chkhorotku). About 3,200 hectares of this land is already planted with hazelnut trees. AGG has at its disposal leading hazelnut experts and agronomists with unique experience in industrial hazelnut plantation management in Georgia. AGG's world-renowned and market-leading technical knowledge of the hazelnut industry will greatly benefit the entire Georgian hazelnut industry.

AGG Role in Georgia

Under the Alliance, it is expected that the AGG's role will be the following:

a. AGG will use its 5 new hazelnut plantations and its nursery as training areas and will develop 5 knowledge plots within its fenced property to demonstrate relevant technologies to training participants.
b. AGG will use older existing orchards to demonstrate the technologies required to renovate old orchards, achieve better quality nuts and increased hazelnut yields in the future.
c. AGG will provide and apply the renovation techniques for the knowledge plot (an estimated size of 1 hectare) in its old orchards and enable a cost/benefit comparison of yields to a like-size plot of older plants where renovation techniques are not applied. (Cost benefit is defined as cost of the technology applied versus the value of the improved yield)
d. AGG will pay all costs associated with the development and operation of all knowledge plots identified to be in the EPI Hazelnut Knowledge Plot Program.
e. For the knowledge plot training session, AGG will provide intensive train-the-trainer (ToT) training for two EPI Field Specialists, agronomists employed by the Farm Service Centers at Senaki and Khobi, five agronomy professors from the Senaki Vocational College, agronomists from Agro-Service Association and other relevant service providers, all identified by EPI personnel, a total of 15 persons. This human resource will be available to participate as trainers at subsequent farmer-focused training during the first year and they will be evaluated by AGG to define their professional level for future trainings. If deemed of sufficient caliber, AGG will contract the services of these trainers in years 2, 3, and 4.
f. AGG will design an English language farmer training curricula and training materials that will accommodate a large targeted number of trainees, taking into account available/reasonable time for the farmers.
g. AGG will cover the training fee associated with engaging trainers from Italy (or Georgia when deemed appropriate) that will train the farmers during the training session four times a year.
h. AGG will train farmers on a yearly basis. A feasible number of farmers will be jointly decided with EPI through September 2014 (an official end of the EPI program).
i. AGG will coordinate with EPI to determine the appropriate venue for classroom training of farmers, leveraging the facilities of Farm Service Centers, Government Centers, or Vocational Colleges in the vicinity.
j. AGG will design class sizes of approximately 40-50 farmers for the field training in order to provide hands-on vocational training. Based on the final training program design, the training program will anticipate four classes in each of our different

sessions over the course of an annual crop cycle, with each session lasting one to three days. During the sessions, AGG will conduct (ToT) training for agricultural specialists referenced above.

k. AGG will provide office space either at the office in Zugdidi or at the plantation in Chitastkari and one half salary for one EPI Administrative Assistant. The Administrative Assistant will provide administrative and performance evaluation assistance, coordinate collection of all data, maintain a database of all trainees, and serve with the EPI Value Chain Manager as a community liaison.
l. AGG will support EPI in increasing the capacity of an association of the hazelnut producers of Georgia, if and when established by hazelnut producers by supplying assistance including but not limited to: discounted inputs, technical support, and training.
m. AGG will put at the disposal of the project its facility located in Tsalenjikha region for the purpose of creation of the school for the training and education in hazelnut cultivation.
n. AGG along with EPI will develop and put at the disposal of the project a database containing all the information collected by the parties, during the project implementation process.
o. Ferrero fully supports AGG's above listed activities.

All notices to AGG shall be sent to the following AGG Points of Contact

a. Daniel Dellacha, General Manager
Email address: dgdellacha@gmail.com
Mobile Number +995 (5) 77 25 23 56

b. Fabio Piretta, The Head of Operations Department
Email address: Fabio.Piretta@ferrero.com
Mobile Number +995 (5) 77 99 08 20

c. Merab Chitanava, The Head of General Affairs Department
Email address: merab.chitanava@agrigeorgia.ge
Mobile Number: +995 (5) 77 25 24 22

III. Implementation

1. Governance Structure

a. The EPI Value Chain Manager on behalf of USAID will act as the primary liaison between EPI and AGG, will supervise and coordinate all EPI involved personnel, and will provide all additional support needed to meet EPI training program objectives.
b. EPI will work closely on a day-to-day basis with AGG to resolve any issues that may arise regarding the EPI Hazelnut Knowledge Plot Program.
c. AGG and EPI leadership agree to meet at least quarterly at AGG's Zugdidi Office or another location convenient for both Parties to review the progress of the EPI Hazelnut Knowledge Plot Program.
d. In coordination with USAID, EPI will maintain communication and cooperation with other donor activities and those of the Government of Georgia.

