A2F Consulting

Georgia Regional Development Fund Evaluation Design Report

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ABBREVIATIONS

GoG	Government of Georgia
GRDF	Georgia Regional Development Fund LLC
IPG	Investment Policy Guidelines
MCA	Millennium Challenge Account Georgia
MCC	Millennium Challenge Corporation
MCG	Millennium Challenge Georgia Fund
MSME	Micro, Small, and Medium Enterprises
PC	Portfolio Company (GRDF investee)
SEAF	Small Enterprise Assistance Funds, GRDF Fund Manager
SME	Small, and Medium Enterprises
TA	Technical Assistance
VAT	Value Added Tax

EXECUTIVE SUMMARY

A2F Consulting was contracted by MCC to assess the evaluability of the Georgia Regional Development Fund (GRDF), which was established under the Enterprise Development Project component of MCC's Georgia Compact I. GRDF was one of the initiatives under the first Georgia Compact, which aimed to develop infrastructure and improve the business environment in the regions outside of Tbilisi in order to improve the livelihoods of the economically disadvantaged. A particular focus was on the agriculture sector, which then accounted for 16 percent of Georgia's economic output and an even larger share of employment. The specific objective of GRDF and the Agribusiness Development Activity, which was being implemented in parallel, was to address key constraints faced by SMEs in agribusiness and other sectors in the regions.

This report presents the proposed evaluation design and underlying rationale for the approach. An evaluability assessment preceded this design report and concluded that an evaluation would yield a useful and insightful analysis that is generalizable and transferrable, to inform decision making for future MCC and non-MCC projects. The conclusions reached in the evaluability assessment and the basis for this design report are based on project documents collected from MCC and SEAF, discussions with Board members, discussions with stakeholders, and discussions with the shareholders of and visits to a majority of the portfolio companies during two scoping missions to Georgia in November 2015 and January 2016.

From a conceptual perspective, the proposed Performance Evaluation will analyze GRDF's two areas of intervention (financing and technical assistance) around three dimensions. The goal of the performance evaluation is to understand the validity of the program logic and its assumptions (Design), the degree to which the institutional setup affected change (Institutional Framework), and the outcome results and lessons learnt (Outcomes). This evaluation approach will be embedded in a standard due diligence process for private equity funds. The evaluation will utilize document reviews, advanced financial analysis, semi-structured interviews, and case studies to assess the three dimensions of the project, their contribution to performance of GRDF, and draw concrete conclusions on lessons learned.

The evaluation of the Project Design will follow a theory-based approach that examines the entire project logic. The team will evaluate the theory of change including the validity of its assumptions and hypotheses either explicitly defined or implied from the original GRDF project due diligence and origination documents. This approach will help identify any weak links in the causal chain and inadequate design features that may have influenced project outcomes and may have resulted in any unintended consequences. In particular, the team will assess how the investment policy, financing instruments, governance structure, and fund structure contributed to differences between actual and intended outcomes implied in the theory of change.

From the Institutional Framework perspective, the team will analyze and assess the processes of GRDF, including the relationship dynamics among various stakeholders, that help explain to what extent the framework acted as a limiting or enhancing factor in achieving the expected objectives. A key factor in this context will be the assessment of the Board's performance as well as of SEAF's management performance. In the latter, the analysis will also involve an assessment of the quality of the due diligence carried out prior to submitting investment proposals, an assessment of the financial models used, a detailed review of the substance of the review of investment proposals at Board level, etc.

The evaluation of the Outcomes will be based on the program logic, the indicators, and the expected results, and will strive to identify key insights and lessons for future MCC and non-MCC projects. Available quantitative data consists predominantly of information on the terms of financing offered, expected versus actual repayment and returns, and expected versus realized development indicators. A2F will request additional information on a sample of portfolio companies that are still operating. These companies are chosen for in-depth case studies to illustrate what types of challenges as well as what types of support portfolio companies experienced, which largely determined their failure/success and ultimately the financial and development performance of GRDF activity.

The four companies proposed for the case studies represent the combinations of financial and development returns seen within the portfolio and are currently operating. These four selected companies are FoodMart, Teremok, Piunik, and Prime Concrete. Importantly, the companies were chosen among those that are directly observable or a "going concern". As such, they provide evaluators with an opportunity to obtain an inside view of operations and identify and analyze the drivers behind the variation in these returns. Additionally, the shareholders, management, and employees are all available to field questions pertaining to their experience at the company and circumstances surrounding key events. In this sense, the case study approach will help mitigate potential limitations and challenges of a Fund Performance Evaluation for GRDF.

The main limitations and challenges identified include the yet to be exited investments, the limited number of operating companies, and the lack of counterfactuals. The returns of most portfolio company investments have not been finalized and are dependent on the ultimate exit values. There are a limited number of companies still in operation post-GRDF intervention, which reduces the field of directly observable companies. Furthermore, the lack of counterfactuals acts as a constraint on additionality analysis. However, the evaluation design takes all of these limitations into account. The companies identified for the case studies have either been exited or are expected to be exited in the short term with a high degree of certainty. The issue of counterfactuals will be addressed qualitatively through semi-structured interviews with shareholders, management, partner financial institutions, and to the extent possible, through discussions with individuals and companies in the same business lines as the companies selected for case studies.

1. INTRODUCTION

A2F Consulting was contracted by MCC to conduct an independent evaluation of the Georgia Regional Development Fund (GRDF) Activity, which was part of the Enterprise Development Project component of MCC's Georgia Compact I. GRDF was designed to provide a competitive mechanism for allocating capital to small and medium sized companies, with a particular emphasis on agribusiness and tourism outside of Tbilisi, and to build the capacity of local firms. This Evaluation Design Report is the culmination of a multi-step process that involved on-site fact gathering missions using semi-structured interviews with GRDF stakeholders to assess the evaluability of the project activity and evaluation design implications.

An evaluability assessment preceded this Evaluation Design Report, and was based on information and documents provided by MCC and SEAF, and facts gathered from two scoping missions carried out in Georgia in November 2015 and January 2016. Prior to the first country mission, an in-depth desk review of existing studies and data had been carried out to understand the macro- and micro-economic backdrop and constraints in the Small & Medium Enterprise sector. A review of GRDF founding documents, investment memorandums, Board meeting minutes, financial statements, the Interim Activity Report, and monitoring reports has also been conducted in great detail and is summarized in later sections. This preparation was used to arrive at an initial understanding of the GRDF project design, institutional framework, as well as outcomes, and to formulate specific questions for various stakeholders.

During the initial mission, the emphasis was on fact gathering directly from key stakeholders and feedback on preliminary analysis. The A2F team traveled unaccompanied and met with several GRDF stakeholders, including SEAF staff, shareholders from a sample of portfolio companies, MCC local focal points, MCG focal point, and a representative from the Service Agency (a branch of the Ministry of Finance that is entrusted with collecting proceeds from GRDF). The facts and feedback obtained allowed the team to determine the availability of information, and the feasibility of collecting additional relevant information to support a performance evaluation. In particular, it was critical to understand each stakeholder's perspective on GRDF experience and gauge their openness and transparency with respect to a potential study.

The A2F team conducted on-site interviews with lead shareholders from a select subset of portfolio companies, whose experiences help shed light on the factors that led to their success or failure as well as how they were able to contend with challenges. The A2F team met with representatives from Delta Comm, Ioli, Madai, Piunik, and Prime Concrete. Given the short time frame of the first mission, this sample was chosen based on the accessibility of shareholders and company management, as well as whether the investee was still operating. Four of the five companies could be considered "success stories," but A2F determined that each company can yield important insights based on the range of financing instruments it received, its local business environment, its experience working with GRDF, and its interactions with government authorities.

The team scheduled a second mission to confirm the preliminary insights from the draft Evaluability Assessment and concurrently prepare the Evaluation Design and Implementation. The draft Evaluability Assessment raised a number of issues pertaining to project design, institutional framework, and outcomes of GRDF, which the team sought to clarify and investigate further. The draft Evaluability Assessment also highlighted the need to interview and visit as many companies as possible in order to grasp the nuances of each company and their historical and projected performance. In doing so, a large part of the envisioned Evaluation Design preparation could be undertaken concurrently. The second mission was therefore planned with a representative from MCC Monitoring & Evaluation and an MCC advisor to the project.

During the second mission, the A2F team continued its discussions with several key local stakeholders, and interviewed the lead shareholders of the remaining portfolio companies, most of which were no longer operating. Accompanied by a representative from MCC Monitoring & Evaluation and an MCC advisor to the project, A2F held shareholder interviews at the SEAF local office and visited some of the sites where remaining company assets were located. These companies included Tetnuldi, Rcheuli, Doki, Dogan, Bazi, and Teremok.

This report presents the proposed Evaluation Design which summarizes the conclusions reached in the Evaluability Assessment, presents some preliminary findings on which questions to explore, and suggests an overall approach and methodology.

2. GRDF BACKGROUND & HISTORY

2.1. THE ECONOMIC CONTEXT

The first decade of Georgia's transition following independence was characterized by economic stagnation and political uncertainty. The fall of the Soviet Union presented both opportunities and challenges for Georgia in creating a new government and economic system. Like other transition countries, Georgia's economy suffered in the years after independence. It experienced several years of negative Gross Domestic Product growth, hyperinflation and persistently high unemployment. Gross Domestic Product growth averaged -26% between 1991 and 1994, inflation averaged 5,715%, and unemployment averaged 13% over the same period[1]. The country was also plagued by political uncertainty as a result of civil war and rampant corruption, further depressing economic performance. In response to this, the Government of Georgia instituted a series of reforms in 1994 through 1998, designed to establish the institutional capacity to construct a market economy. These reforms brought about temporary stabilization, but the East Asian financial crisis in 1998 revealed the inadequacy of reforms. Market mechanisms were poor and administrative interference into market institutions was high, preventing the development of an efficient private sector. The period from 1999 to 2003 was characterized by political corruption and stable but low economic growth.

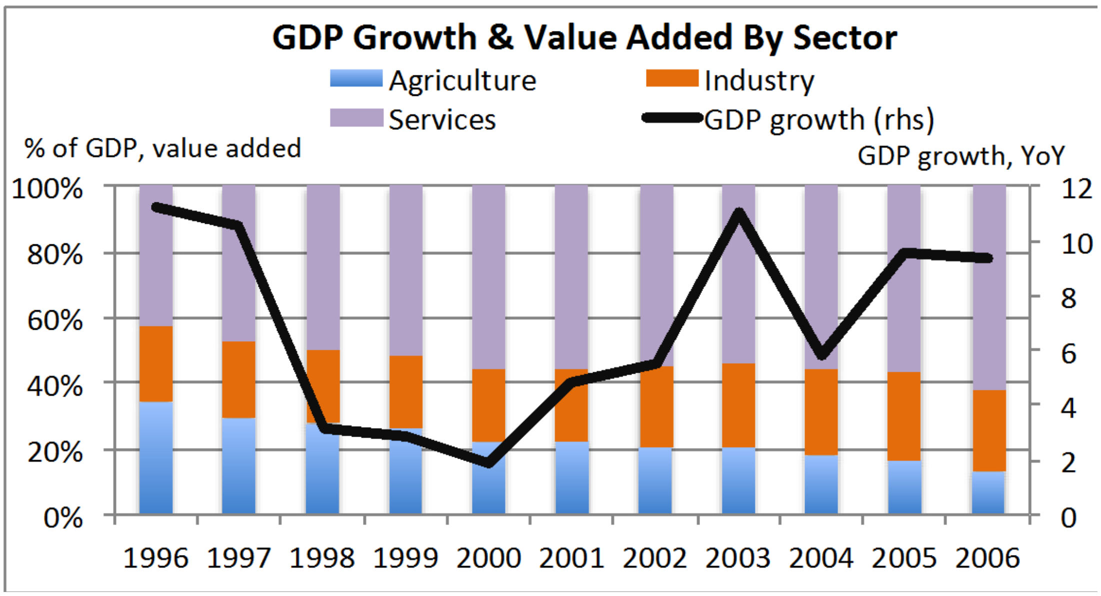
Growth-supportive reforms implemented after the "Rose Revolution" improved the business environment and lifted overall GDP. Mounting public discontent led to the "Rose Revolution" in 2003, which overthrew the government and led to dramatic political and economic reforms. Liberalization and deregulation were the foci of these reforms, as the government attempted to create a business-friendly private sector and to improve the governance of the public sector. A key initiative of the then-Saakashvili administration was the 2004-2005 Privatization Program that led to the privatization of over 1,800 state-owned entities and public assets. The program helped spur economic growth, which was a robust 9.6% in 2005 and 9.4% in 2006.

Despite the burst of economic growth, unemployment remained high and inequality worsened. Unemployment continued to rise from 12% in 1996 to 14% in 2006. The lack of access to formal benefits such as health insurance, pensions or other social assistance, and the rudimentary assistance from the government's social safety net has left inequality largely unchanged. Additionally, the gap between the rural and urban areas widened from 2003 onwards. In 2005, the rural poverty level was 41.1%, while the urban poverty level was at 38.1%.

1 Source: World Bank World Development Indicators

Growth was concentrated in less labor-intensive sectors and did little to curb the long-term decline in the agriculture sector. As shown in Figure 1, the share of agriculture in Georgian GDP fell from over 35% in 1996 to just about 16% in 2006. The decline in agriculture was felt particularly hard in the rural areas, where agriculture had historically accounted for 45% of household income. Subsistence agriculture accounts for over 70% of rural employment overall.

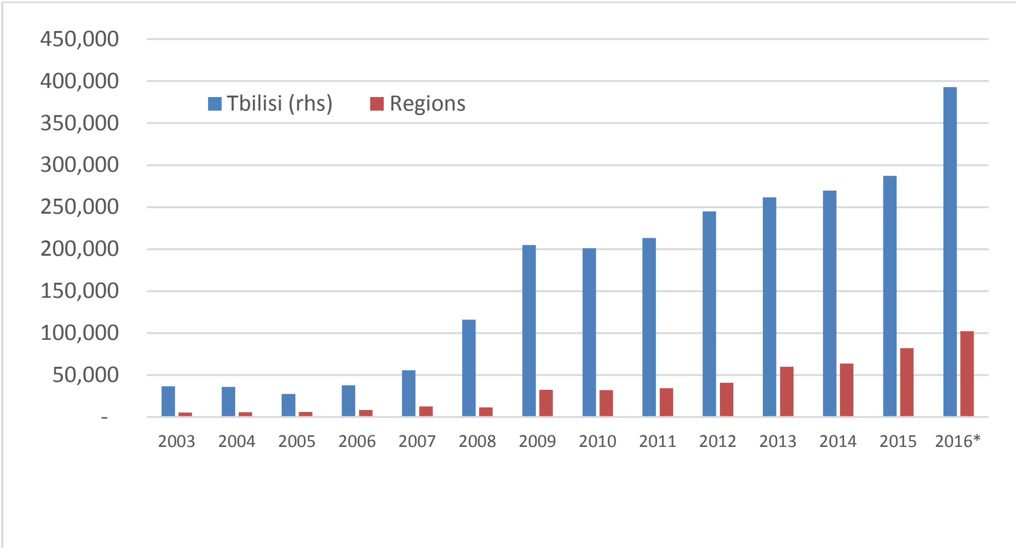
Figure 1: GDP Growth & Value Added by Sector



*Source: World Bank Development Indicators.

Small-scale agriculture, which represents a significant portion of Small and Medium Enterprise in Georgia, suffers from a lack of access to finance. The International Finance Corporation Enterprise Finance Gap Database estimates that 49% of Micro, Small, and Medium Enterprises in Georgia are either un-served or underserved by financial institutions. Lending to SMEs is only 8% of GDP, a number that has seen little change over the last decade. This is significantly lower than the regional average of 21% for Europe and Central Asia. Loans to SMEs represent only 20% of banks' private sector loan portfolios. As seen in Figure 2, most financing goes to individuals and businesses in Tbilisi, as opposed to the rural regions. SMEs face high interest rates and high collateral requirements that make borrowing very costly. An estimated 73% of SMEs finance investments internally. Credit to the SME sector has been mostly concentrated in traditional forms of lending. Of those, informal financing mechanisms still dominate.

Figure 2: Stock of Loans Outstanding for Tbilisi vs. Regions



*Source: Central Bank of Georgia.

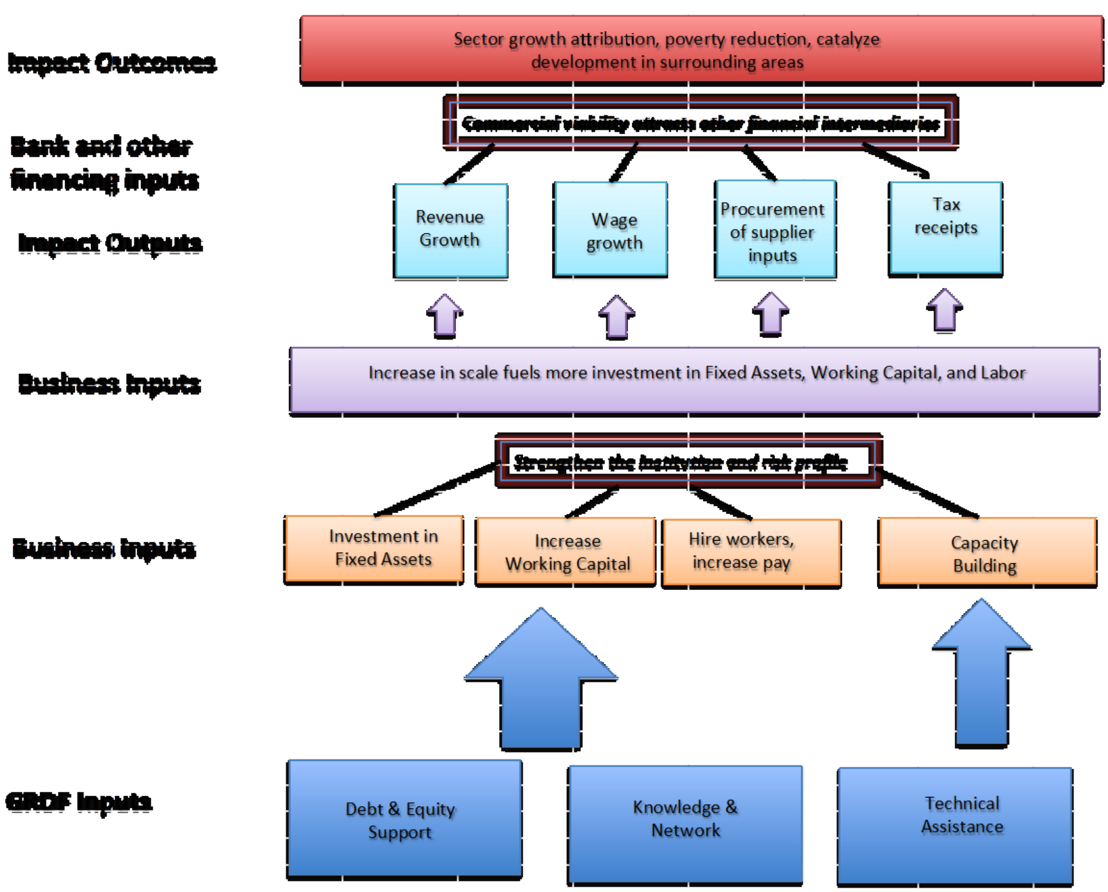
GRDF was established by the MCC and the Georgian government in 2006 to catalyze SME development in regions outside of Tbilisi. GRDF was one of the initiatives under the first Georgia Compact, which aimed to improve the business environment in the regions outside of Tbilisi thereby improving the livelihoods of the economically disadvantaged. The primary objective of GRDF, as stated in the Operating Agreement, was to maximize development impact, as well as to earn reasonable and positive financial returns from investments in SMEs in agribusiness, tourism and other sectors, primarily outside of Tbilisi. Per the GRDF Fund Management Agreement, the Fund would be considered successful if it achieves this primary objective. By pursuing this objective GRDF was intended to further the following related objectives:

a. Promote sustainable business activities that encourage the flow of additional private capital into Investees and, by example, into other Georgian SMEs,
b. Demonstrate successful mechanisms for deploying technical assistance funds under the Technical Assistance (TA) Facility to complement investment and
c. Develop Georgian Management capacity at the level of Investees and Fund management through business support to investors and training for local employees of the Fund Manager.