2. Funding

It is expected that the Parties will make the following contributions subject to the availability of funds and relevant internal approval process. Fully itemized project budgets are located in Annex A.

Partner	Estimated Cash Contribution	Estimated In-kind Contribution
AGG	*$0*	*$1,566,822 (an equivalent of 1,169,270 Euros per year) (training materials, land, brand value, staff time)*
USAID/EPI	*$0*	*$1,361,875 (staff time, logistics, materials)*

In-Kind Description- AGG

- Trainers of trainers and farmers
- Demonstration plots
    - Value of old plots and new plots
- Renovation of plots
- Ferrero brand name
- Equipment for renovation of demonstration plots
- Office space
- Technical knowledge for cost benefit analysis
- Training curriculum
- Value of school building
- Management costs
- Legal

In-Kind description – EPI

- Administrative assistant
- Value chain manager
- Two field specialists
- Interns
- Drivers
- Logistics cost and transportation of farmers
- Promotional material
- Cost of agronomists for year two and three after completion of TOT.
- Media campaign

Funding Mechanics

Money will not change hands in this alliance. USAID's contribution is funded through an existing EPI contract. EPI and AGG will fund complementary components of the same activities.

3. Communications

The Parties will collaborate in the development of outreach and education materials regarding the programs for external audiences in advance of the release of any materials. All press releases or public information campaigns, interviews, or postings must have prior approval of all parties (EPI and AGG.) Where relevant, branding will be accomplished in accordance with the Parties' respective legal, policy and procedural requirements.

The Parties will respect each others' confidentiality policies, with the mutual understanding that the Parties intend to publicize their alliance and its objectives without disclosing any confidential or proprietary information of the other Party [or Parties].

4. Reporting and Evaluation

(a) *Reporting*

EPI will develop a comprehensive data collection and performance monitoring program to track impact of the training program and quantify results from training program activities. EPI and AGG will share results, output and outcome measures with each other in order to provide USAID with a comprehensive picture of the GDA results. Final results will be collated and reported by EPI.

(b) *Evaluation*

AGG will share all relevant information, including yield, input, maintenance, equipment and other relevant data, needed by EPI to evaluate the impact of the training program, including a cost/benefit analysis of the technology applied to the existing local hazelnut orchard renovation techniques.

IV. Effective Date, Duration, Amendments, and Termination

This MOU becomes effective on the date of the last signature of all the Parties and is expected to continue until September 30, 2014, the official end date of the EPI program. However, prior to the close of the EPI project, USAID and Ferrero will engage in a discussion regarding next steps, facilitated by EPI. At that point, the MOU may be extended, renewed, or closed. This MOU may be modified or amended if all Parties agree in writing. Any Party may terminate this MOU at any time, but should endeavor to provide at least 30 days' written notice to the other Parties.

IN WITNESS WHEREOF, the Parties, each acting through their duly authorized representatives, have caused this MOU to be signed in their names and delivered as of the 12th of July, 2012.

United States Agency for International Development/ Georgia

By: ______________________
(Signature)

Name: *Mr. Stephen Haykin*

Title: *Mission Director*

Date: ______________________

AgriGeorgia/**Ferrero Group**

By: ______________________
(Signature)

Name: Mr. *Daniel Dellacha*

Title: *General Manager*

Date: ______________________

AgriGeorgia LLC

By: ______________________
(Signature)

Name: Mr. Merab Chitanava
Title: *The Head of General Affairs Department*

Date: ______________________

Witness:
Georgia Economic Prosperity Initiative

By: ______________________
(Signature)

Name: Ms. *Tina Mendelson*
Title: *Chief of Party*

Date: 7/12/2012

USAID Economic Prosperity Initiative (EPI)
6 Samghebro Street
Tbilisi, Georgia
www.epigeorgia.com

Phone: +995 32 43 89 24/25/26

Fax: +995 32 43 89 27