2.2. Theory of Change

While not explicitly defined, a Theory of Change for GRDF can be deduced from the founding documents and the Georgia Compact. GRDF was designed to support the Georgian agriculture and tourism sectors, as they were sectors that could catalyze wider growth and development throughout the country. More specifically, the investment objective states that the Fund shall "provide long-term risk capital and technical assistance to SMEs, primarily in the regions outside of Tbilisi, and to identify legal and policy reforms needed to improve the investment environment." GRDF was thus designed to fill a perceived funding gap for SMEs in rural regions by extending a combination of financial support via debt and equity investments and technical assistance.

Figure 3: Theory of Change underpinning GRDF and Compact



This Theory of Change reflects the precepts of the more recent academic literature on regional development. It focuses on factors such as entrepreneurial ability and capital, instead of resource endowment, to make the local production processes more competitive. An extensive review of the literature suggests that entrepreneurship contributes to employment and income growth by creating innovation and competition. However, the effect of entrepreneurship on growth seems to depend on other economic factors such as personal characteristics of entrepreneurs, skills and knowledge of entrepreneurs, entrepreneurial culture as well as role of institutions and policies. A comprehensive review of theoretical and empirical literature on entrepreneurship and economic growth can be found in Carree and Thurik (2003)[2].

Samila and Sorenson (2011)[3] found that an increase in the local supply of venture capital positively affects (i) the number of firm starts, (ii) employment, and (iii) aggregate income. The estimated magnitudes of the effects imply that venture capital stimulates the creation of more firms than it directly funds, through the knowledge transfer channel and capital supply. However, such results have shown to be more robust in developed markets where operating environments are generally thought to be more conducive to catalyzing and stimulating growth. Similarly, the empirical evidence for extrapolating these local outcomes to the economy as a whole is inconclusive. It is quite possible, for example, that VC firms simply select the more promising startups and substitute for other sources of financing that those ventures would have received had venture capital not been available.

Differences in economic, legal and cultural systems are some of the more significant idiosyncratic factors affecting the impact of Private Equity & Venture Capital on economic growth. As Divakaran, McGinnis and Shariff point out, despite the growth prospects for PE and VC in emerging markets, structural issues continue to limit the expansion of these asset classes. A direct correlation exists between the regulatory environment for alternative investments and the size and vibrancy of the industry in a given country. Developing nations that seek to build robust PE and VC sectors must implement structural reforms in the regulatory and legal systems to make the market attractive to financial investors.

Audretsch (2007)[4] shows that entrepreneurship capital in the form of knowledge capital also matters to increase output. The empirical estimation suggests that regions

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[2] Carree, M. A., & Thurik, A. R. (2003). The impact of entrepreneurship on economic growth. In *Handbook of entrepreneurship research* (pp. 437-471). Springer US.

[3] Samila, S. & Sorenson, O. (2011). Venture Capital, Entrepreneurship, and Economic Growth. *Review of Economics and Statistics*, February 2011, Vol. 93, No. 1, Pages 338-349, MIT press.

[4] Audretsch, D. B. (2007). Entrepreneurship capital and economic growth. *Oxford Review of Economic Policy*, *23*(1), 63-78.

with a greater degree of entrepreneurship capital have higher levels of output. Similarly, Audretsch et al (2008)[5] show that only knowledge creation is not enough for regional economic growth. Economic performance is also determined by the ability and the willingness of innovative entrepreneurs to develop new products based on new knowledge. In other words, knowledge spillover is not enough and positive economic growth depends on regional entrepreneurship capital. They defined regional entrepreneurship capital as the capacity of a region to not only encourage entrepreneurs, but to also support them to start and grow their business.

Martinez-Vazquez and Mcnab (2003)[6] emphasized the impact of fiscal decentralization on economic growth as well as on economic efficiency, income redistribution and macroeconomic stability. They show that funds spent at the regional or subnational level instead of national level can lead to increased individual welfare, as local and regional governments better understand the needs and preferences of their regions. Moreover, when funds are spent at the regional level, a particular budget can yield larger and better quality of output at lower costs, leading to greater producer efficiency. If fiscal decentralization results in greater producer efficiency, the increased quality output can result in increased income and, hence, growth. They, however, note that empirical evidence on the relationship between decentralization and economic growth has demonstrated mixed results.

A recent report by the Commission on Growth and Development (2010)[7] states that a balanced economy with a dynamic and innovative private sector supported by government investments in public goods, effective regulation and redistribution to protect the vulnerable segment is a formula for a successful economy. The role of the government is crucial because little public investment and too much regulation or high level of public investment without government regulation can have a negative impact on growth. The policymakers, therefore, have to be very cautious when formulating policies regarding public investment and growth[8].

Latest academic work puts an even greater emphasis on "endogeneous growth" and "increasing returns due to economies of scale and/or of learning". At the regional or local level, factors such as entrepreneurial ability and capital are more important than resource endowment in making the regional production processes more competitive. As highlighted by Capello (2011)[9], this reflects the abandonment of the notion that regional

[5] Audretsch, D. B., Bönte, W., & Keilbach, M. (2008). Entrepreneurship capital and its impact on knowledge diffusion and economic performance. *Journal of business venturing*, *23*(6), 687-698.

[6] Martinez-Vazquez, J., & McNab, R. M. (2003). Fiscal decentralization and economic growth. *World development*, *31*(9), 1597-1616.

[7] Commission on Growth and Development. (2010). Post-Crisis Growth in Developing Countries.

[8] Commission on Growth and Development. (2008). The Growth Report.

[9] Capello, R. (2011). Location, Regional Growth and Local Development Theories. *Aestimum*, 1-25.

development consists solely in the allocation of resources among regions, which was quintessential to older regional development theories. Instead, regional development must be conceived as stemming from local productive capacity, competitiveness, and innovativeness.

2.4. FUND STRUCTURE

GRDF was initiated with $30 million in investment capital, and the Investment Policy Guidelines established priority criteria for certain types of investments in line with the ultimate objectives of the fund, as illustrated in the Theory of Change. To promote investments in less-developed regions, at least 80% of the invested capital was reserved for businesses outside Tbilisi. At least 51% of the capital was to be allocated to investments in agribusiness and tourism, with agribusiness investment comprising at least 33% of the portfolio overall. It was, however, expected that GRDF would fund about 20 portfolio companies. Each company would be funded based on its needs, and no single company was allowed to receive more than $3 million. The consideration of portfolio companies was to be based on both projected investment returns and development returns, as described in Table 1 below.

The governance structure of GRDF differed from typical commercial funds. While the Board consists of independent directors, there is no voting member representation from the Government of Georgia. MCG is essentially the sole shareholder, since the monies invested and collected are to be transferred to a trust and placed under the fiduciary responsibility of the Georgian government at the termination of the fund. In addition, the investment process is a two-tiered system whereby SEAF, acting as a contractor, conducts due diligence and negotiating financing terms with potential investees and presents final documentation and memorandums to the Board for final approval. A more typical structure would have been a separate investment committee which would meet as often as necessary to conduct an in-depth review of investment proposals submitted by the manager prior to submission to Board members.

GRDF was designed with a dual focus on maximizing development return while achieving a "reasonable" financial return. According to various stakeholders, few funds at the time incorporated such a non-financial perspective in investment decisions. Development return, defined as a combination of four indicators relating to wages, revenue, taxes, and supplier purchases was envisioned to be an essential component in the GRDF investment decision-making process. Indeed, the founding documents state that the primary objective of GRDF is to maximize development impact. However, there seemed to have been conflation between financial and development returns during the initial investment stages. The Board subsequently concluded that prioritizing financial returns would lead to positive development externalities.

Table 1: GRDF Fund Profile

Fund Size	US$ 30 million
Fund Manager	SEAF
Management Fee	3%
Term	10 Years
Number of Investments	Target of 20 companies
Commitment Period	3 years from first closing
Expected Return	IRR 26%
Development Return	Development Return shall be determined by measuring an Investee's performance in the four subcategories of Development Return: • Increase in Gross Revenues • Increase in Aggregate Wage Paid • Increase in Taxes Paid • Increase in Purchases of Locally Sourced Goods and Services
Size of Investments	• Maximum Investment per Investee shall not exceed $3 million • Maximum Initial Investment amount shall not exceed $2 million
Restrictions	
• At least 80% of the capital must be invested in business whose principal place of business is located outside of Tbilisi • At least 51% of the capital must be invested in agribusiness or tourism • At least 33% of the capital must be invested in agribusiness • Short-term loans to Investees shall not to exceed $100,000 or, with the prior approval of the Board, $500,000. • At least 85% of capital must be invested in Existing Businesses that have completed at least one full fiscal year of operations • The Fund may invest up to 15% of its invested capital in "Start-Up Businesses" • Each Investee must be organized as a limited liability entity under the law of Georgia • No more than 33% of capital may be invested as equity, either common or preferred • Fund's investment in any Investee must exceed 25% of the capital; if the Fund invests in an Investee that it does not control, the Fund shall have the right to appoint a representative to the governing body, or otherwise participate in the management, of such Investee	

2.5 KEY EVENTS

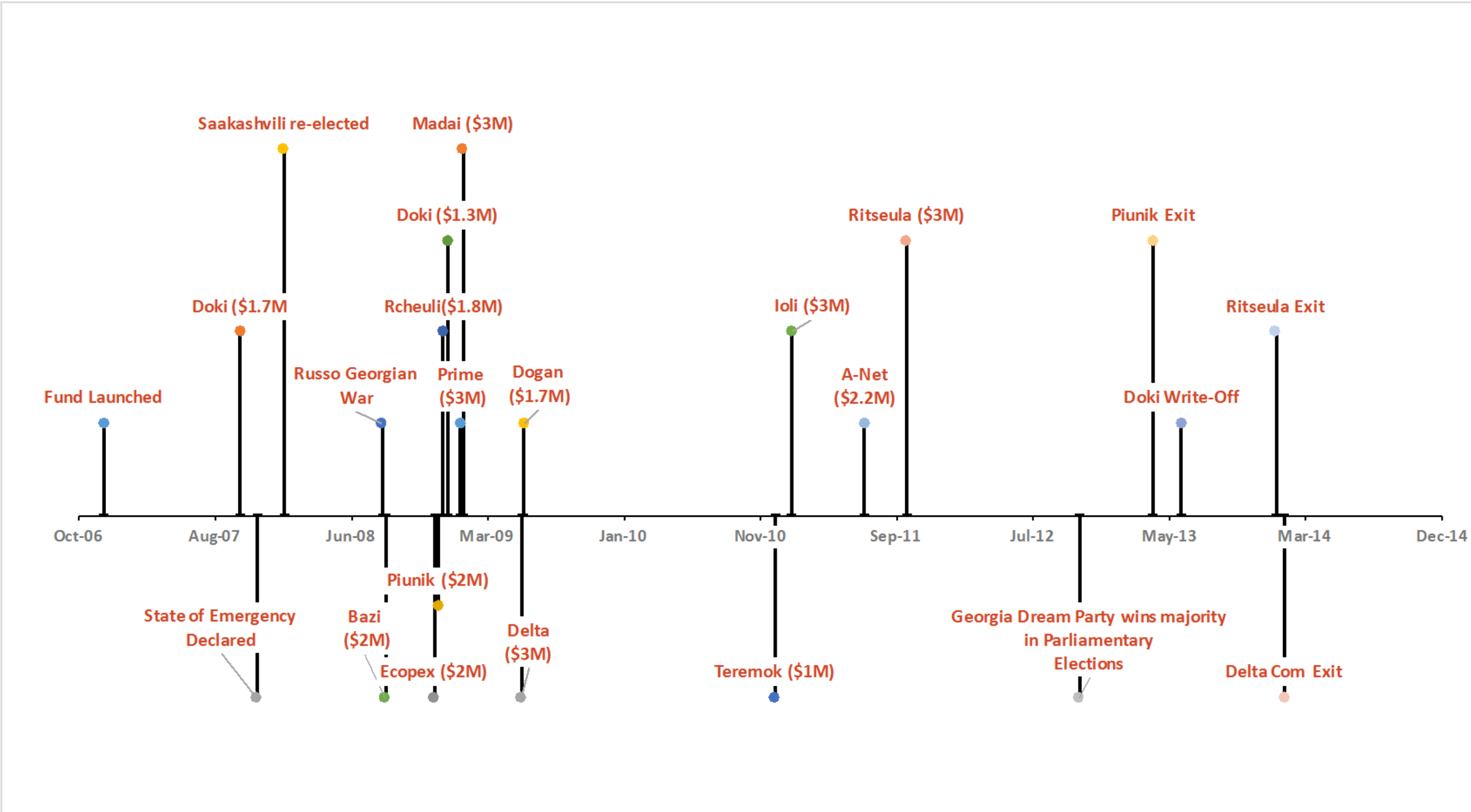
Figure 4 below shows a timeline of GRDF's major activities, such as when investments were made into particular enterprises and when these investments were exited or written off. The timeline also makes note of key events in Georgia's recent history that may have had an impact on the performance of GRDF's portfolio.

The first of these was the state of emergency declared by President Saakashvili in November 2007 in response to increasingly violent anti-government protests. Protests were initially sparked by the arrest of an opposing politician, but spread as the backlash against a variety of government actions intensified. The protests eventually led to Saakashvili calling for early elections, in which the incumbent would go on to win amidst allegations of fraud in January.

The next event on the timeline is the Russo-Georgian War, which was declared by Russia after accusing Georgia of aggression toward South Ossetia. Fighting ensued in August of 2008, with Russian and Georgian forces both withdrawing from South Ossetia after 9 days. In the aftermath, Russia encouraged South Ossetia, as well as Abkhazia, both within Georgian territory, to declare their independence. Georgian access to these territories was subsequently limited. Despite the short duration of the conflict, hundreds of thousands of people were displaced and hundreds of civilian casualties were reported. The tourism industry suffered, as did consumer and business confidence. GRDF made most of its investments shortly after the war.

The political environment in the aftermath of the Russo-Georgian war remained unstable and a major encumbrance on the local business environment. Dissatisfaction with the then ruling party of Saakashvili continued to grow. In 2009, Tbilisi was overcome by 3 months of protests related to mistreatment of prisoners. In 2011 several election reforms were made, which would then be put into practice the following year. These saw the defeat of Saakashvili's United National Movement Party, which had taken power after the Rose Revolution, by the newly formed Georgian Dream Party.

Figure 4: Key Events During GRDF Implementation



3. PRELIMINARY INSIGHTS

3.1. INVESTMENT STRATEGY

The terms in the Investment Policy Guidelines (IPG) placed constraints on SEAF in relation to the sourcing and origination of investments. The IPG was designed with SMEs and target sectors in mind, however, SEAF struggled to find eligible SMEs that fit within the confines established in the IPG, with some of the most limiting factors consisting of revenue size restriction, the requirement to place 80% of investments outside of Tbilisi, the equity exposure limit, and the requirement that 85% of capital be invested in existing businesses. The constraints eliminated many value chain businesses from consideration (revenue requirement), limited development impact by excluding new businesses that could build market infrastructure (equity and existing business requirement), and exacerbated the scarcity of viable SMEs (outside Tbilisi requirement). The Board proposed changes to the IPG in 2008, including loosening the revenue size restriction and increasing the cap on equity as a proportion of the portfolio, but these were never approved.

The pool of available investees was also significantly limited due to the prevailing economic and political situation. A confluence of external factors, including economic mismanagement and political unrest in the years after the first Compact, created a challenging business environment and a slowdown in growth. The Russo-Georgian War in 2008, followed by the global financial crisis, led to nearly 4% contraction of GDP in 2009. A quick recovery ensued in the following years, but was short-lived as political uncertainty between October 2012 and November 2013 caused a significant drag on the economy. Indeed, the transition in government regimes proved to be quite challenging for a select number of portfolio companies with perceived connections to the outgoing administration.

Investments were typically structured to include some participatory debt element to replicate equity-like returns in an effort to abide by the maximum portfolio equity exposure. SEAF targeted SMEs, which at the time of investment lacked enough capacity to qualify for traditional bank loans or were subject to overly stringent collateral requirements. The structuring and terms of each investment were very nuanced and tailored to the capital structure and the peculiar risks associated with the company.

It should be noted that the Board, along with SEAF, agreed early on that "additionality" should not come in the form of concessional loan pricing but rather via the partnership component. That is, SEAF was to be an active participant in the companies' business strategy and operations, providing coaching and assistance wherever there were perceived gaps in order to maximize future value.

It is possible that the definition of development returns was too narrow to capture the true impact of the portfolio companies on regional development. Some companies are likely to have made a substantial development impact in the regions without necessarily delivering a high development return as defined in the IPG. For example, Delta Comm contributed to developing fiber optic infrastructure outside of Tbilisi that has enabled the connection of more rural communities to the Internet. The definition also leads to overestimation of the development impact. Particularly for the companies that are now bankrupt or non-operational, it might be useful to consider more lasting development returns.

3.2. GOVERNANCE

The Board, which acted as the de facto investment committee, might not have had adequate time and resources to review the minute details of financial models and underlying assumptions of each investment presented. The Board was often engaged in many other responsibilities for the Fund, including review of legal proceedings against a handful of portfolio companies, general administrative tasks, and other Fund-related business. Time constraints, including lead-time allotted to some proposals, may have limited the in-depth review of investment proposals. While SEAF acted as an agent in presenting investment proposals to the Board after conducting its own due diligence, the ultimate responsibility for investment performance falls on the Board.

SEAF's compensation included a component tied to non-financial performance. There are a variety of ways to design impact-based incentive structures for fund managers, with each approach prioritizing specific financial and impact objectives. GRDF uses the traditional private equity compensation model as the basis for their impact-based incentive structure, which includes a fixed management fee and a performance-based component tied to both development and financial returns. Under this structure SEAF had to balance different development impact and financial return criteria.

The design of the bonus system for SEAF may have brought unintended consequences. The design of the annual bonus scheme appears to have been undertaken without properly addressing its applicability in a real world context. After a few iterations, the Board opted to introduce a less formulaic structure based on disbursements and cash flows. The resulting scheme may have implicitly incentivized a quicker pace of investment distributions.

3.3. Overall Performance

GRDF's financial performance has been underwhelming to-date. Cumulative earnings at the end of 2014 (FY 2015 data is not yet available at the time of writing) were -$11.4 million, representing a -38% return since inception or -4.7% annualized return (see Table 4). The absence of significant cash flows in the first two years, due to a delay in portfolio construction, coupled with management fees, bonus payouts, and other expenses including Board remuneration, led to significant losses. While the portfolio and cash inflows from interest and royalty payments grew in the ensuing years to cover operating expenses, the write-down in values due to impairment and depreciation of assets allowed the Fund to record only one year of positive net income.

The final GRDF return will likely increase when all of the investments have been exited. The unrealized depreciation in the portfolio is a cumulative $12 million, largely attributed to revaluations of existing debt. Nevertheless, GRDF should recover some value from its outstanding investments. As of Q2 2015, GRDF still held assets in 10 of the 14 portfolio companies, as seen in Table 2. SEAF maintains and updates exit strategies for each of these, some of which have been delayed by pending legal action.

The financial performance of the portfolio companies has been mixed, with substantial variation in returns. Table 2 compares cash outflows and inflows for each portfolio company. Projected cash inflows are based on current valuations of existing investments, which are based on SEAF estimates. There are varying degrees of uncertainty surrounding projected cash inflows for each of the companies listed and a number of the companies listed are already at advanced stages of exit, including FoodMart, Prime, A-Net, and Teremok. Delta Comm, Piunik, and Ritseula Hesi have already been exited. The highest degree of uncertainty pertains to non-operating companies as their exits are based on the disposal of fixed assets (e.g. factories, land, etc) or obtaining clearance from outstanding legal issues.

Table 2: Projected and Current Portfolio Company Returns

Company	Sector	Investment	Actual Cash Proceeds as of Q1, 2015	Remaining Projected Cash Proceeds	Actual + Projected Total Cash Proceeds	Target Cash-on-Cash Multiple* (at disbursement)	Projected Cash-on-Cash Multiple
A-net	Telecom	**2,200,000**	**859,719**	**1,913,138**	**2,772,857**	**1.64**	**1.26**
BAZI	Agribusiness	**2,480,003**	**23,992**	**150,000**	**173,992**	**2.53**	**0.07**
Delta Comm	Telecom	**3,000,000**	**4,221,862**	**-**	**4,221,862**	**1.56**	**1.41**
Dogan	Agribusiness	**700,000**	**262,210**	**50,000**	**312,210**	**1.90**	**0.45**
DOKI	Retail	**3,000,000**	**615,955**	**230,000**	**845,955**	**2.49**	**0.28**
Ecopex	Agribusiness	**2,000,000**	**17,000**	**1,314,283**	**1,331,283**	**2.41**	**0.67**
FoodMart	Retail	**3,000,000**	**468,983**	**3,000,000**	**3,468,983**	**2.60**	**1.16**
Madai	Agribusiness	**3,000,000**	**1,095,818**	**2,045,837**	**3,141,655**	**2.60**	**1.05**
Piunik	Agribusiness	**2,000,000**	**3,094,815**	**-**	**3,094,815**	**1.69**	**1.55**
Prime Concrete	Construction	**3,000,000**	**1,053,904**	**3,003,564**	**4,057,468**	**1.84**	**1.35**
Rcheuli Hotels	Tourism	**1,800,000**	**170,808**	**1,750,000**	**1,920,808**	**2.23**	**1.07**
Ritseula Hesi	Energy	**3,000,000**	**3,967,242**	**-**	**3,967,242**	**1.57**	**1.32**
Teremok	Retail	**1,000,000**	**40,562**	**650,000**	**690,562**	**2.38**	**0.69**
Tetnuldi	Tourism	**1,900,000**	**488,081**	**1,300,000**	**1,788,081**	**1.89**	**0.94**
Total		**32,080,003**	**16,380,951**	**15,406,822**	**31,787,773**	**2.10**	**0.99**

**Cash on Cash multiple: Sum of ending value of investment and accumulated cash divided by initial disbursement. Figures are as of the GRDF Q2 2015 exit update report.*

Exited Investments (Delta Comm, Piunik, Ritseula Hesi)

Company under liquidation (DOKI)

The portfolio was adversely impacted both by the Russo Georgian War in 2008 and the prevailing economic conditions. Two companies in particular were directly impacted by the conflict: Rcheuli lost access to a hotel property in South Ossetia, and BAZI could no longer source from the Georgian apple farmers in South Ossetia. This war also negatively impacted the Georgian tourism industry, including the two hotels in the portfolio, Rcheuli and Tetnuldi. The downturn in the economy in 2008 in general had a negative effect on the portfolio companies, some more than others. DOKI was a supplier of wholesale furnishings and renovation materials, and suffered from a freeze on the construction sector.

Several companies came under legal scrutiny. For example, four portfolio companies were being investigated by the Revenue Service and/or the Financial Police. Two companies had difficulty recovering VAT payments from the government, which impacted their working capital and hampered their expansion plans. However, the precise impact that can be attributed to such interactions is difficult to quantify and separate between these allegations, the overall business climate, and idiosyncratic factors.

GRDF measured development return as a compilation of the average growth rates of four measures: revenue, wages, local purchases, and taxes. The development returns for the portfolio were mixed as well – as seen in Table 3, seven out of the 14 companies had positive returns, while seven were negative or non-positive. Four companies had overwhelmingly positive returns: A-NET (telecom); Ioli Gastronomia, later known as FoodMart (food retail); Prime Concrete (construction), and Madai (fishing).

Table 3: Cumulative Development Return by Company, Annualized

	Revenue Growth	Wage Growth	Tax Growth	Local Purchases Growth	Weighted Average DR
A-NET	89%	76%	72%	114%	**104%**
BAZI	-56%	-100%	-37%	-61%	**-31%**
Delta Comm	16%	26%	41%	23%	**30%**
Dogan	-16%	-6%	-9%	-18%	**-9%**
Doki	-37%	-29%	-32%	-25%	**-29%**
Ecopex	-50%	-100%	-9%	-75%	**-31%**
Ioli Gastronomia	80%	83%	77%	90%	**91%**
Madai	36%	36%	42%	8%	**40%**
Piunik	14%	77%	11%	4%	**26%**
Prime Concrete	78%	56%	75%	51%	**70%**
Rcheuli Hotels	-3%	0%	-6%	-3%	**0%**
Ritseula Hesi	23%	2%	52%	-25%	**16%**
Teremok	-25%	-34%	-33%	4%	**-20%**
Tetnuldi	14%	-50%	0%	-100%	**-1%**

**Source: Calculated by A2F using data from GRDF annual reports. Cumulative returns shown for each category are equal to the geometric average over the course of the investment. The weighted average DR uses reported weighted average DRs for each year. See annex for detailed calculations.*

Table 4: GRDF Cumulative Earnings

	2007	2008	2009	2010	2011	2012	2013	2014	Cumulative
Revenue									
Interest Income	21	195	1,541	1,254	1,204	988	877	78	6,158
Fees, Royalties and Other Income	15	209	807	370	601	183	57	106	2,348
Bad Debt Recovery	-	-	-	-	115	19	-	-	134
FX Gains and Losses	-	-	1	-	-	-	-	-	1
TOTAL	**36**	**405**	**2,349**	**1,624**	**1,920**	**1,190**	**934**	**184**	**8,641**
Expenses									
Fund Mgmt. Fees	969	900	900	900	774	841	768	600	6,653
Other Expenses	249	471	457	209	448	284	185	173	2,475
Board	158	128	119	126	107	102	106	93	1,738
Bonuses	-	250	250	-	150	150	-	-	800
Organizational Expenses	100	-	-	-	-	-	-	-	100
FX and other adjust	-	-	-	13	5	12	11	28	69
Bad Debt Expense	-	-	26	253	39	19	-	-	337
TOTAL	**1,318**	**1,371**	**1,383**	**1,375**	**1,267**	**1,156**	**964**	**800**	**9,634**
Net Investment Income/(Loss)	*(1,282)*	*(967)*	*967*	*249*	*653*	*33*	*(31)*	*(617)*	*(993)*
Unrealized Depreciation on Portfolio	-	*(351)*	*(1,530)*	*(3,335)*	*462*	*(4,038)*	*(2,967)*	*(1,032)*	*(12,792)*
Realized Gains	-	-	-	-	-	-	*2,373*	-	*2,373*
Adjustments	-	*(1)*	*(5)*	-	-	-	-	-	*(6)*
Comprehensive Gain/(Loss)	**(1,282)**	**(1,319)**	**(568)**	**(3,087)**	**1,115**	**(4,005)**	**(625)**	**(1,649)**	**(11,419)**

*Figures are USD, in thousands. Source: GRDF annual reports.

3.4. SNAPSHOT ON PORTFOLIO COMPANIES

3.4.1. A-NET, LLC

Sector:	Telecom	***Total GRDF Investment:***	$2.2 million
Location:	Batumi	***Initial Projected Cash-on-Cash Multiple:***	1.64
Date of First Investment:	2011	***Current Projected Cash-on-Cash Multiple:***	1.26

A-NET, LLC (A-NET) is a newly established Internet service provider (ISP) in the Adjara region. The company was created by one of the owners of Delta Comm, a telecommunications provider already in the GRDF portfolio. The company is based in the city of Batumi, a growing economic center on the Black Sea coast, which had a 10% Internet penetration rate at the time of investment. The proposal was to construct an underground fiber optic network infrastructure and provide Internet service across the Adjara region. The owner offered to contribute $4 million in assets to the project, including $3 million of in-kind materials.

The new company was expected to have first-mover advantage in Batumi, with support from the local government. A-NET's technology and infrastructure were pitched as more sophisticated than those of the existing local ISPs that had not yet installed fiber optic lines. The local government in Batumi was interested in the project, since the existing ISP (Caucasus Online and SilkNet) could not meet market demand and A-NET was proposing a higher standard of service. The project was also well-timed: Batumi was undergoing a massive construction project, including new roads, pipelines, and sewer systems, so it was an opportune moment to install an underground fiber optic network while the ground was already dug up.

GRDF approved a $2.2 million investment in A-NET in April 2011, which was used to build a fiber optic network and increase the number of residents with Internet access. A $700,000 loan was provided at 9% interest with 2% royalty on revenue, and the remaining $1.5 million was provided in exchange for 32% equity. Construction on the project began in 2011 in Batumi and Kobuleti. The network infrastructure was completed in 2012, and A-NET had 4,000 users by the end of the year. This expanded to 6,000 users by 2014.

As of 2015, GRDF was in the process of exiting the investment, with a projected 1.26 Money Multiple. A-NET was current on its loan payments in 2014, and the Fund received a proposal from Delta Comm to buy out its shareholding interest and complete loan repayment by early 2015. The Fund was also considering the sale of its shares to Delta Comm's competitors. In Q2 2015, the Board asked SEAF to renegotiate with Delta Comm to raise the sale price to $1.7 million.

A-NET consistently delivered positive development returns. The number of employees increased from 22 to 73, wages from GEL 161,500 to GEL 412,600, and taxes paid from GEL 72,600 to GEL 276,000.

3.4.2. SASURSATO KOMBINATI BAZI, LLC

Sector:	Agribusiness	***Total GRDF Investment:***	$2,480,003
Location:	Tbilisi	***Initial Projected Cash-on-Cash Multiple:***	2.53
Date of First Investment:	2008	***Current Projected Cash-on-Cash Multiple:***	0.07

Sasursato Kombinati BAZi, LLC (BAZI) is a food processing and cannery operation. BAZI entered the processed food market in 2007, producing tomato paste and sauces from Chinese tomato concentrate. At the time of investment, it operated a food processing and cannery facility in Tbilisi, where it produced 14 food products across four categories (sauces, marinades, canned meat and preserved fruits), with raw materials primarily sourced from smallholder farmers in Eastern Georgia.

The timing of the investment coincided with the Russo-Georgian 2008 war; yet, as was later confirmed, projections underestimated the potential negative impact. Bazi's original business model was to purchase lower priced, locally produced apples and sell its higher priced value-added product of concentrate. However, Bazi was unable to realize projected margins as prices on both ends went in opposite directions. Apple production was severely affected by the Russo-Georgian 2008 war that drove up prices for local raw products while apple juice concentrate prices sunk. Bazi was unable to reach profitability throughout the intervention.

As of 2015, the company was for sale, and GRDF may recover some of its investment if the company is sold and the shareholder dispute is settled. BAZI received $21,883 in Technical Assistance for a strategic sales consultant that began seeking buyers in 2010, and the Board initially expected to recover $2.9M. In 2015, the company was negotiating a settlement with the shareholder to pay for the tax penalty, and several buyers were found for the company's assets, valued at $400,000.

BAZI's development returns were negative overall. Initially, the company created jobs and contributed to the development of the local value chain during the first two years of the investment period, including GEL 2.7 million in local purchases. However, it was forced to downsize in 2010, impacting both wages and revenue. The company also had limited opportunities for local purchases, after a significant amount of Georgia's apple-farming territory was lost in the 2008 war.

The BAZI investment had the lowest return in the portfolio, with a current projected Cash-on-Cash multiple of 0.07, as nearly all of the invested capital was lost. The final return may increase if a settlement is reached with the Revenue Service and a buyer can be found.

3.4.3. DELTA COMM LLC

Sector:	Telecom	***Total GRDF Investment:***	$3 million
Location:	National	***Initial Projected Cash-on-Cash Multiple:***	1.56
Date of First Investment:	2009	***Current Projected Cash-on-Cash Multiple:***	1.41

Delta Comm is one of the main suppliers and service providers of IT and telecommunications services in Georgia. In 2007, the company began constructing the Georgian Optical Network Project (GONET), a national fiber optic network that would provide high speed Internet throughout Georgia. Annual revenue was $5.4 million at the time of investment, derived from its existing core businesses including hardware and software sales, software and systems development and implementation, and IT consulting. The company had partnerships with a number of leading global hardware and software producers, including IBM, CISCO, and Microsoft.

GRDF provided a $3 million participatory loan with an expected IRR of 30%. The loan was used to purchase equipment and vehicles to increase the speed of construction of the fiber optic network. The system was to be sold off in parts to Internet Service Providers (ISPs) and Georgian companies requiring secure information networks across Georgia.

The planned network expansion was a success, and Delta Comm broadened its expansion plans. In order to lower the monthly payment amount the Board agreed to extend the maturity on Delta Comm's GRDF loan by three years in 2010. At that time the company was current on payments. In 2012, Delta Comm secured $16 million in additional funding from the Bank of Georgia to finance two new projects. $12 million was allocated to construction of an additional network backbone from Tbilisi to Kakheti, part of a planned expansion into areas with little or no competition for Internet services. The remaining $4 million was used for a network to provide Internet service in public areas in Tbilisi.

GRDF exited the investment in the first quarter of 2013. The company had a number of issues with the government, which were ultimately resolved in 2013 with assistance from SEAF. By 2013, annual revenue reached GEL 22 million, and TBC Bank agreed to provide Delta Comm with a credit line to finance its expansion projects and refinance its GRDF loan.

Delta Comm had a positive overall development return, based primarily on strong growth in wages and taxes paid. The company paid more than GEL 10 million in wages and GEL 12 million in taxes over the course of the GRDF investment. Delta Comm emphasized staff development, and hired local contractors for construction.

The Delta Comm investment yielded a 1.41 Cash-on-Cash multiple, the third highest in the portfolio. The return on this investment was close to its projections, and generated more than $4 million in cash proceeds for the Fund.

3.4.4. DOGAN, LLC

Sector:	Agribusiness	***Total GRDF Investment:***	$700,000
Location:	Marneuli	***Initial Projected Cash-on-Cash Multiple:***	1.90
Date of First Investment:	2011	***Current Cash-on-Cash Multiple:***	0.45

Dogan LLC is an animal feed manufacturer established in 2004, with a facility in Marneuli. It produced compound and extruded animal feed and pet food. Its customer base included small farms and large corporations. It had local sales as well as customers in Armenia and Azerbaijan, and sold a substantial quantity of feed to the Food and Agriculture Organization (FAO) in 2009. Dogan requested funds for facility improvements, additional warehouse space, equipment purchases, and working capital.

GRDF provided a $700,000 non-convertible loan at an annual rate of 13% and with a royalty fee of 1.8% of quarterly revenue. Dogan built a new warehouse and set up local sales sites in seven locations in 2009. It received Technical Assistance from a fish expert in 2010 and 2011, including training for Dogan staff and consulting for local customers on proper fishing practices.

The Dogan investment ran into problems early on as sales and margins came in well below projections. The company's operations did not generate sufficient cash flows to service loan payments and Dogan fell into arrears in 2010. Dogan's last payment to GRDF was in 2011 and applied for insolvency in December 2013. It was sued by the Caucasus Development Bank for defaulting on a short-term loan, for which it owed GEL 450,000. The company could not come up with a viable recovery plan, and entered bankruptcy in March 2014. Its assets would be sold at a public auction.

As of June 2015, the company's assets had not yet been liquidated. The final proceeds to GRDF will depend on the results of the public auction. SEAF estimates that the Fund will recover a minimum of $50,000 from the auction, in addition to the loan payments that had already been collected.

Dogan had a net negative development return. For a time, it employed local personnel at its regional sales sites at above average salary. It generated demand for more and higher quality inputs from local suppliers, prompting improvements in quality and capacity. As the only producer of extruded feed in the Caucasus region, it also provided a less expensive alternative to imported feed. The most lasting effects may be from the Technical Assistance, which spread good farming practices to local fish farmers.

The Dogan investment has a current projected Cash-on-Cash Multiple of 0.45, the third lowest return in the portfolio. Just over $300,000 was collected in payments and penalties. The net proceeds may be higher pending the final disposition of the company's assets.

3.4.5. DOKI, LLC

Sector:	Retail	***Total GRDF Investment:***	$3 million
Location:	Tbilisi	***Initial Projected Money Multiple:***	2.49
Date of First Investment:	2007	***Realized Money Multiple:***	0.28

DOKI, LLC (DOKI) is a wholesaler and retailer of furnishings and construction materials, established in 2004. At the time of investment, it had three retail locations in Tbilisi and a warehouse in Ponichala. Commercial sales represented 60% of its revenue, including large construction projects, government tenders, and hotels. It planned for national expansion and a transition into production. DOKI requested $850,000 to open a new store in Tbilisi, $700,000 in working capital, and $150,000 in contingency funding. It had $1.7 million in outstanding loans at the time.

DOKI received a $1.7 million package that included $1.1 million in non-convertible loans and a $600,000 convertible loan that was eventually converted to equity. DOKI initially showed positive results until market conditions deteriorated after the Russo-Georgian War. The company was relatively successful in 2007, winning several tourism-related contracts. It was affected by this war and the global financial crisis in 2008, as demand for construction materials dropped. Nevertheless, it secured two large contracts in 2008, and received a $1.3 million follow-on investment from GRDF in December to purchase inventory for those contracts. The construction market continued to struggle in 2009, particularly given a freeze on government tenders, a major source of business. DOKI underwent an audit by the Revenue Service in 2010, during which its stores and warehouses temporarily closed for 2 months. The resulting tax invoice and poor sales performance led two creditors representing $1.05 million to request underlying collateral; a settlement was reached in 2012 with the proceeds from a real estate sale.

Following liquidation proceedings, the DOKI investment was fully written off as of June 2013. GRDF restructured DOKI's loans in March 2010 to extend the term and modify the repayment schedule, in exchange for a 51% total ownership stake. SEAF actively worked with management on a recovery plan. Despite these efforts, the business was unable to turnaround its business.

DOKI's net development return was negative. The company generated growth in wages, revenue, and local purchases in 2007 and 2008, and grew from 80 to 135 employees. But the company was forced to reduce inventory and lay off employees in its bid to remain profitable, starting with putting employees on unpaid leave in 2008.

The DOKI investment has a current projected cash-on-cash multiple of 0.28, the second lowest in the portfolio. GRDF has a total projected cash proceeds $845,955 from DOKI, $615,955 of which has been collected.

3.4.6. ECOPEX LTD.

Sector:	Agribusiness	***Total GRDF Investment:***	$2 million
Location:	Mtskheta	***Initial Projected Money Multiple:***	2.41
Date of First Investment:	2008	***Current Projected Money Multiple:***	0.67

Ecopex was a hazelnut processing operation located in the Mtskheta district that sought financing both for working capital and to expand into roasted kernels. The company planned to purchase a 51-hectare plantation as a source of raw materials, in addition to drying equipment, roasting equipment, and renovation and refurbishment of the existing plant. The company was awarded $125,000 from MCG's Agribusiness Development Program earlier in 2008 to finance the acquisition of roasting equipment. The shareholders invested $650,000 in the business.

GRDF approved a $2 million investment in December 2008, consisting of $1.65 million in non-convertible debt and $350,000 in equity in exchange for a 31.1% share. The Board questioned whether the hazelnut plantation needed to be purchased, or whether the company could rely on local suppliers. Ultimately, purchase of the plantation in 2009 was a condition for disbursement of the $500,000 second tranche of the loan. GRDF received an additional 11% stake in Ecopex in 2011, in exchange for penalties accrued.

Seasonality and debt structuring issues severely impacted Ecopex from the start and it was never able to regain its footing. The purchase of the hazelnut plantation, a requirement for loan approval, was delayed, as was the release of the second tranche of capital, such that Ecopex missed a crucial month of the 2008-2009 harvest season. As a result, the grace period on the second tranche was canceled. The GRDF deal was restructured in 2010, extending the grace period and converting accrued penalties into an additional 11% of equity.

Despite some progress, Ecopex remained unable to service its GRDF debt, and eventually ceased operations. The company developed several value-added products, but failed to reach sustainable sales levels. Ecopex's working capital was constrained by a mix of market forces and the outlay required for the plantation purchase. Ecopex did not operate during the 2012-2013 hazelnut season due to continued high prices and high interest rates for working capital. The company remained non-operational in 2013 and 2014.

Ecopex generated positive development returns during the years in operation. It employed up to 70 seasonal workers each year, the majority of whom were women. However, the overall development return was negative due to plant closure.

The overall financial return on the Ecopex investment was negative, with a current projected cash-on-cash multiple of 0.67 SEAF is hopeful to recover a minimum of USD 400,000 from the sale of the remaining assets (hazelnut processing facility and additional orchard). The net proceeds will increase if the sale of the Kakheti orchard is completed.

3.4.7. IOLI GASTRONOMY LLC

Sector:	Retail	***Total GRDF Investment:***	$3 million
Location:	Tbilisi	***Initial Projected Cash-on-Cash Multiple:***	2.60
Date of First Investment:	2011	***Current Projected Cash-on-Cash Multiple:***	1.16

Ioli Gastronomy (Ioli), now FoodMart, was a supermarket chain with six stores in Tbilisi. It was the third-largest chain in its segment of smaller, express-format stores. The supermarket chain was started in 2009 as an add-on to the existing Ioli brand. The Ioli food production company is one of the largest in Georgia, offering 500 products including meat and ice cream. The new Ioli stores benefitted from the company's existing brand recognition, and Ioli products represented 10% of the product selection.

The Board approved $3 million in financing for Ioli, including a loan of $2,906,250 and a small equity component of $93,750 in exchange for a 15% equity stake. This required waiving the $2 million limitation on initial investments in the Investment Policy Guidelines. The agreement included a guaranteed management buyout if a buyer could not be found at the time of the Fund's exit.

In 2012, the SEAF-managed Caucasus Growth Fund invested $6 million to enable Ioli to acquire a majority stake in Populi, the leading supermarket chain in Georgia. GRDF's ownership stake was reduced to 5% as a result. Ioli and Populi were reorganized into FoodMart in 2013, and GRDF's ownership interest was converted to a 3.5% stake in FoodMart. In 2014, FoodMart negotiated a $7.4 million investment from the Netherlands Development Finance Company (FMO) in 2015, which would be used to re-brand the remaining FoodMart stores as SPAR stores and open at least 20 new locations.

The GRDF exit is on hold while FoodMart attempts to refinance its debt obligation. The disbursement of the FMO loan was put on hold as of June 2015, as the Board considered whether FoodMart should be required to repay its outstanding liabilities first. The Board was concerned as to whether FoodMart would be able to secure additional funding to refinance the GRDF investment in time for the Fund's closing in 2016. Based on the latest proposal, SEAF expected to recover S1 million by the end of 2015, and another $2 million (minimum) by the end of December 2018.

GRDF's investment in Ioli produced overwhelmingly positive development returns, particularly in wage growth and local purchases. The supermarkets provide low-to-middle income customers with access to an affordable, diverse selection of products. The company is a significant sales channel for local food producers, and employs more than 1,000 staff, over 75% of who are women.

The Ioli/FoodMart investment currently has a projected cash-on-cash multiple of 1.16 The total cash proceeds are expected to increase by $2 million, which would generate total cash proceeds close to $3.5 million.

3.4.8. MADAI

Sector:	Agribusiness	***Total GRDF Investment:***	$3 million
Location:	Poti	***Initial Projected Cash-on-Cash Multiple:***	2.60
Date of First Investment:	2009	***Current Projected Cash-on-Cash Multiple:***	1.05

Madai Ltd (Madai) is an anchovy fishing and processing company based in Poti. It produces fresh and frozen anchovies, anchovy fish oil and anchovy fish flour for local sale and export. Madai holds a 10-year license for Black Sea fishing that expires in April 2016, granting it the right to 25% of Georgia's annual quota. The company distributes its fish products locally with its own fleet of vehicles, and had export contracts with three Turkish companies at the time of investment.

In 2009, GRDF invested $3 million into Madai consisting of $2.5 million in participatory debt and $500,000 in equity. The financing allowed Madai to acquire its own fishing seiners and transportation boats, thereby increasing sales prices and lowering operational costs translating into higher profit margins. While prospects for business growth, employment, and revitalization of the fishing industry were quite favorable at the time of the investment, the company soon encountered numerous problems post-disbursement, including an internal shareholder dispute and allegations from local authorities over its fishing operations.

As Madai's operations continued to suffer from 2012-2015, GRDF helped establish a new company that leased Madai's frozen assets to continue servicing debt payments and maintain working capital. The seizure of Madai ships in 2011 had a crippling effect on the company. Madai's ships were arrested several more times during the 2013-2014 season. Madai was profitable by 2015, allowing the company to pay off some accrued liabilities and prepare for GRDF's exit. The company also had one fishing season left on its license, which would generate additional proceeds. SEAF planned to ask the Board to waive some of the accrued interest and penalties on the loan.

SEAF has found potential buyers interested in purchasing the company, provided it could secure a new fishing license in 2016. A final divestment plan will be delivered when the inventory is sold and the license has been purchased. Separately, a group of Spanish investors expressed interest in developing an anchovy processing facility with Madai, but this opportunity also depended on resolution of the license extension.

Madai had a net positive development return, primarily through wage growth and tax growth. The company generated GEL 19 million in revenues during the investment period, and made more than GEL 5 million in local purchases.

The projected cash-on-cash multiple from Madai is currently 1.05. Its return may improve in 2016 if the company can be sold or if the assets are liquidated (in the absence of a new license).

3.4.9. PIUNIK GEORGIA LLC

Sector:	Agribusiness	***Total GRDF Investment:***	$2 million
Location:	Noste	***Initial Projected Cash-on-Cash Multiple:***	1.69
Date of First Investment:	2008	***Realized Cash-on-Cash Multiple:***	1.55

Piunik Georgia LLC (Piunik) is an agribusiness in the Kaspi region. Piunik was established in 2008 as a spin-off of the poultry business lines of two existing companies that had been operating since 2002. At the time of investment, Piunik imported and sold hatching eggs and day-old chicks from Armenia.

The company sought to expand into local production of hatching eggs, consumer eggs, day-old chicks, and animal feed. This vertical integration would allow Piunik to reduce its dependence on imports from a single supplier and improve profit margins (for hatching eggs, the margin would increase from 25 to 35%). The funds would be used to develop a local poultry and feed mill facility.

GRDF provided participatory debt financing of $2 million. The Board had also requested a 10% equity stake, but SEAF could not reach an agreement with the shareholders. The Board decided to proceed with the investment given agribusiness is a priority for GRDF, and the interest rate was increased as compensation.

The investment from GRDF allowed Piunik to vertically integrate and significantly reduce its reliance on imported eggs. It started its own hatchery and increased both margins and revenues. The company was able to rely on internal cash flows to further invest in the company's facilities and grow production. Furthermore, technical assistance provided the company with an ERP system, which contributed to better assessment of internal processes.

GRDF exited the investment sooner than anticipated. Piunik initially presented an exit proposal in 2010 that was not approved, and the maturity of the GRDF investment was prolonged from 60 to 78 months in 2012. The company still needed time and financing in order to keep growing the business, and negotiated an agreement with Cartu Bank in Q1 2013 to refinance the GRDF loan for five more years with the interest rate significantly lower (1% p.a.) to what GRDF charged.

Piunik had a consistently positive development return, driven primarily by wage growth. It employed 45 people during the construction phase, and 23 for regular farm operations. The company sought to replace imported eggs with locally produced ones, increasing regional self-sustainability. In 2011, Piunik was awarded Development of the Sector by the Ministry of the Economy.

Piunik has the highest cash-on-cash multiple of 1.55. The investment generated more than $3 million in total cash proceeds on $2 million invested capital

3.4.10. PRIME CONCRETE LLC

Sector:	Construction	***Total GRDF Investment:***	$3 million
Location:	Poti	***Initial Projected Cash-on-Cash Multiple:***	1.84
Date of First Investment:	2009	***Current Projected Cash-on-Cash Multiple:***	1.35

Prime Concrete LLC (Prime) is a concrete production, transportation, and pumping services provider based in Poti. Prime Concrete was a newly established company created by the owners of three Tbilisi-based businesses. These businesses had existing assets and expertise in concrete production and created Prime as a new vertically integrated business to serve the construction market in the area around Poti.

In 2008, GRDF approved a $2 million investment consisting of $90,000 in equity for a 5% share and a $1.91 million participatory loan, with an expected blended return of 34%. GRDF financing was sought to construct and equip the concrete factory in Poti, as well as purchase transportation and pumping equipment and initial working capital. The company received $27,903 of Technical Assistance in the form of technical and environmental consulting.

Prime was impacted by delays in the construction of the Poti Free Industrial Zone (FIZ). There was not much construction on the FIZ in 2009, and Prime's sales were 81% below projections as a result. The company was able to sign contracts for smaller infrastructure projects, including Poti International Airport. Prime's performance improved in 2010 as several of these infrastructure development projects started, and SEAF proposed a follow-on investment to vertically integrate the production of raw materials. This investment was approved in 2011, and was used to construct and equip a stone crushing factory and purchase an excavator, loader, and dump trucks for quarry operations.

Prime began exploring exit options starting in 2012. The company started looking for a buyer to refinance its GRDF loan, and considered selling the Anaklia facility. The company remained behind on its payments in 2012 and 2013. The company proposed a $3 million buyout in 2014, which SEAF negotiated to $3.5 million. The company would pay $1.5 million from its cash flow and seek $2 million in refinancing. The exit proposal was approved by the Board in June 2015.

Prime's success led to positive development returns. The company generated more than GEL 45 million in sales over the course of the investment, and had 50 employees by 2014.

As of 2015, the projected cash-on-cash multiple for the Prime investment is 1.35. The investment has over $4 million total projected cash proceeds on $3 million invested capital.

3.4.11. Hotels Network Rcheuli, LLC

Sector:	Tourism	***Total GRDF Investment:***	$1.8 million
Location:	Various	***Initial Projected Cash-on-Cash Multiple:***	2.23
Date of First Investment:	2008	***Current Projected Cash-on-Cash Multiple:***	1.07

Hotels Network Rcheuli, LLC (Rcheuli) is a hotel and restaurant chain established in 2007. It started as project of Centerpoint, Georgia's leading commercial and residential real estate development company, before becoming an independent entity. At the time of investment, Rcheuli operated hotels in Telavi and Batumi and a restaurant in Kurta. The management planned to develop a national chain of three-star hotels for tourists and business travelers. The company sought financing for a $3.6 million project to construct three new hotels in Sighnaghi, Kurta, and Kutaisi on land that had already been purchased. It had already secured $2 million from TBC Bank, of which $1.2 million had been disbursed. Construction on the hotel in Sighnaghi completed in May 2008, just as the GRDF investment was being approved.

GRDF provided a $1.41 million loan and a $380,750 equity investment in exchange for 10% ownership and strong minority rights. Rcheuli was adversely impacted by the Russo-Georgian War in 2008 and subsequent the slump in the tourism industry. The company lost control of its property in Kurta, in South Ossetia. A new manager was brought in under the Technical Assistance facility in 2009, and hotel operations improved as a result. After the opening of the Kutaisi hotel, the company's revenue grew by 42%, though this remained below SEAF's projections.

Problems continued to mount and reached a tipping point in 2011 when GRDF restructured the investment and began looking for buyers. The Board approved a debt restructuring proposal in January that converted the company's accrued interest and penalties into charter capital, which granted GRDF an additional 35% equity share. However, the agreement was never signed as there was change of management in Rcheuli with the new managers refusing to sign amended terms. In July, the Revenue Service began auditing the company, and waited until a buyer offered a price for the company to assess its financial viability.

The company continued to operate from 2011 to 2015 while looking for new investors. The hotels in Kutaisi and Telavi brought in revenue that was reinvested into the business. Rcheuli was behind on its payments to GRDF, but current on payments to TBC Bank, who was the senior creditor. One of the Centerpoint shareholders pledged to pay GRDF $2 million by the end of

2015, but the prosecutor's office began investigating a criminal case against Centerpoint that froze the company's assets. The GRDF exit is delayed due to the lien on Centerpoint's assets.

Rcheuli produced a 0% overall development return. The current operation of a few hotel sites has allowed the company to retain some development return potential.

As of 2015, the projected Money Multiple for the Rcheuli investment was 1.07. The Fund has a $1.9 million total projected cash proceeds from the investment.

3.4.12. Ritseula Hesi Ltd.

Sector:	Energy	***Total GRDF Investment:***	$3 million
Location:	Ritseula	***Initial Projected Cash-on-Cash Multiple:***	1.57
Date of First Investment:	2011	***Realized Cash-on-Cash Multiple:***	1.32

Ritseula Hesi Ltd. (Ritseula) is a small hydroelectric power plant (HPP) in the Racha region that has been in operation since 1937. It is a subsidiary of the Georgian International Energy Corporation (GIEC), a large industrial group founded in 2005 that operated six other hydroelectric power plants at the time of investment. Ritsuela's main customers in 2010 were ESCO (state electricity intermediary), Georgian businesses, and export to Armenia.

Ritseula was seeking financing for a project to expand its electricity generation capacity from 4 MWh to 14 MWh. In particular, the company needed an immediate capital investment to finance the second payment to a turbine supplier in China. The company had already invested $3.3 million into the $6.7 million project.

The Fund provided Ritseula with a $3 million loan at a 14% annual rate and carrying a royalty of 1% of quarterly revenue. The Board elected not to conduct a new independent hydrological report. Given the competence of the management team, and the fact that GIEC had already invested $3.3 million into the project, the Board determined that a report done for KfW a few years prior was reliable enough.

Ritseula was a solid, well-performing investment. The loan was disbursed in 2011 after an environmental due diligence assessment was completed. Construction on the plant began in 2011 and was expected to finish in 2012; winter weather caused delays and the re-launch of the plant was moved to 2013. Ritseula remained current on its payments to GRDF, and the total outstanding principal was paid back by December 2013.

The development return for Ritseula was primarily driven by revenue growth and taxes paid. The company did generate local employment during construction and provides employment during normal operations.

The Ritseula investment led to a realized cash-on-cash multiple as 1.32. The investment generated almost $4 million in total cash proceeds for GRDF.

3.4.13. Teremok Group, Ltd.

Sector:	Retail	***Total GRDF Investment:***	$1 million
Location:	Various	***Initial Projected Cash-on-Cash Multiple:***	2.38
Date of First Investment:	2010	***Current Projected cash-on-Cash Multiple:***	0.69

Teremok Group LTD (Teremok) is a chain of quick-service Slavic restaurants. Teremok was a newly established company at the time of investment, consolidating existing restaurants already operating under a single management group. The first restaurant opened in 2006 and the group had GEL 1.2 million in sales in 2009. The group had six restaurants in Tbilisi at the time of investment, and sought investment to finance six new restaurants operating outside Tbilisi.

GRDF invested $1,000,000 in total, combining a $600,000 loan with a $400,000 equity investment in exchange for a 45% ownership interest. Teremok began the construction of new locations in 2011; two planned openings were delayed, and two newly opened locations took longer than anticipated to reach sales targets. The company experienced some instability in 2011 and 2012 after the managing shareholder left over questions on his use of funds and management of expectations. This caused major issues among the shareholders, who eventually asked SEAF to step in to mediate and oversee operational spending. The management issue was not resolved until 2013.

Several outlets were closed between 2013 and 2015 as the new management struggled to generate enough cash flows to service debt, and a dispute with Aquapark led to legal proceedings. Three locations were closed in 2013 and 2014, and the new management closed two more locations in 2015. Any cash flows generated were allocated to reducing accrued liabilities (suppliers and salaries). A dispute at the Aquapark location, a recreational park that partnered with Teremok, over breach of contract erupted into formal legal proceedings halting operations at the location. A divestment proposal was sent to the Board in 2015 proposing an equity exit at cost (Teremok would transfer the rights to a $450,000 court claim against Aquapark to GRDF in exchange for the ownership stake and sell the outstanding loan amount to Non-GRDF shareholders in exchange for $ 250,000.

The GRDF exit from Teremok is still pending. SEAF is likely to revise the proposed settlement terms, as the discussed court claim application had errors and it was rejected. SEAF outsourced the case due-diligence to a reputable legal firm in Georgia, with new settlement terms now being negotiated with Non-GRDF shareholders.

Development returns have been negative overall. Wages decreased from more than GEL 300,000 in 2010 to just under GEL 60,000 in 2014, and revenues went from almost GEL 1.3 million to just over GEL 400,000 during the same period.

The projected cash-on-cash multiple is 0.69. Total projected cash proceeds were $690,562 as of Q2 2015.

3.4.14. TETNULDI-2007, LLC

Sector:	Tourism	***Total GRDF Investment:***	$1.9 million
Location:	Mestia	***Initial Projected Cash-on-Cash Multiple:***	1.89*
Date of First Investment:	2008	***Current Projected Cash-on-Cash Multiple:***	0.94

**Based on the $1.5 million initial investment (excludes $400,000 add-on)*

Hotel Tetnuldi is a hotel and ski resort in Mestia, Svaneti owned by Tetnuldi-2007, LLC. An existing hotel property was purchased in 2007, and the company partners sought $1.2 million for a $1.8 million project to renovate the hotel. The Government of Georgia has been promoting tourism in Mestia, and the hotel building was the largest in the region at the time.

The Fund provided a $1.5 million loan bearing a 21% interest rate in December 2008. The Board was concerned about the profitability of a proposed ski lift, and requested that it be removed from the project. GRDF restructured the loan and made an additional investment of $400,000 in March 2010 in order to provide more capital for the renovation.

The opening of the hotel was delayed until 2010 in order to accommodate changes to the renovation plans. The government named Svaneti a "key ski resort" in 2009, and began reconstructing the road to Mestia. After this announcement, the partners decided to improve the renovation plans with better quality materials and a summer terrace for the restaurant. GRDF made an additional investment of $400,000 in 2010 to support these changes, and agreed to restructure the original loan in exchange for a 75% ownership interest.

Hotel Tetnuldi benefitted from the tourism promotion efforts in the region. The government began constructing a ski lift and renovating the small airport in 2010, and the hotel had increased occupancy rates from personnel affiliated with the projects. The Georgian president stayed at Hotel Tetnuldi in 2010, and the tourism department planned to organize a series of events in Mestia.

Tetnuldi hotel soon fell into arrears. Tetnuldi occupancy rates and revenues came in below projections and construction delays and cost overruns led to arrears. Additionally, difficulties with hotel management, partly in response to suspicions of accounting irregularities, became too problematic and the operating environment significantly deteriorated. To mitigate these risks, GRDF rented the premises to a relative of one of the shareholders for a nominal fee (which has also been in arrears). SEAF intends to sell the Tetnuldi and Rcheuli hotels as a package, but this deal depends on the resolution of Rcheuli's legal issues.

The hotel produced positive development returns until GRDF rented it out. The company contributed significantly to local purchases during the construction process, with more than GEL 200,000 in local purchases over 2010-2011.

The investment in Hotel Tetnuldi has a projected cash-on-cash multiple of 0.94. The total projected cash proceeds are just under $1.8 million.

4. PROPOSED EVALUATION DESIGN & EVALUATION QUESTION

4.1. EVALUATION QUESTIONS

The evaluation questions are divided into four components as per evaluation framework and outlined in Table 5:

Table 5: Research Questions

Evaluation Component	Research Questions
Relevance	• *Did GRDF meet its stated objectives? Were GRDF's stated objectives clear and actionable? Was the concept of "development impacts/returns" implementable?* • *What were the key challenges? Does the GRDF definition of "development impacts/returns" meet current industry standards for measurement in impact investing?* • *In what ways did the mandate to pursue development returns change SEAF's management of GRDF? Was SEAF able to report on development returns? Was reporting on development returns verifiable?*
Effectiveness	• *What factors explain the success of the relatively more successful/profitable firms (e.g. internal competencies, industry/market factors, GRDF technical/financial support, etc.)?* • *What factors were most predictive of a successful "exit" of a GRDF investment?* • *What barriers/challenges explain any underperformance noted in GRDF portfolio firms (e.g. internal problems, changes in market forces, government interventions/changes, weak entrepreneurial skills, weak accounting practices, etc.)?* • *Will GRDF be able to (or was it able to) liquidate all of its assets successfully? How were exits managed and what lessons learned came out of that process, for better and for worse? Were all exits managed appropriately and transparently? What challenges existed? For any investments where assets were not (or are not likely to be) liquidated, has resolution been reached with the government regarding next steps?* • *What were some indirect effects of GRDF investments? For example, did GRDF investments allow the beneficiaries to more easily access other forms of financing? Was GRDF debt leveraged into more senior debt? Has GRDF created any positive*

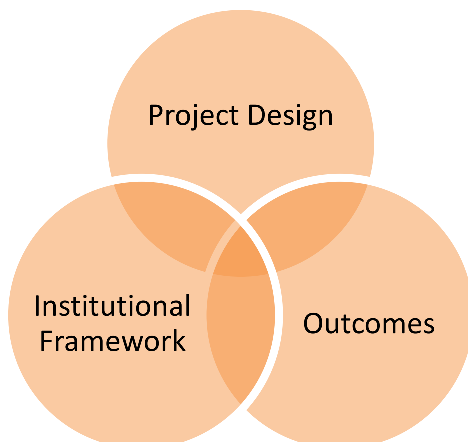
Evaluation Component	Research Questions
	externalities in the Georgian economy? • *On the whole, why were so many GRDF portfolio companies unable to fully service their debt and to what extent was this due to moral hazard, weak enforcement, or force majeure?* • *How was technical assistance funds employed by SEAF? Did these funds allow for efficiency/profitability/other gains in portfolio SMEs' operations?* • *What has been the experience of beneficiary companies with these financial products?* • *Is there evidence of government interference in the operations of the portfolio companies? If so, was government interference in line with that of comparable Georgian companies?*
Additionality	• *To what extent has the GRDF investment been essential for the SMEs' development, and for their access to finance?* • *Did GRDF provide financing that wouldn't have been accessible otherwise? Did GRDF provide better terms to portfolio firms (e.g. rates, collateral requirements, etc.) than they would have been able to acquire elsewhere?* • *How was the targeting of portfolio investments done? In what ways do portfolio firms have higher potential for development returns than other potential SME investments in Georgia?* • *Did SEAF receive better or an increased number of applications for loans from SMEs?*
Attribution	• *In what ways can the end results of portfolio companies be attributed to the GRDF intervention?* • *What role did subsequent company financing outside of GRDF play in end results?*

4.2. Conceptual Approach

4.2.1. Overview

The Performance Evaluation will analyze GRDF's interventions around three dimensions: Project Design, Institutional Framework, and Outcomes. The goal of the performance evaluation is to understand the validity of the program logic and its assumptions (Project Design), the degree to which the institutional setup affected change (Institutional Framework), and the outcome results and lessons learnt (Outcomes). A qualitative-based performance attribution analysis can then be mapped around these dimensions and be further broken down into subcomponents.

Figure 5: Evaluation Framework



This evaluation approach will be embedded in a standard due diligence process for private equity funds. The characteristics of private equity funds present certain challenges to performance analysis. Private equity investing aims to capitalize on the specificity of a few privately held companies that leads to high idiosyncratic risk concentration and limits comparative analysis across both public and private equity funds. Many of the characteristics that facilitate performance analysis for public equity funds are absent in private equity, including liquidity, observable prices, valuation of underlying assets, comparable peer groups, and accessible indices. Typical fund performance analysis depends in a large part on identifying an applicable benchmark to compare returns and conduct performance attribution analysis, which deconstructs differences in returns into "attributes." Identifying or constructing relevant benchmarks for private equity funds is a highly complex exercise in developed markets and further complicated in emerging markets.

4.2.2. ASSESSING DESIGN

The evaluation of the Project Design will follow a theory-based approach that examines the entire project logic. The team will evaluate the theory of change, including the validity of its assumptions and hypotheses either explicitly defined or implied from the original GRDF project due diligence and origination documents. This approach will help identify strong or weak links in the causal chain and the adequacy of design features that may have influenced project outcomes, intentionally or otherwise. In particular, the team will assess how the investment policy, financing instruments, governance structure, and fund structure affected the intended outcome implied in the theory of change. If feasible, the analysis will also be complemented by a comparison of the GRDF structure with other investment funds with one or more similar characteristics, which may include similar regional, sector, dual return, or other features.

From an investment policy standpoint, it is critical to understand how the Investment Policy Guidelines impacted GRDF activities. The evaluation will determine in what instances the Investment Policy Guidelines actually helped achieve what was intended. For instance, the geographic limitation might have excluded companies with the necessary cash flow originating from Tbilisi to pursue regional expansion and, therefore, favor riskier enterprises whose viability was dependent on many uncertainties. Such a scenario might have been further exacerbated by the 85% allocation requirement in businesses with existing operations yet small enough to be considered a Small and Medium Enterprise.

The design emphasized the use of certain financing instruments that may or may not have been appropriate for the targeted businesses/sectors. The “risk capital” preferred in the design may have lacked the flexibility and structure needed to address the seasonality of certain businesses and support working capital requirements, especially under the often high growth rate projections. The impact on the balance sheet structure of portfolio companies, from the type of risk capital offered (mezzanine financing in most cases) as opposed to equity or debt, warrants further review. The evaluation of these aspects will also include a cross-sectional analysis of failed companies to identify potential patterns.

The structure of GRDF, including the private equity model and investment horizon, warrants further review given the context of the operating environment. As a private equity fund operating in an environment with limited exit opportunities, GRDF was established with a five-year investment period that was followed by a five-year wind-down period. This structure may have had several implications on proposed investments and performance. For instance, financing options were likely shaped by the necessity to exit within a relatively short time frame. In particular, the fund structure assessment will look at how “patient” capital was in actuality and what kind of implications it had on project objectives.

4.2.3. Institutional Framework

From the Institutional Framework perspective, the team will analyze and assess the processes of GRDF, including the relationship dynamics among various stakeholders that help explain to what extent the framework acted as a limiting or enhancing factor in achieving the expected objectives. A key factor in this context will be the assessment of the Board performance as well as of SEAF's management performance. In the latter, the analysis will also involve an assessment of the quality of the due diligence carried out prior to submitting investment proposals, an assessment of the financial models used, a detailed review at the substance of the review of investment proposals at Board level, etc.

From a governance perspective, the evaluation will probe into how investment decision-making authority was delegated and how those decisions were made. The investment process, from the sourcing, origination, proposal, committee approval, disbursement, and monitoring has significant implications on performance. Essential to the analysis will be learning how the decision-making process worked in practice, the flow of information from one level to the next, and understanding how well interests were aligned among the various stakeholders and their respective levels of the involvement. For example, did the absence of government representatives from the Board, in an effort to ensure independence, have unintended consequences in the investment process, oversight costs, and subsequent performance? Was there any inherent bias in sourcing investments?

Drawing direct linkages between corporate governance and investment performance is a qualitative assessment but nevertheless one worth exploring, especially given the atypical institutional framework of GRDF. Measurements of 'good corporate governance' are not universally defined. Even widely accepted indicators such as independence and ownership need to be assessed relative to the specific context and, therefore, likely to produce ambiguous results. Nevertheless, corporate governance practices unequivocally affect performance. In this case, there could be correlations between the issues of ownership and incentives on investment decisions which are worth examining in further detail. Three aspects of oversight will be examined, including 1) frequency and proximity of monitoring, 2) responsible parties carrying out the oversight, and 3) how effective was it. In assessing these aspects, an essential question is what role did the institutional framework play?

The incentive environment for SEAF was atypical. Similar to the Board level exercise, interviews with SEAF will focus on the specific course of action taken throughout an intervention exploring the timing and rationale for such actions and how those might have been shaped by the renumeration package. For instance, the issue of bonus payments came up repeatedly during the investment period. The bonus scheme's dependence on a complex equation involving disbursements and development returns is likely to have shaped certain proposals, taken up significant resources in preparation time, and led to disagreement and some contention between SEAF and the Board. This aspect will be looked into in greater detail.

The evaluation will also look into how SEAF operated in practice and how those operations attributed to overall performance. Fund manager performance of any private equity fund is nuanced, even more so in this case given the Georgia context and the design of GRDF. The reported numbers never tell the whole story. Therefore, the performance evaluation of SEAF will look into all material actions undertaken pre- and post- intervention. This will provide insights on why certain financing terms were proposed, what kinds of due diligence were performed, how were underlying assumptions determined and how did they evolve, was SEAF consistently "over-optimistic" in valuing investment prospects, at what point were problems escalated, was the escalation appropriate and adequate given the level of control and problem identified, how was technical assistance allocated, etc.

4.2.4. Outcomes

The evaluation of the Outcomes will take the form of a mixed-methods performance evaluation. Based on the program logic, program indicators and expected results, as well as on the results of the previous evaluation components, the team will examine the project outcomes and will strive to identify key insights and lessons for future MCC and non-MCC projects. The evaluation methodology will involve document review, in-depth financial analysis, stakeholder interviews, and in-depth case studies (See section 4.3). Available quantitative data consists predominantly of information on the terms of financing offered, expected versus actual repayment and returns, and expected versus realized development indicators.

Valuation is an essential component on financial performance analysis at both the fund and investee levels. Private equity fund performance analysis is dependent on the valuations of investments in privately held companies that naturally involve a degree of subjectivity given the lack of marketability. Distinctions need to be made among the basis of valuation, valuation techniques, and valuation inputs. A2F will assess the extent to which the valuation techniques, including Discounted Cash Flow analysis and market multiples, applied by SEAF are in line with common industry practice and whether the underlying assumptions are realistic based on the findings of the evaluation. In other words, A2F will probe into the choice of techniques and inputs given the peculiarity of each investment to understand SEAF's underlying rationale regarding chosen techniques and inputs, and examine instances where this might have diverged across investments.

A2F will present 3 categories of exit values or projected cash proceeds, and accompanying IRR. A2F will present three exit values and corresponding IRRs based on 1) realized returns to date, 2) realized plus SEAF expected returns, and 3) realized plus adjusted SEAF expected returns. During the review of underlying assumptions, inputs, and valuation techniques, the team will judge the validity of valuation estimates given the data gathered from company visits, prior shareholder interviews, and additional review of company financials. A2F will adjust expected exit values and returns accordingly. However, the team will not assume the role of auditor or valuer; therefore, a sophisticated valuation exercise is beyond the scope of the evaluation.

A deep dive analysis of four companies via case studies will supplement the Outcomes assessment. The proposed companies are Foodmart, Piunik, Prime Concrete, and Teremok. These companies will be subject to in-depth case studies to illustrate the factors behind success or failure taking into account the types of GRDF intervention. Based on the mapping exercise, A2F believes that the selected companies are representative of the varied performance within the portfolio. These companies represent a cross-section of the portfolio in terms of financial and development performance and provide a rich source of information from which to draw conclusions and lessons learnt. Additionally, case studies on all entities would not be feasible. This approach maximizes the explanatory power of the performance evaluation, given the fact analyzing every company would significantly raise the costs of the evaluation. The selection criteria and other methodological aspects of the case studies will be described in detail in section 4.3.

Case studies will be confined to companies that do not have open cases with the Financial Police[10] or prosecutor's office based on a prior meeting with the Financial Police. Selecting companies under investigation would significantly limit the ability to arrive at definitive answers to the evaluation questions. A high level of subjectivity would be needed to separate these factors from performance analysis.

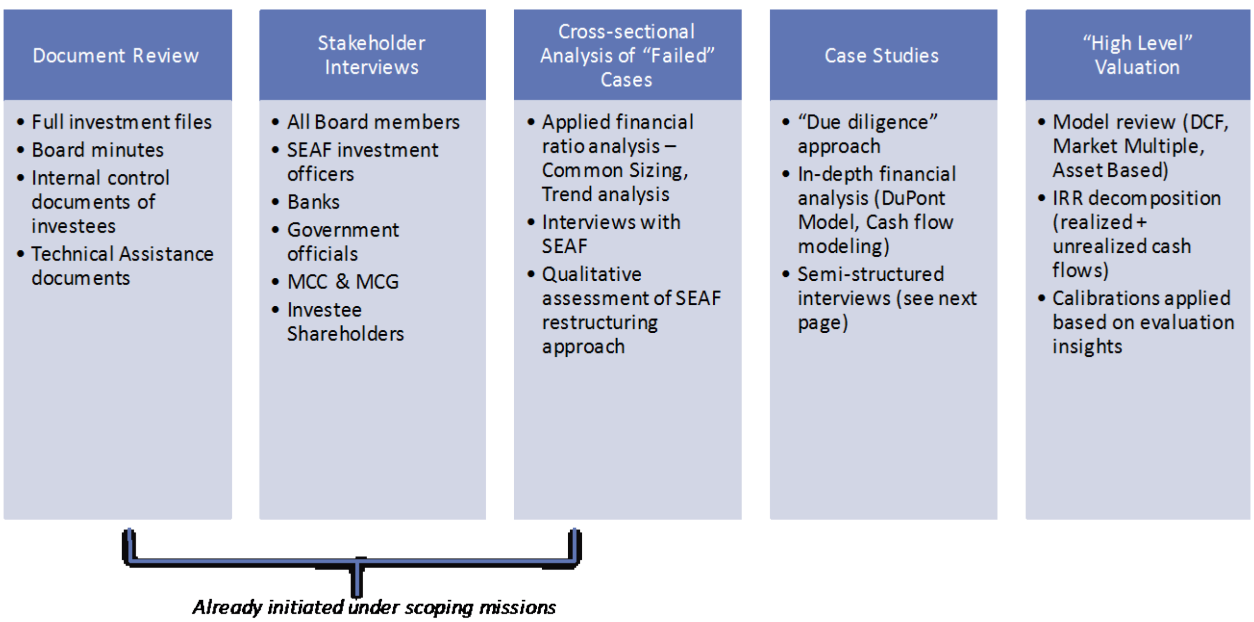
[10] The Financial Police is an investigative unit within the Ministry of Finance focusing on the use of state resources.

4.3. Evaluation Methodology

4.3.1. Overview

The proposed Evaluation Methodology is based on the due diligence framework followed by institutional investors to evaluate private equity funds. The typical due diligence conducted by potential investors in private equity funds consist of document reviews and fund manager interviews to assess the fund's governance structure, performance, operational procedures, investment process, and valuation procedures. In addition, the GRDF evaluation will also explore aspects related to developmental outcomes and therefore carry out interviews with a wider range of stakeholders and in-depth case studies of selected portfolio companies.

Figure 6: Proposed Evaluation Methodology



4.3.2. Document Review

A comprehensive document review will serve as the starting point for the evaluation. The document review encompasses a review of background documents leading up to GRDF creation, operating agreements, management agreements, policies and procedures, investment proposal memorandums, deal sourcing and screening documents, Board minutes, technical assistance proposals, investment monitoring reports, and circulated memorandums pertaining to portfolio activity. This review was initiated during the Evaluability Phase. It will be carried out in greater detail during the full evaluation.

Additional documents will be requested and reviewed to obtain further details for the Cross-Sectional Analysis of "Failed" Cases, the Case Studies, and the "High Level" Valuation components of the evaluation. Financial models and detailed portfolio company level financials will be requested from every investment undertaken and will be reviewed as part of these three evaluation components. Detailed restructuring proposals and models will be requested to proceed with the Cross-Sectional Analysis of "Failed" Cases and the Case Studies. The full investment file, inclusive of all original due diligence and follow-up reports, will be requested and reviewed for the Case Studies component. These full investment files provide greater detail into the various aspects of the due diligence carried out by SEAF, including market analysis, shareholder analysis, historical operating performance of the portfolio companies, financial analysis, and a Strengths, Weaknesses, Opportunities, and Threats (SWOT) assessment. The review of the documents and applied financial analysis will inform the Interviews component.

Data from national sources and from multilateral agencies will be used to add economic and market context to the evaluation. Databases and publications from the National Bank of Georgia and National Statistics Office of Georgia provide data and analysis at the macro and regional levels, including economic activity, employment, agriculture and tourism statistics, and other business statistics. Databases and publications from the International Monetary Fund and World Bank provide data and analysis on financial sector intermediation and some data and analysis on the availability and access to finance for Small & Medium Enterprises in Georgia as well as regionally. This information will help present a backdrop for each dimension of the evaluation. For example, from an Outcomes perspective, the economic and market context will provide clues into how sector or secular trends might have affected performance of the underlying business.

4.3.3. Stakeholder Interviews

The interviews component encompasses discussions and semi-structured interviews with SEAF investment officers, past and all present Board members, portfolio company shareholders, and a variety of stakeholders from financial intermediaries, government authorities, and the Millennium Challenge Georgia. A number of discussions and interviews have previously taken place during the scoping missions. During the missions, the main focus of discussions with SEAF investment officers and Board members revolved around governance, policies, investment processes and procedures, incentive alignment, and overall decision-making. Additionally, issues pertaining to restructuring, timing of certain events and involvement, sourcing, due diligence, and oversight were touched upon with SEAF investment officers. Discussions with financial intermediaries held during the scoping missions provided some insight on the prevailing market conditions and financing options available to Small and Medium Enterprises during the GRDF intervention period. Interviews with lead shareholders of portfolio companies provided a different perspective on each portfolio company's experience and the market context at the time. Discussions with Millennium Challenge Georgia and government authorities unveiled the extent of different views on GRDF governance and performance.

A second round of interviews with SEAF and the Board will be conducted to obtain more details on specific issues arising from the additional document reviews and financial analysis. All Board members, past and present, will be contacted to gauge their familiarity with these specific issues and elaborate on past statements, events, and experience. Additional interviews with SEAF investment officers will focus on further examining preliminary insights obtained from the evaluability phase and the new questions that will undoubtedly arise from the expanded document review and analysis of portfolio company financials within the context of the "High Level" Valuation, the Cross-Sectional Analysis of "Failed" Cases, and the Case Studies components.

More interviews will take place in the context of the studies, including with staff of the portofolio companies as well as key suppliers and clients to explore dynamics from an operational perspective. The methodology for those interviews will be different and is further explained in the case study section.

4.3.4. "HIGH LEVEL" VALUATION

The analysis of GRDF performance will need to rely to a large extent on "estimated values" since the terms and timings of exit from a number of portfolio companies are still unclear. Unrealized capital gains / losses, determined by valuations of assets held, are innately subjective. In the case of private equity, the lack of a public market in which the trading of securities reveals market determined prices leaves the valuation exercise to the private equity fund itself. While there are guidelines published by various industry associations, the process and methods utilized are very much up to the fund to decide. Understanding the rationale and intricacies of the valuation method used is therefore critical in evaluating the fund performance.

The valuation of any asset boils down to expectations of future cash flows. GRDF currently holds mezzanine debt and equity securities of portfolio companies that are dependent on the value of portfolio companies. Mezzanine debt and equity securities, however, are each valued in very distinct ways, each with their own myriad of challenges. The challenges are further compounded in GRDF's case given that the underlying companies are privately held and operate in emerging markets. GRDF's positions in these companies are recorded at "fair value." The determinants of fair value are numerous and exist at the micro-, meso-, and macro-levels. Assessing fair value entails assessing these determinants and requires a keen sense of how they are weighted in the process, how they interact, and how they translate into institutional value.

A high-level assessment will be carried out to understand the extent to which the valuation techniques applied by SEAF are in line with common industry practice and whether the

underlying assumptions are realistic based on the findings of the portfolio company analysis. All aspects of the valuation will be reviewed, including the basis of valuation, valuation techniques, and valuation inputs. Possible justifications for selecting a specific valuation technique may include, among others, the nature of the business; quality and reliability of data; stage of development; and additional factors unique to the business. In the use of discounted cash flow analysis, the choice of the discount rate is, for instance, critical as slight variations can have a dramatic impact on the valuation. Any third party valuator report commissioned will also be analyzed as as well as the extent to which the Board was able to review and approve asset values. After this assessment, the A2F team will provide an opinion on the validity of valuation estimates, and if required, adjust the reported figures to reflect its own appraisal of the performance of the GRDF portfolio with accompanying IRR and cash-on-cash multiples.

4.3.5. Cross-Sectional Analysis of "Failed" Cases

Companies that are no longer operating will undergo a detailed document review, including notes from discussions with SEAF, former shareholders and other stakeholders, to assess potential patterns and their possible lessons for MCC future programs. Failed companies offer limited sources of information from which to reconstruct the past and provide useful lessons. Nevertheless, a document review and notes from discussions held with SEAF, the Board, and shareholders of the failed companies during the scoping missions provide a top level understanding of the kinds of constraints and challenges that ultimately led to failure. This analysis will be further elaborated upon during the evaluation and the different cases will be contrasted to identify potential patterns and key success factors. To the extent possible, the A2F team will also look into how similar companies in the same field performed and how, in general, that sector of economy performed during the GRDF investment period.

An important question would be, for instance, whether the design of GRDF financial instruments or the financial terms systematically contributed to the failure, magnified or mitigated the outcome of the crisis. More specifically, the issue of lump-sum versus tranched disbursements to companies appears to be one aspect of interest in this context. Other examples of research questions would be: how long was the delay until the first signs of troubles were uncovered at the different companies; how was the situation managed by SEAF versus other funders; what were the outcomes for GRDF compared to those for other funders, etc.?

4.3.6. CASE STUDIES

Detailed case studies will be performed on 4 selected portfolio companies still in operation to provide a holistic view that synthesizes data from multiple sources. Ultimately, the performance of each investee contributes to the overall performance of GRDF. Interviews with shareholders highlighted the need to assess the portfolio in greater depth to understand specific drivers of performance at the ground-level that led to success/failure. A case study has the ability to both provide an assessment through a different lens as well as explore the specifics of conditions and their relationships. This approach is likely to lead to a conclusive answer, to the extent that the case studies reveal similar themes, or set of answers to each evaluation question, whether descriptive, normative, or cause-and-effect, and include qualitative and quantitative data for analysis.

The case studies will follow an investigative due diligence approach for portfolio companies of investment funds. For each company, the work will start with a thorough desk review of relevant documents provided by MCC and SEAF, including Board minutes, monitoring reports, legal proceeding memorandums, internal briefs, audit reports, due diligence reports and notes, and other relevant background information not already supplied for the company. Based on this initial review, additional documents may be requested. In parallel, a detailed financial analysis of the company will be carried out as well as an in-depth review of the financial models prepared by SEAF to support the GRDF decision making process. The financial analysis will cover cost structure, income / sales analysis, cash-flow analysis, accounting practices, risk management, growth performance, liquidity, profitability analysis, etc. Once this desk review is sufficiently advanced, the A2F team will initiate a first round of interviews with the senior leadership of the selected company. Based on the outcomes of this initial round discussions, the evaluation team will decide which aspects should be further investigated and request additional meetings accordingly.

Each case study may therefore include several rounds of semi-structured interviews to be conducted on and off site. The first round of interviews typically will include the key decision makers, i.e., the Chairman of the Board, the Chief Executive Officer (CEO), the Chief Operations Officer (COO), and the Chief Financial Officer (CFO). Further interviews may include previous managers, current staff in different departments, clients, suppliers, main financial relationships, existing and past shareholders of the portfolio companies, etc. There will be no pre-defined sample size, because the additional interviews will be determined by the outcome and insights of the previous round. It is, however, expected that between 10-20 individuals will be interviewed for each company. The selection method will be based on chain referrals (i.e., snowball sampling).

All interviewed participants will be made aware of how the information will be used, and the risks that may be associated with the interview (especially when sensitive matters are discussed) based on the declaration of consent attached in annex. The A2F Team will take notes which will indicate the names and positions of the people interviewed. By definition, a due diligence review does not rely on statements of specific individuals, but rather analyzes the information gathered in connection with other evidence collected to form an independent opinion of the company. Therefore, no direct quotes from interviews will be used for the evaluation. The interviews will also not be recorded to avoid any possible cultural sensitivity in this regard. Standard questionnaires will be used only for the first round of interviews with the senior management. Subsequent rounds of interviews will be institution-specific, with focus on the specific issues in need of further investigation for each specific case study.

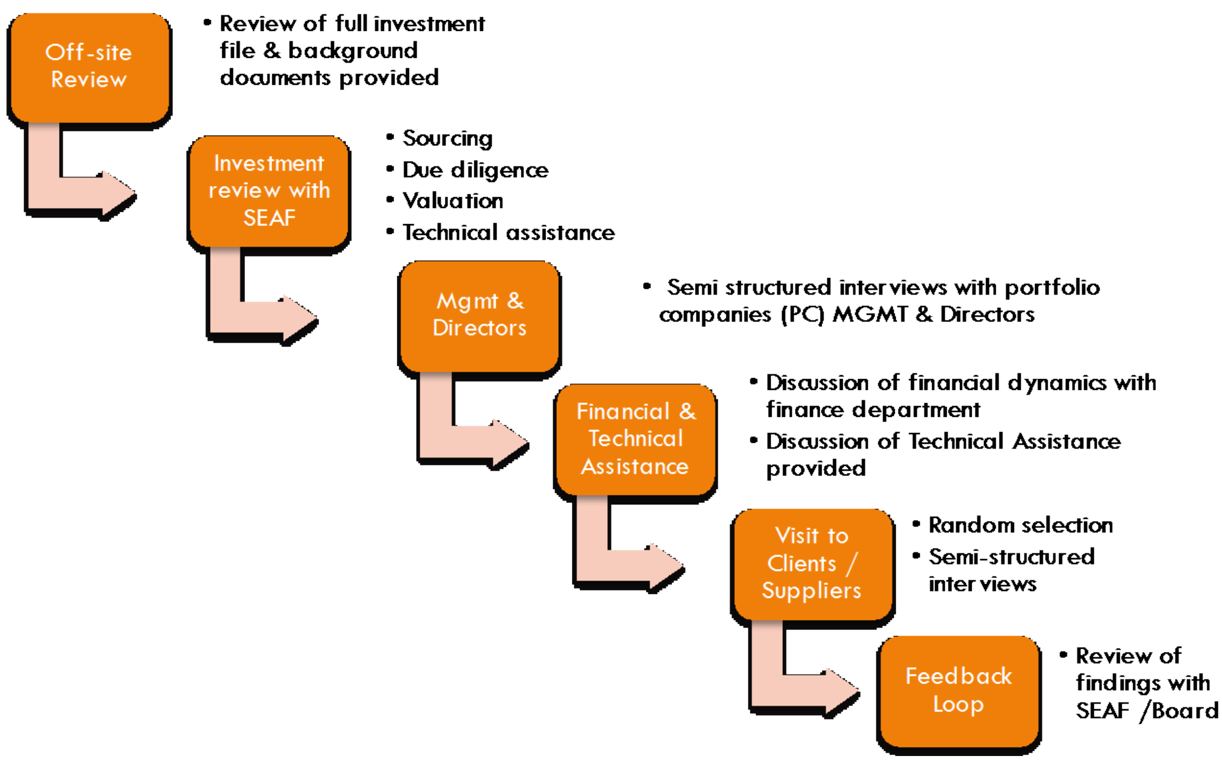
The institution-level analysis will be complemented with a brief assessment of the sector context to understand the overall market dynamics pertaining to each sample company. It is planned that ACT, a Georgian market research firm, will carry out this sector assessment and analyze the evolution of the applicable market to gather valuable and relevant insights for selected cases. As an example, in the case of Foodmart, ACT will: (i) map the current market structure by collecting information on the food retailers, identifying their clients, suppliers, distributors, and other market conditions that play a part in the retail chain; (ii) understand the key trends and drivers of growth in employment, sales, production, etc. in the retail chains; and (iii) identify the constraints in the business environment and how they shape market dynamics. Detailed study techniques as well as the list of the potential respondents will be agreed at an early stage of the evaluation implementation, when the case companies are agreed upon.

Upon completion of the different work streams described above, the A2F team will triangulate with SEAF, relevant Board members, and possibly additional stakeholders to seek further details regarding highlighted issues as well as to confirm on-site findings. A closer view of each business is likely to lead to new information that reshapes or confirms the story. The team will circle back to relevant parties after the on-site visit to discuss any new information and obtain additional feedback pertaining to specific issues. In this way, multiple sources of data will be coalesced into an accurate narrative from which conclusions can be drawn. A2F's operational experience will be key to bridge the gap between practitioner and researcher in this context. Analytical techniques will reflect advanced financial analysis tools (e.g., detailed cash flow analysis, risk analysis, margin analysis, costing, etc.) as well as qualitative methods of company strategy analysis (SWOT analysis, early warning scans, etc.).

Assessing causal attribution is a challenging aspect of the evaluation. There are three general approaches to assess attribution: counterfactual analysis with a comparison group, consistency of evidence with causal relationship, and ruling out alternatives ("evidence-based process"). A rigorous quantification of attribution would require access to data and resources unavailable for this study. A more qualitative approach is therefore proposed. An attempt will be made to assess whether specific outcomes could be traced back only to GRDF intervention ("sole causal attribution”). Lastly, interviews with key stakeholders will assess whether GRDF played any catalytic role that resulted in a specific outcome. The measurement of attribution for portfolio companies that obtained additional financing post GRDF intervention will be based on the timing, valuation, valuation methods, rationale, source of funds, and investment objective.

Assessing the development impact beyond the indicators measured in calculated development return would require an impact evaluation. As a performance evaluation, the proposed evaluation framework steers away from empirical based conclusions regarding economic externalities. Anecdotal evidence suggests that GRDF did, indeed, have a developmental impact on the Georgian economy. For example, the reduction in imported goods in Piunik’s case or the fiber optic infrastructure development of Delta Comm, clearly illustrates a level of developmental impact not captured in the development return metrics. Nevertheless, the performance evaluation will focus on those development impact metrics that were targeted and measured throughout the GRDF intervention.

Figure 7: Indicative Case Study Implementation Process

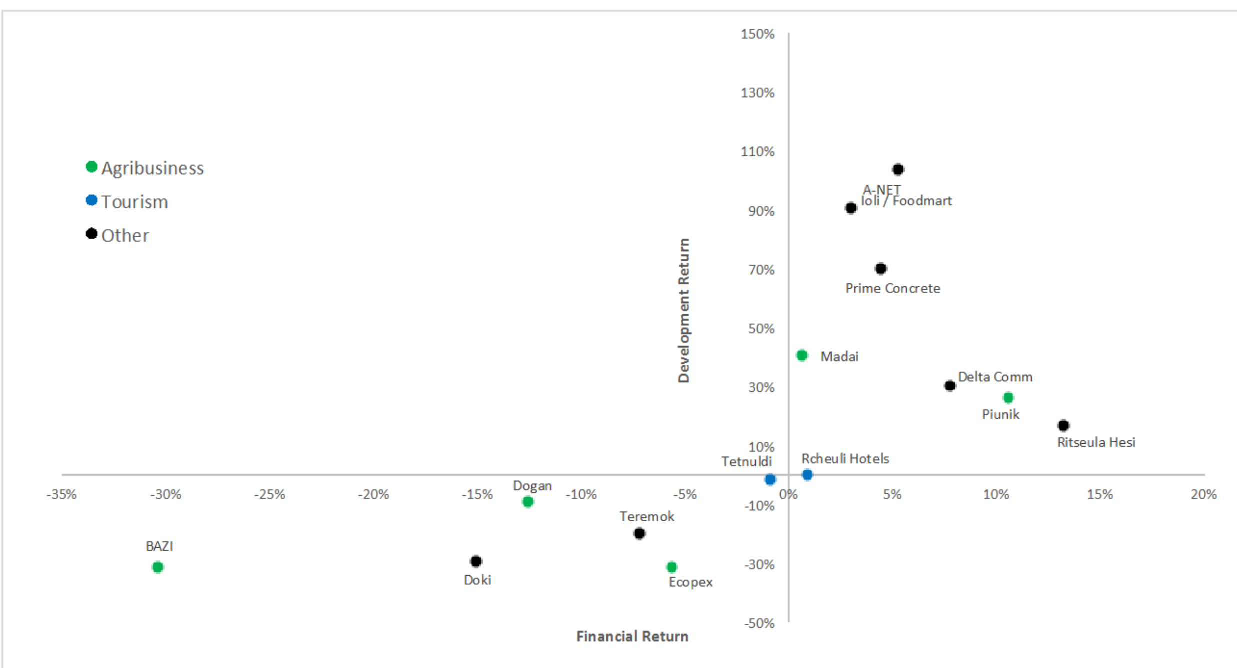


4.4. Study Sample

The four companies proposed for the case studies were selected to be representative of the GRDF investment portfolio from the perspective of its dual return and offer direct observational analysis. For this purpose, all portfolio companies were mapped across a two dimensional coordinate system with Financial Return on the ordinate and development return on the abscissa to illustrate the mix of performance (see Figure 8). Portfolio companies can be grouped accordingly in four categories of: 1) high financial return high development return; 2) high financial return low development return; 3) high development return low financial return; and 4) low development return and low financial return. Further, only companies that are still ongoing concerns were contemplated for the sake of evaluability. As a result, Prime Concrete (category 1), Piunik (category 2), Ioli (category 3), and Teremok (category 4), were selected as proposed candidates for the case studies.

Given the relatively high number of companies with negative returns, an analysis of cross-cutting issues will be applied to those companies that are no longer "ongoing concerns" to mitigate any potential selection bias in the evaluation of GRDF performance. The team will probe any prominent cross-cutting issues on Bazi, Dogan, Ecopex, Doki, and Tetnuldi. These companies, even allowing for an optimistic resolution to divestment, are likely to result in negative returns. We will examine some of the most significant issues that led to poor performance, including oversight and monitoring, seasonality, internal controls, financing, and macroeconomic factors among others. While the level of analysis applied to the case studies will not be replicated on these companies, we believe that empirical evidence can be gathered from existing documents and past discussions with SEAF and shareholders to support insightful conclusions regarding these failed investments.

Figure 8: Portfolio Company Performance Mapping



4.5. LIMITATIONS AND CHALLENGES

During the scoping visits, the A2F team identified issues that could affect the evaluation design and future data collection efforts. Table 6 below details each of these issues and their implications for the evaluation:

Table 6: Identified limitations and related methodological implications

Issue identified by the A2F team	Implications for the methodology
Many investments have yet to be exited and therefore actual performance is not yet known A number of investments are still ongoing due to business dependency on GRDF support and/or inability to find a third party buyer. The actual performance of these entities may significantly differ from currently projected figures.	A2F will present 3 valuations and accompanying IRRs based on actual cash flows to date, SEAF expectations, and A2F adjusted expectations. Companies identified for potential case studies have either been exited or are expected to be exited at stated values with a high degree of certainty (according to SEAF).
Lack of counterfactuals Intervention effects in the absence of a comparative group cannot sufficiently exclude the possibility of change occurring without the specific initiative. The issues of attribution and additionality in particular are difficult to assess given the unavailability or nonexistent data.	Interviews with shareholders and management along with banking sector statistics can shed alternative options presented to businesses at the time of investment. Furthermore, assessing the GRDF relationship in detail will reveal to what extent SEAF management played a role in shaping the business post-investment, either through direct technical assistance, funding or capacity building.

5. DATA SOURCES AND OUTCOME DEFINITION

5.1. DATA COLLECTION PLANS

Following the approval of the evaluation design and evaluation material from MCC the data collection phase will take place in June / July 2016 among the four businesses chosen for the case study.

5.2. DATA NEEDS

5.2.1. DATA SOURCES FOR QUANTITATIVE ANALYSIS

Main sources of quantitative data will be supplied by SEAF, company management, ACT market analysis, and national and international databases. From SEAF it is expected that the team will be supplied with the financial statements of individual portfolio companies in raw and transformed state, financial statements of GRDF, financial models for GRDF and each portfolio company. Business statistics, such as unit sales data, are expected to be supplied by SEAF. ACT will gather market data from publicly available sources such as the National Bank of Georgia and the National Statistics Office of Georgia. Economic statistics, including bank and nonbank lending in the regions, growth indicators, and sector statistics will be collected from national and international databases including the National Bank of Georgia, IMF, and World Bank. Table 7 below outlines the different sources of quantitative data and the related indicators.

Table 7: Sources of Quantitative Data and Indicators

Sources for Quantitative Data	Indicators
Financial statements and models for each portfolio company and at the Fund level	• Portfolio company: Income statements, balance sheets, and cash flow statements; cash flow projections, as sent to SEAF and conversions to standard formats • Income statements, balance sheets, and cash flow statements and projections at the Fund level • Financial models for each investment and at the Fund level

Sources for Quantitative Data	Indicators
ACT market assessment	• Number of competitors; size of competitors; sector supply & demand data; sector margins; external business factors, including relationship with local and national authorities
Portfolio company production and cost data	• Unit volumes produced; unit sales; unit costs; unit pricing; inventory management; efficiency indicators
National, regional, and sector economic statistics supplied by the National Bank of Georgia, the IMF, and the World Bank	• Lending volumes; interest rates; SME finance; bank and nonbank financing; employment data; sector growth statistics; and macroeconomic statistics

5.2.2. Data Sources for Qualitative Analysis

Main sources for qualitative data will be project documents and notes from interviews with project stakeholders and participants, including in the context of case studies. Unlike with survey data, the collected qualitative data cannot be analyzed in isolation. No coding and/or qualitative data analysis software will therefore be necessary. As is typically done under a due diligence approach, the qualitative data will instead be reviewed in combination with the findings of the financial analysis and other available quantitative data to form an independent opinion of GRDF performance.

The following design matrix (Table 8) summarizes the data collection method(s) and source(s) for each evaluation question as indicated in the ToRs. Table 9 provides data collection method(s) and source(s) for underlying questions identified as key to providing a thorough analysis of evaluation questions in the ToRs.

Table 8: Evaluation Design Matrix for TOR Research Questions

Evaluation Component	TOR Research Questions	Data Collection Method	Data Collection Instrument	Data Sources
GRDF Design	• *Did GRDF meet its stated objectives? Were GRDF's stated objectives clear and actionable? Was the concept of "development impacts/returns" implementable?*	• Desk Review • Semi-structured interviews of SEAF and Board	• Project documents • SEAF/Board interview protocol	• Extract from due diligence study and preliminary field missions report • Board minutes • Interviews with SEAF and Board members
GRDF Design	• *What were the key challenges? Does the GRDF definition of "development impacts/returns" meet current industry standards for measurement in impact investing?*	• Desk Review • Semi-structured interviews of SEAF and Board • Semi-structured interviews with managers of similar funds	• Project documents • Impact investment research • SEAF/Board/manager interview protocol	• Board minutes • Publicly available research on impact investment • Interviews with SEAF and Board members
Institutional Framework	• *In what ways did the mandate to pursue development returns change SEAF's management of GRDF? Was SEAF able to report on development returns? Was reporting on development returns verifiable?*	• Desk Review • Semi-structured interviews of SEAF and Board	• Project documents • SEAF/Board interview protocol	• Board minutes • Investment monitor reports • Interviews with SEAF and Board members

Evaluation Component	TOR Research Questions	Data Collection Method	Data Collection Instrument	Data Sources
Outcomes	• *What factors explain the success of the relatively more successful/profitable firms (e.g. internal competencies, industry/market factors, GRDF technical/financial support, etc.)?*	• Desk Review • Semi-structured interviews of PCs, SEAF, and Board • Case studies	• Project documents • SEAF/Board interview protocol • PC interview protocol	• Financial models • PC documents • Investment documents • Interviews with PCs, SEAF, and Board members
Outcomes	• *What factors were most predictive of a successful "exit" of a GRDF investment*	• Desk Review • Semi-structured interviews of PCs, SEAF, and Board • Case studies	• Project documents • SEAF/Board interview protocol • PC interview protocol	• Financial models • PC documents • Investment documents • Interviews with PCs, SEAF, and Board members
Outcomes	• *What barriers/challenges explain any underperformance noted in GRDF portfolio firms (e.g. internal problems, changes in market forces, government interventions/changes, weak entrepreneurial skills, weak accounting practices, etc.)?*	• Desk Review • Semi-structured interviews of PCs, SEAF, and Board • Case studies	• Project documents • SEAF/Board interview protocol • PC interview protocol	• Financial models • PC documents • Investment documents • Interviews with PCs, SEAF, and Board members

Evaluation Component	TOR Research Questions	Data Collection Method	Data Collection Instrument	Data Sources
Institutional Framework	• *Will GRDF be able to (or was it able to) liquidate all of its assets successfully? How were exits managed and what lessons learnt came out of that process, for better and for worse? Were all exits managed appropriately and transparently? What challenges existed? For any investments where assets were not (or are not likely to be) liquidated, has resolution been reached with the government regarding next steps?*	• Desk Review • Case studies • Semi-structured interviews of MCC and MCG project management/SEAF/Board, PCs	• Project documents • MCC and MCG project management/SEAF/Board interview protocol • PC interview protocol	• Financial models • PC documents • Investment documents • Exit update documents • Interviews with PCs, SEAF, and Board members • Interviews with MCC and MCG project management
Outcomes	• *What were some indirect effects of GRDF investments? For example, did GRDF investments allow the beneficiaries to more easily access other forms of financing? Was GRDF debt leveraged into more senior debt? Has GRDF created any positive externalities in the Georgian economy?*	• Desk Review • Case studies • Semi-structured interviews with SEAF, Board, PCs • Semi-structured interviews with Financial intermediaries	• Project documents • SEAF/Board interview protocol • PC interview protocol • Stakeholder interview protocol • Economic data downloads	• Financial models • PC documents • Interviews with PCs, SEAF, and Board members • External data sources • Interviews with financial intermediaries

Evaluation Component	TOR Research Questions	Data Collection Method	Data Collection Instrument	Data Sources
Outcomes	• *On the whole, why were so many GRDF portfolio companies unable to fully service their debt and to what extent was this due to moral hazard, weak enforcement, or force majeure?*	• Desk Review • Economic data downloads • Semi-structured interviews with PC/SEAF/Board • Case studies	• Project documents • Economic publications • SEAF/Board interview protocol • PC interview protocol	• Financial models • Investment documents • External data sources • Interviews with management/SEAF/Boa rd • Interviews with PCs
Institutional Framework	• *How was technical assistance funds employed by SEAF? Did these funds allow for efficiency/profitability/other gains in portfolio SMEs' operations?*	• Desk Review • Semi-structured interviews with PC/SEAF/Board • Case studies	• Project documents • SEAF/Board interview protocol • PC interview protocol	• Board minutes • Investment documents • Interviews SEAF/Board • Interviews with PCs
Outcomes	• *What has been the experience of beneficiary companies with these financial products?*	• Desk Review • Semi-structured interviews with PC/SEAF/Board • Case studies	• Project documents • SEAF/Board interview protocol • PC interview protocol	• Board minutes • Investment documents • Interviews SEAF/Board • Interviews with PCs
Institutional Framework	• *Is there evidence of government interference in the operations of the portfolio companies? If so, was government interference in line with that of comparable Georgian companies?*	• Desk Review • Case studies • Semi-structured interviews with SEAF, Board, PCs • Rapid market assessment	• Project documents • SEAF/Board interview protocol • PC interview protocol • Competitor interview protocol	• Board minutes • Investment memos • Interviews SEAF/Board • Interviews with PCs • Interviews with competitors

Evaluation Component	TOR Research Questions	Data Collection Method	Data Collection Instrument	Data Sources
Outcomes	• *To what extent has the GRDF investment been essential for the SMEs' development, and for their access to finance?*	• Desk Review • Case studies • Semi-structured interviews with SEAF, Board, PCs • Rapid market assessment • Semi-structured interviews with Financial intermediaries	• Project documents • SEAF/Board interview protocol • PC interview protocol • Financial intermediary interview protocol	• Board minutes • Investment memos • Interviews SEAF/Board • Interviews with PCs • Interviews with financial intermediaries
GRDF Design	• *Did GRDF provide financing that wouldn't have been accessible otherwise? Did GRDF provide better terms to portfolio firms (e.g. rates, collateral requirements, etc.) than they would have been able to acquire elsewhere?*	• Desk Review • Case studies • Semi-structured interviews with SEAF, Board, PCs • Rapid market assessment • Semi-structured interviews with Financial intermediaries	• Project documents • SEAF/Board interview protocol • PC interview protocol Financial intermediary interview protocol	• Board minutes • Investment memos • Interviews with SEAF/Board • Interviews with PCs • Interviews with financial intermediaries

Evaluation Component	TOR Research Questions	Data Collection Method	Data Collection Instrument	Data Sources
GRDF Design	• *How was the targeting of portfolio investments done? In what ways do portfolio firms have higher potential for development returns than other potential SME investments in Georgia?*	• Desk Review • Case studies • Semi-structured interviews with MCC & MCG project team, SEAF, Board, PCs • Rapid market assessment • Semi-structured interviews with Financial intermediaries	• Project documents • MCC & MCG interview protocol • SEAF/Board interview protocol • PC interview protocol • Competitor interview protocol • Financial intermediary interview protocol	• Board minutes • Investment memos • Interviews with MCC/MCG/SEAF/Board • Interviews with PCs • Interviews with competitors • Interviews with financial intermediaries
Institutional Framework	• *Did SEAF receive better or an increased number of applications for loans from SMEs?*	• Desk Review • Case studies • Semi-structured interviews with MCC & MCG project team, SEAF, Board, PCs	• Project documents • MCC & MCG interview protocol • SEAF/Board interview protocol • PC interview protocol	• Board minutes • Investment memos • Interviews with MCC/MCG/SEAF/Board • Interviews with PCs
Outcomes	• *In what ways can the end results of portfolio companies be attributed to the GRDF intervention?*	• Desk Review • Case studies • Semi-structured interviews SEAF, Board, PCs • Economic data downloads	• Project documents • SEAF/Board interview protocol • PC interview protocol • Economic publications	• Interviews with MCC/MCG/SEAF/Board • Interviews with PCs • External data sources

Evaluation Component	TOR Research Questions	Data Collection Method	Data Collection Instrument	Data Sources
Outcomes	• *What role did subsequent company financing outside of GRDF play in end results?*	• Desk Review • Case studies • Semi-structured interviews, SEAF, Board, PCs • Economic data downloads	• Project documents • SEAF/Board interview protocol • PC interview protocol • Economic publications	• Investment memos • Interviews with MCC/MCG/SEAF/Board • Interviews with PCs • External data sources

Table 9: Evaluation Design Matrix for Underlying Research Questions

Evaluation Component	Research Questions	Data Collection Method	Data Collection Instrument	Data Sources
GRDF Design	• What was the rationale behind the Board structure, including independence, and what implications did it have GRDF operations and relationship with GoG.	• Semi-structured interviews of Board, SEAF, MCC and MCA project management	• MCC and MCA project management/SEAF/Board interview protocol	• Interviews with MCC and MCA project management/SEAF/Board
GRDF Design	• What were the findings of the due diligence? What methods were used for the due diligence? How robust were these findings and how were they incorporated into the design?	• Desk Review • Semi-structured interviews of MCC and MCA project management	• Project documents • MCC and MCA project management interview protocol	• Extract from due diligence study and preliminary field missions report • Interviews with MCC and MCA project management s
GRDF Design	• In what ways and under what circumstances did the Investment Policy impede and/or improve performance ?	• Desk Review • Semi-structured interviews of MCC and MCA project management/SEAF/Board	• Project documents • MCC and MCA project management/SEAF/Board interview protocol	• Review of project documentation • Interviews with MCC and MCA project management/SEAF/Board

Evaluation Component	Research Questions	Data Collection Method	Data Collection Instrument	Data Sources
GRDF Design	• Did the Investment Policy conflict with the stated objectives?	• Desk Review • Semi-structured interviews of MCC and MCA project management/SEAF/Board	• Project documents • MCC and MCA project management/SEAF/Board interview protocol	• Review of project documentation • Interviews with MCC and MCA project management/SEAF/Board
GRDF Design	• How well did the incentive structure align the agent and investment decision makers with project objectives?	• Desk Review • Semi-structured interviews of MCC and MCA project management/SEAF/Board • Semi-structured interviews with managers of similar funds	• Project documents • MCC and MCA project management/SEAF/Board interview protocol	• Review of project documentation • Interviews with MCC and MCA project management/SEAF/Board • Management staff of other relevant investors
GRDF Design	• Was the investment horizon conducive to private equity investing given the context?	• Desk Review • Semi-structured interviews of MCC and MCA project management/SEAF/Board • Semi-structured interviews with other investors in the region	• Project documents • MCC and MCA project management/SEAF/Board interview protocol	• Review of project documentation • Interviews with MCC and MCA project management/SEAF/Board • Management staff of other relevant investors
GRDF Design	• What was the rationale behind the TA facility and determinants of eligibility?	• Desk Review • Semi-structured interviews of SEAF/Board	• Project documents • SEAF/Board interview protocol	• Review of project documentation • Interviews with SEAF/Board

Evaluation Component	Research Questions	Data Collection Method	Data Collection Instrument	Data Sources
Institutional Framework	• How well did the incentive structure align the agent and investment decision makers with project objectives?	• Desk Review • Semi-structured interviews of MCC and MCA project management/SEAF/Board • Semi-structured interviews with managers of similar funds	• Project documents • MCC and MCA project management/SEAF/Board interview protocol	• Review of project documentation • Interviews with MCC and MCA project management/SEAF/Board • Management staff of other relevant investors
Institutional Framework	• How did the relationship between SEAF and Board participants (including non-voting members and observers) evolve over the life of the Fund and what were the implications on performance?	• Desk Review • Semi-structured interviews of MCC and MCA project management/SEAF/Board	• Project documents • MCC and MCA project management/SEAF/Board interview protocol	• Review of project documentation • Interviews with MCC and MCA project management/SEAF/Board
Institutional Framework	• How did the evolution of relationship between SEAF and company management evolve and what were the implications on performance?	• Desk Review • Semi-structured interviews of MCC and MCA project management/SEAF/Board • Case studies	• Project documents • MCC and MCA project management/SEAF/Board interview protocol • Portfolio company management interview protocol	• Review of project documentation • Interviews with MCC and MCA project management/SEAF/Board • Interviews with shareholders/management of portfolio companies

Evaluation Component	Research Questions	Data Collection Method	Data Collection Instrument	Data Sources
Institutional Framework	• How effective was corporate governance at the Fund level in all aspects of investment decisions?	• Desk Review • Semi-structured interviews of MCC and MCA project management/SEAF/Board	• Project documents • MCC and MCA project management/SEAF/Board interview protocol	• Review of project documentation • Interviews with MCC and MCA project management/SEAF/Board
Institutional Framework	• Was SEAF and/or the Board reactive or proactive in responding to problems?	• Desk Review • Semi-structured interviews of MCC and MCA project management/SEAF/Board	• Project documents • MCC and MCA project management/SEAF/Board interview protocol	• Review of project documentation • Interviews with MCC and MCA project management/SEAF/Board
Institutional Framework	• Was SEAF and the Board too patient/impatient and/or optimistic/pessimistic with investees?	• Desk Review • Semi-structured interviews of MCC and MCA project management/SEAF/Board	• Project documents • MCC and MCA project management/SEAF/Board interview protocol	• Review of project documentation • Interviews with MCC and MCA project management/SEAF/Board
Outcome	• How much of the expected synergies between portfolio companies were realized?	• Desk Review • Semi-structured interviews with SEAF • Case Studies	• Project documents • SEAF interview protocol • Portfolio company management interview protocol	• Review of project documentation • Interviews with SEAF • Interviews with shareholders/management of portfolio companies

Evaluation Component	Research Questions	Data Collection Method	Data Collection Instrument	Data Sources
Outcomes	• Were investment structures and pricing offered conducive to supporting business growth?	• Desk Review • Semi-structured interviews with SEAF • Case Studies	• Project documents • Quantitative Analysis • SEAF interview protocol • Portfolio company management interview protocol	• Review of project documentation • Financial models • Interviews with SEAF • Interviews with shareholders/management of portfolio companies
Outcomes	• Was the level and frequency of monitoring at the company level adequate?	• Desk Review • Semi-structured interviews with SEAF • Case Studies	• Project documents • SEAF interview protocol • Portfolio company management interview protocol	• Review of project documentation • Interviews with SEAF • Interviews with shareholders/management of portfolio companies
Outcomes	• What could have been done differently to overcome obstacles to achieving the desired results at the portfolio company level?	• Desk Review • Semi-structured interviews with SEAF • Case Studies	• Project documents • SEAF interview protocol • Portfolio company management interview protocol	• Review of project documentation • Interviews with SEAF • Interviews with shareholders/management of portfolio companies
Outcomes	• Under what criteria were certain companies recommended for TA assistance and did it have the intended effect?	• Desk Review • Semi-structured interviews of MCC and MCA project management/SEAF/Board	• Project documents • MCC and MCA project management/SEAF/Board interview protocol	• Review of project documentation • Interviews with SEAF • Interviews with shareholders/management of portfolio companies
Outcomes	• How did competitors fare?	• Structured interviews with market participants	• Competitor interview protocol	• Interviews with competitors

Evaluation Component	Research Questions	Data Collection Method	Data Collection Instrument	Data Sources
Outcomes	• What aspects of the intervention were considered "additional" compared to other financing options?	• Desk Review • Case studies	• Project documents • Portfolio company management interview protocol	• Review of project documentation • Interviews with shareholders/management of portfolio companies
Outcomes	• What commonalities and/or anomalies are there among failed companies?	• Desk Review • Semi-structured interviews with SEAF	• Project documents • Quantitative analysis • SEAF interview protocol	• Review of project documentation • Financial model review • Interviews with SEAF
Outcomes	• What other development impact can be qualitatively or quantitatively measured?	• Semi-structured interviews with portfolio companies • Database review	• Portfolio companies interview protocol • Quantitative analysis	• Interviews with portfolio companies • Analysis of data from national and international sources

6. ADMINISTRATIVE ASPECTS

6.1. IRB REQUIREMENTS

IRB approval will not be required for this evaluation as no survey will be conducted. The preparation of the company case studies will require semi-structured interviews with a handful of officers from the company, and possible interviews with personnel from some competing firms. Participation in the interviews will be voluntary. All interviewed participants will be made aware of how the information will be used, and the risks that may be associated with the interview (especially when sensitive matters are discussed) based on the declaration of consent attached in annex.

6.2. DATA STORAGE AND CONFIDENTIALITY

A2F will ensure that the confidentiality of the information obtained from or about MCC, GRDF, and their portfolio company is maintained. The A2F team will ensure that the data are stored in a secured server with limited access to key project personnel. The information collected during interviews will be kept in the form of notes indicating the names and positions of the people interviewed. As indicated earlier, the evaluation will not rely on statements of specific individuals, but rather analyzes the information gathered in connection with other evidence collected to form an independent opinion. In other words, all statements will therefore be kept confidential and no direct quotes from interviews will be used. The interviews will also not be recorded to avoid any possible cultural sensitivity in this regard.

A2F understands the sensitive nature of the ongoing legal proceedings involving several companies in the portfolio. The A2F team will sign non-disclosure agreements as required, and will discuss any restrictions on the information with the MCC team before it is collected. All interviewed participants will be made aware of how the information will be used, and the risks that may be associated with the interview (especially when sensitive matters are discussed) based on the declaration of consent attached in annex.

6.3. DISSEMINATION PLAN

Workshops in Georgia and Washington, DC will be held to present the results of the evaluation and receive final inputs and comments. A field visit of one week in Georgia is planned in October 2016 to ensure extensive discussions with all relevant stakeholders that could leverage the lessons learnt from the evaluation. In particular, feedback from SEAF, the Board, MCC, MCG, and government representatives will be essential and incorporated into the final report.

A draft report will be submitted to MCC prior to local dissemination in Georgia. Inputs collected during local dissemination activities will be integrated in the evaluation results before the presentation in Washington DC to MCC and other relevant stakeholders. The final high-quality version to be published will then be submitted with all related documents (e.g. databases, evaluation protocols, etc.).

6.4. Evaluation Team Roles and Responsibilities

Table 10 provides an overview of the evaluation team with respective roles and responsibilities in the evaluation.

Table 10: Overview of Evaluation Team

Name of Staff	Role	Responsibility
Dr. Modibo K. Camara	Team Leader	Evaluation coordination, data collection, data analysis
Hussein Anooshah	Co-Team Leader	Evaluation coordination, data collection, data analysis, case study
Dr. Rebati Mendali	Senior Analyst / Evaluation Specialist	Quantitative and qualitative data collection, data analysis, case study
Dobrina Gogova	Senior Analyst / Evaluation Specialist	Quantitative and qualitative data collection, data analysis,case study / fluent in Russian
Alex Proaño	Senior Analyst / Due Diligence Specialist	Quantitative and qualitative data collection, data analysis, case study
ACT	Market Assessment Specialists	Market data collection, context analysis

The A2F team brings extensive experience with due diligence, fund assessments, risk management and evaluation. A2F Consulting conducted several **due diligence and valuation reviews for investors and DFIs** such as FMO (The Netherlands), the Belgian Investment Company for Developing Countries (BIO), ACCION International, the European Fund for South-East Europe (EFSE), as well as for other well-known clients. Our approach to due diligence reviews and valuations is holistic, and involves an assessment of financial and operational issues as well as qualitative factors such as the corporate strategy, culture, and organizational dynamics.

Our team leader, **Dr. Modibo Camara**, and co-team leader, **Mr. Hussein Anooshah**, have recently conducted an **ex-post effectiveness study of FMO's projects/investments in Zimbabwe, which involved a review of private equity fund similar to GRDF**. Both have significant experience with case studies. Mr. Anooshah recently carried out two **case studies on agricultural investments programs in Malawi and Togo**. He also brings **valuable experience rating investment funds for MSME finance** prior to A2F.

Dr. Rebati Mendali is an agricultural economist with over 10 years of experience. Since joining A2F, she contributed to case studies in Malawi on the impact of an agriculture investment program, in Kenya on the impact of Warehouse Receipts in providing agricultural finance, and two case studies on access to finance for Women in Business in Kenya and Cameroon. **Ms. Dobrina Gogova** is an economist with over 10 years of experience. Since joining A2F, Ms. Gogova has been working on an MCC project related to results frameworks, as well as on two case studies on access to finance for Women in Business in Nigeria and Zambia. She is fluent in Russian and has worked on a number of flagship reports of the World Bank on the Europe Central Asia Region. **Mr. Alex Proaño** is an MSME finance specialist with over 20 years of experience, including business branch banking, credit product development, training of loan officers and implementation of lending technologies. He has conducted several financial and operational due diligence reviews of MSME finance institutions in Albania, Bolivia, Bosnia i. Hercegovina, Kenya, Maldives, Uganda and Uzbekistan.

The short bios of the team are presented below:

Dr. Modibo K. CAMARA (Team Leader)

Dr. Camara has over 20 years of experience working on financial sector development issues, including nine years at the World Bank Group. He is a recognized specialist in access to finance issues in the developing world and has hands-on experience in microfinance and SME finance in Latin America, Eastern Europe, Asia and Africa. Amongst other credentials, Dr. Camara has led multiple advisory teams focused on creating financial sector strategies and assessments of the financial sectors. He also brings extensive experience on due diligences, including an in-depth understanding in institution building and turn-around cases. Dr. Camara has also experience in rural and agricultural finance and has recently led the A2F teams that conducted two large regional studies on agricultural finance ion Africa on behalf of GIZ and FAO. Prior to A2F Consulting, which he founded in 2007, and the World Bank Group, Dr. Camara worked at Gemini Consulting, and IPC GmbH/ProCredit. He holds a Doctorate Degree in Financial Economics, and speaks English, French, German, Mandinka, Spanish, Portuguese and intermediate Russian. He is a US citizen.

Mr. Hussein ANOOSHAH (Co-Team Leader)

Mr. Anooshah brings over 10 years of experience in economic, financial, and statistical analysis. He brings a breadth of experience from the financial services industry having worked in various capacities including actuarial analysis, structured finance modeling, credit risk modeling and analysis, impact studies, market assessments, and financial sector stability issues. At A2F Consulting, his projects included helping introduce risk-based supervision for non-bank financial intermediaries at NAMFISA in Namibia, developing a robust systemic risk analysis and financial contingency risk management template for deposit insurance agencies in Mongolia and Central Asia, updating risk management processes and conducting market assessments for additional business lines at PEARL Microfinance LTD. Previously Mr. Anooshah worked as Lead Analyst at MicroRate, a rating agency for microfinance, assessing credit risk of financial institutions. Mr. Anooshah has also held modeling and actuarial positions at ABN AMRO and Marsh & McLennan. He holds a Masters of Economics from the University of Sydney, a BA in Finance from the University of Illinois, and is a Chartered Financial Analyst. He speaks English and is conversant Spanish.

Dr. Rebati MENDALI (Evaluation Specialist)

Dr. Mendali is an agricultural Economist, specializing in market and policy analysis, as well as advanced econometrics, with over 10 years experience in the field. At A2F Consulting, she has co-led the quantitative analysis of the Kenya WRS Impact Evaluation under the Kenya Investment Climate Agribusiness Project. She was also involved in the "Evaluation of the access to Rural Finance Activity in Burkina Faso" under the Agriculture Development Project by MCC in analyzing and reviewing the program impact. Prior to joining A2F, Dr. Mendali was involved in many development projects including "Rural Development in Orissa and Chhatisgarh, India" where she evaluated the role of government and non-government organizations and financial institutions in implementing government programs aimed at enhancing economic development in rural areas. She is an expert in the design, implementation, and analysis of primary and secondary data with strong statistical and econometric skills. She is an experienced user of various statistical and econometric packages such as STATA, R, SPSS, and SAS. Dr. Mendali holds a PhD in Agricultural and Applied Economics and a MA in Economics. She is Indian and speaks fluent English, Hindi, and Odia.

Ms. Dobrina GOGOVA (Evaluation Specialist)

Ms. Gogova is a Development Economist and Project Manager, specializing in institutional reform, economic growth, poverty reduction and private sector development. Prior to A2F, Mrs. Gogova worked for the Governance Global Practice and Chief Economist Office of the Europe and Central Asia Region (ECA) within the World Bank Group. On the operational side she was involved in project design, implementation and supervision of Public Service Delivery and Institutional Reform projects in ECA, and on the research side she was involved in the preparation of flagship reports and working papers in the field of poverty reduction and shared prosperity, trade integration and economic growth. Prior to joining the World Bank she was Manager Global Strategic Expansion at the ITO multinational Sutherland Global Services, responsible for the set-up of three off-shore centers in India, Egypt and Bulgaria, which are currently employing 5,000 people and generating $200 million in annual revenue. Ms. Gogova holds an MPA from Columbia University and a Bachelor's Degree in Engineering from the Technical University of Sofia, Bulgaria. She is a citizen of Bulgaria and speaks fluent English, Bulgarian, **Russian**, and Serbian.

Mr. Alex PROAÑO (Due Diligence / MSME Finance Specialist)

Mr. Alex Proaño has over 20 years of experience in MSME finance, including business branch banking, credit product development, training of loan officers and implementation of lending technologies. Mr. Proaño has worked with several successful financial institutions specializing in Micro and SME finance as well as in housing finance in Ecuador, Argentina, Bolivia and The United States, and most recently with Bank of America (US). At A2F Consulting, he has contributed to restructuring and reengineering projects in Bosnia and Herzegovina, Albania, Uganda, Jamaica, Belize, The Maldives and Uzbekistan. He has conducted several financial and operational due diligence reviews of MSME finance institutions in Albania, Bolivia, Bosnia i. Hercegovina, Kenya, Maldives, Uganda and Uzbekistan among others. He recently carried out a due diligence assessment of 10 large credit cooperatives in Kenya on behalf of Kenya Financial Sector Deepening Trust, and is supporting financial institutions in Belize with training and product development. His institution-building experience involves greenfield projects as well bank downscaling in Latin America, Africa and Eastern Europe. He holds a B.S. in Finance. Mr. Proaño, a native of Ecuador and US citizen, speaks fluent Spanish and English.

ACT is the largest social and market research company operating in Georgia. ACT specializes in impact evaluation, evaluation surveys, socio-economic surveys, policy research, and market assessment. ACT has strong expertise in designing research methodologies and instruments, statistical analysis & sampling, final reports and recommendations, as well as planning research stages. Based in Georgia, the firm offers localized approaches that take in to account the potential local norms and responses.

6.5. Proposed Evaluation Timeline

The proposed evaluation timeline is summarized below:

	May				June				July				August				September				October			
Deliverables	W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4
Final work plan and evaluation design report																								
Evaluation materials																								
Field mission to conduct Case Studies																								
Draft Evaluation Report for stakeholder review																								
Stakeholder review period																								
Dissemination event in Georgia																								
Revised Evaluation Report, incorporating stakeholder comments																								
Final Review by MCC																								
Final Evaluation Report																								

Logistical arrangements will be made over the next 3 weeks prior to the field mission. Questionnaires will be shared with MCC shortly and finalized based on the feedback received. The team would appreciate the kind support of the local MCC office in order to find local interpreters and make transportation arrangements. SEAF has advised that it can help with organizing the first round of interviews with the designated companies for the case studies. Subsequent interviews will be organized by the A2F Team to avoid potential conflicts of interest.

ANNEXES

ANNEX 1: DEVELOPMENT & FINANCIAL RETURN CALCULATION FOR PERFORMANCE MAPPING

Development Return

Development return is defined in the GRDF operating agreements as a weighted average of growth (in %) in revenue, wages paid, taxes paid, and purchases of supplier goods. In all instances, the weight used to compute the average development return reported in the GRDF annual statements consisted of 25% for each category. We calculated aggregate development return based on each year's reported growth rate adjusted for total number of years that the investment is active.

For example, the calculation for the Portfolio Company A-Net is as follows:

Aggregate Actual Weighted Average DR=
((100%+1)*(138%+1)*(142%+1)*(50%+1))^1/4 years - 1 = 104%

Financial Return

Financial Return was calculated using cash multiples, i.e, a simple ration of aggregate cash inflows over cash outflows. The aggregate cash inflows include projected exit values in most cases for which the investment is still ongoing. The return is adjusted for the total number of years that the investment is active.

For example, the calculation for the Portfolio Company A-Net is as follows:

Annualized Financial Return = (2,772,857/2,200,000)^(1/5)-1 = 5.3%

Annex 2: Development Return Calculations For Portfolio Companies

Company	Indicator	2008	2009	2010	2011	2012	2013	2014	Years	Aggregate
A-NET	*Actual Revenue Growth*				100%	157%	53%	62%	4	**89%**
	Actual Wage Growth				100%	190%	15%	44%	4	**76%**
	Tax Growth				100%	155%	-2%	76%	4	**72%**
	Local Purchases Growth				100%	48%	501%	17%	4	**114%**
	Actual Weighted Average DR				100%	138%	142%	50%	4	**104%**
BAZI	*Actual Revenue Growth*	69%	-45%	-3%	-38%	-53%	-65%	-97%	7	**-56%**
	Actual Wage Growth	-100%	100%	-28%	386%	255%	-82%	-100%	7	**-100%**
	Tax Growth	-80%	92%	-15%	-23%	114%	-73%	-72%	7	**-37%**
	Local Purchases Growth	152%	-47%	-11%	-37%	-58%	-76%	-98%	7	**-61%**
	Actual Weighted Average DR	10%	25%	-14%	72%	65%	-74%	-92%	7	**-31%**
Delta Comm	*Actual Revenue Growth*		11%	49%	35%	3%	-9%		5	**16%**
	Actual Wage Growth		100%	38%	-8%	67%	-26%		5	**26%**
	Tax Growth		100%	35%	95%	25%	-15%		5	**41%**
	Local Purchases Growth		16%	74%	-18%	24%	37%		5	**23%**
	Actual Weighted Average DR		57%	49%	26%	30%	-3%		5	**30%**
Dogan	*Actual Revenue Growth*		-14%	-26%	32%	-23%	-33%		5	**-16%**
	Actual Wage Growth		100%	-10%	58%	-66%	-24%		5	**-6%**
	Tax Growth		-4%	-4%	22%	-47%	5%		5	**-9%**
	Local Purchases Growth		-10%	-24%	30%	-17%	-50%		5	**-18%**
	Actual Weighted Average DR		18%	-16%	36%	-38%	-25%		5	**-9%**
Doki	*Actual Revenue Growth*	33%	-31%	-35%	-32%	-76%			5	**-37%**
	Actual Wage Growth	59%	-48%	6%	-30%	-70%			5	**-29%**
	Tax Growth	-10%	-43%	9%	-15%	-69%			5	**-32%**
	Local Purchases Growth	107%	-47%	-29%	-24%	-60%			5	**-25%**
	Actual Weighted Average DR	47%	-42%	-12%	-25%	-69%			5	**-29%**
Ecopex	*Actual Revenue Growth*		100%	16%	-1%	-72%	-98%	46%	6	**-50%**
	Actual Wage Growth		100%	159%	-57%	-92%	-100%	0%	6	**-100%**
	Tax Growth		100%	70%	-41%	-61%	-30%	5%	6	**-9%**
	Local Purchases Growth		100%	32%	-20%	-63%	-98%	-98%	6	**-75%**
	Actual Weighted Average DR		100%	69%	-30%	-72%	-82%	-12%	6	**-31%**
Ioli / Foodmart	*Actual Revenue Growth*				70%	90%	-17%	287%	4	**80%**
	Actual Wage Growth				200%	61%	-48%	348%	4	**83%**
	Tax Growth				193%	121%	18%	29%	4	**77%**
	Local Purchases Growth				148%	102%	-31%	276%	4	**90%**

	Actual Weighted Average DR				153%	94%	-20%	235%	4	**91%**
Madai	*Actual Revenue Growth*		100%	110%	-55%	-45%	452%	9%	6	**36%**
	Actual Wage Growth		100%	126%	-13%	-57%	376%	-20%	6	**36%**
	Tax Growth		100%	134%	18%	17%	39%	-9%	6	**42%**
	Local Purchases Growth		100%	45%	-56%	-75%	109%	126%	6	**8%**
	Actual Weighted Average DR		100%	104%	-28%	-40%	244%	26%	6	**40%**
Piunik	*Actual Revenue Growth*		100%	23%	-63%	86%			4	**14%**
	Actual Wage Growth		100%	62%	53%	100%			4	**77%**
	Tax Growth		27%	29%	-41%	55%			4	**11%**
	Local Purchases Growth		100%	13%	-61%	31%			4	**4%**
	Actual Weighted Average DR		82%	32%	-28%	48%			4	**26%**
Prime Concrete	*Actual Revenue Growth*		100%	333%	-37%	85%	-42%	437%	6	**78%**
	Actual Wage Growth		100%	48%	2%	86%	-8%	184%	6	**56%**
	Tax Growth		100%	189%	-35%	147%	-49%	493%	6	**75%**
	Local Purchases Growth		100%	188%	-17%	76%	-61%	261%	6	**51%**
	Actual Weighted Average DR		100%	189%	-22%	98%	-40%	344%	6	**70%**
Rcheuli Hotels	*Actual Revenue Growth*	-25%	48%	38%	13%	4%	3%	-57%	7	**-3%**
	Actual Wage Growth	-41%	100%	-8%	14%	-16%	50%	-37%	7	**0%**
	Tax Growth	-41%	74%	17%	34%	-3%	-10%	-54%	7	**-6%**
	Local Purchases Growth	10%	47%	40%	9%	-61%	-25%	8%	7	**-3%**
	Actual Weighted Average DR	-24%	67%	22%	18%	-19%	4%	-35%	7	**0%**
Ritseula Hesi	*Actual Revenue Growth*				-3%	14%	68%		3	**23%**
	Actual Wage Growth				4%	-14%	19%		3	**2%**
	Tax Growth				9%	118%	49%		3	**52%**
	Local Purchases Growth				7%	-55%	-12%		3	**-25%**
	Actual Weighted Average DR				4%	16%	31%		3	**16%**
Teremok	*Actual Revenue Growth*				18%	-8%	-48%	-43%	4	**-25%**
	Actual Wage Growth				44%	-21%	-72%	-40%	4	**-34%**
	Tax Growth				102%	-30%	-54%	-70%	4	**-33%**
	Local Purchases Growth				207%	-7%	-53%	-12%	4	**4%**
	Actual Weighted Average DR				93%	-17%	-57%	-41%	4	**-20%**
Tetnuldi	*Actual Revenue Growth*		100%	100%	193%	-75%	-8%	-21%	6	**14%**
	Actual Wage Growth		100%	2%	-40%	-80%	-95%	36%	6	**-50%**
	Tax Growth		100%	23%	64%	-63%	-21%	-15%	6	**0%**
	Local Purchases Growth		32%	1016%	17%	-90%	-87%	-100%	6	**-100%**
	Actual Weighted Average DR		83%	285%	58%	-77%	-53%	-25%	6	**-1%**

**Source: SEAF-provided data on annual development return.*

ANNEX 3: FINANCIAL RETURN CALCULATIONS FOR PORTFOLIO COMPANIES

Portfolio Company	Initial Investment	Projected Cash Proceeds	Term (Years)	Annualized Return
A-Net	2,200,000	2,772,857	5	5.3%
Bazi	2,480,003	173,992	7	-30.4%
Delta Comm	3,000,000	4,221,862	5	7.7%
Dogan	700,000	312,210	6	-12.6%
Doki	3,000,000	845,955	8	-15.1%
Ecopex	2,000,000	1,331,283	7	-5.6%
Ioli Gastronomia	3,000,000	3,468,983	5	3.0%
Madai	3,000,000	3,141,655	7	0.7%
Piunik	2,000,000	3,094,815	4	10.6%
Prime Concrete	3,000,000	4,057,468	7	4.5%
Rcheull Hotels	1,800,000	1,920,808	7	0.9%
Ritseula Hesi	3,000,000	3,967,242	2	13.2%
Teremok	1,000,000	690,562	5	-7.1%
Tetnuldi	1,900,000	1,788,081	7	-0.9%

ANNEX 4: INFORMED CONSENT STATEMENT FOR INTERVIEWS

Interviewer name	

To be read to respondent: *Good morning/afternoon/evening. My name is …………… from A2F Consulting, a US-based company focused on financial sector development issues in emerging markets. We have been retained by the Millennium Challenge Corporation (MCC) to evaluate the Georgia Regional Development Fund (GRDF) investment in …… . We have identified you as a stakeholder that may possess relevant information from your experience in working with/at ……..*

Any information you provide that can identify you will be kept strictly confidential by the parties conducting this study. No direct quotes will be taken from these discussions. Our intent is to understand your experience while working with/at …. during the years of GRDF investment. The result of these discussions will be summarized in our study.

Your participation is entirely voluntary; you may skip any questions that you do not wish to answer. Do you have any questions about the research study? If you have questions or concerns after we are finished, please contact {Interviewer} at A2F Consulting LLC.

Do you agree to participate?

If so, let's begin…

Date of interview (ddmmyy)						
Time of interview (24hr clock)						

Corresponding Portfolio Company:

1. Teremok
2. FoodMart
3. Piunik
4. Prime Concrete

What language would you prefer to be interviewed in?

English	1	Russian	2	Georgian	3

If respondent cannot communicate in any of the above languages, CLOSE INTERVIEW.