



# Major Change in Scope and Implementation Arrangements

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Project Number: 38603  
Loan Number: 2271  
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## Tajikistan: Sustainable Cotton Subsector Project

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 30 June 2009)

Currency Unit	–	somoni (TJS)
TJS1.00	=	\$0.227247
\$1.00	=	TJS4.400500

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
EIRR	–	economic internal rate of return
ha	–	hectare
MOA	–	Ministry of Agriculture
PCB	–	participating commercial bank
PFI	–	participating financial institution

## GLOSSARY

raion	–	district
seed cotton	–	unginned cotton

## NOTE

In this report, "\$" refers to US dollars.

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## **I. INTRODUCTION**

1. Approved on 3 November 2006, the Sustainable Cotton Subsector Project became effective on 21 February 2007. The investment cost of the Project is \$15.29 million, including taxes and duties. The Asian Development Bank (ADB) is financing \$12 million equivalent, comprising a loan of \$5.5 million equivalent from the Asian Development Fund (ADF) and \$6.5 million from the ADF IX grant. The Project is presently scheduled to be completed on 30 September 2010.
2. Approval for a major change in scope to component 1 and a change in implementation arrangements for component 2 is sought.

## **II. BACKGROUND**

3. The Project's intended impact is the development of an economically sustainable cotton subsector in Tajikistan's two major cotton-growing regions—Khatlon and Sughd. The Project's intended outcome is that debt-restructured cotton farms in Yovon and Vose districts in Khatlon, and Mastchoh and Zafarabad districts in Sughd, will sustainably improve their financial viability based on market principles. The Project has four components: (i) farm debt resolution in the four designated districts, (ii) agriculture financing innovation, (iii) market development, and (iv) project management. The original design and monitoring framework is in Appendix 1.
4. The Executing Agency is the Executive Office of the President. The implementing agencies are the Ministry of Agriculture (MOA) for market development (component 3), and the Common Center for Project Management for farm debt resolution (component 1) and agriculture financing innovations (component 2). The common center houses two project implementation units: one for the Project and one for the World Bank's Cotton Recovery Project.

## **III. CURRENT STATUS OF PROJECT IMPLEMENTATION**

5. As of 30 June 2009, the overall Project is 23% complete; 68% of the project implementation period has elapsed. The slow physical progress is primarily due to the delayed start-up of component 1 and subsequently component 2. Component 1 could not commence until the Government of Tajikistan, ADB, and the World Bank agreed on a debt resolution mechanism. The misreporting by the National Bank of Tajikistan of its foreign debts, especially in the cotton subsector, resulted in the International Monetary Fund conducting a Staff-Monitored Program in 2008. On 28 February 2008, ADB Management advised the Government that it would leave the matter of supporting the Government's cotton debt resolution to the International Monetary Fund and World Bank. Component 2 was delayed because the proposed \$3 million credit line was to be onlent by participating commercial banks to farms that had successfully resolved their debts under component 1.
6. The major accomplishments of the Project are in components 3 and 4. A closed joint stock company, Tajikistan–Wakefield Inspection Services, the first public–private partnership arrangement in the subsector, successfully implemented the classification and certification of locally grown cotton fiber using internationally recognized cotton-grading standards. Three laboratories have been equipped with modern cotton-classing equipment, and accredited by the relevant authorities. More than 50% of the 2008 cotton crop was classed to international standards. The recent arrival of high-volume instrument-testing equipment will allow 100% of the crop to be classed to international standards, and improve the marketability of Tajik cotton internationally.

7. Under component 4, the project implementation unit is now in full operation, but regional offices have not been established pending implementation of component 1. All project staff have been recruited, an effective and transparent accounting system is in place, and a framework for the project performance monitoring system has been developed.

8. Compliance with the loan covenants is generally good, although it is only partial for covenants relating to reforms on land tenure rights and prevention of local government interference in farming activities. Amendments to the Land Code, movement to a unified system of land administration, and new financing arrangements through commercial banks rather than “cotton investors,” are signs that the Government is moving in the right direction. However, substantial work remains and regular dialogue between the Government and development partners is ongoing to ensure continuing Government action and progress with these reforms. In June 2009, the Government issued a decree requiring the (i) writing off of all cotton farmers' debts from all sources of financing accumulated before 1 January 2008; (ii) preparation of a procedure for cotton debt resolution and an action plan for agricultural reform; and (iii) preparation of a strategy for social development of rural areas for 2010–2020. The original scope of component 1 will largely be achieved outside the Project.

9. As was misreported to the International Monetary Fund and revealed during its Staff-Monitored Program and the special audit that followed, the National Bank of Tajikistan issued certain guarantees and pledged its assets to international financial institutions to secure external borrowing by Tajik banks primarily to finance cotton farms. Thereby, the Government contravened ADB's negative pledge covenant incorporated in ADB's loan agreements. On 23 June 2009, the Board approved the Government's request that ADB waive the breach of the negative pledge clause.<sup>1</sup>

10. As of 30 June 2009, 18% of contracts for the loan had been awarded and 19% of disbursements; 6% of the contracts and disbursements for the grant had been awarded. The poor performance under the loan is due to the delay in implementing the credit line under component 2, while low contract awards and disbursements for the grant are linked to the major change in project scope.

#### **IV. PROPOSED CHANGE OF SCOPE AND IMPLEMENTATION ARRANGEMENTS**

##### **A. Component 1: Major Change in Scope**

11. Component 1 will completely change its focus from resolving the debt of cotton farmers in four pilot districts to addressing poor accessibility to quality cottonseeds. MOA-owned plant quarantine facilities will be upgraded and two seed-cleaning facilities will be leased to farmer organizations. The upgrading of the plant quarantine facilities will include (i) refurbishing and equipping a central laboratory in Dushanbe, (ii) constructing and equipping a regional laboratory in Khatlon, (iii) constructing five border posts, (iv) equipping six border inspection posts<sup>2</sup> and three airport posts, and (v) equipping a regional laboratory in Sughd. The Swedish International Development Agency has agreed to provide technical assistance to upgrade the plant

<sup>1</sup> ADB. 2009. *Tajikistan: Request for Waiver of Negative Pledge Clause*. Manila (R76-09).

<sup>2</sup> The sites for the plant quarantine border posts were selected on the basis of (i) high traffic flow of agriculture commodities, and (ii) location at the planned Central Asia Regional Economic Cooperation (CAREC)-initiated transport networks between Afghanistan, the Kyrgyz Republic, the People's Republic of China, Tajikistan, and Uzbekistan.

quarantine skills and expertise of MOA staff under its current Seed Development Program (completion scheduled for December 2010).

12. MOA will lease its two seed-cleaning facilities to two farmer organizations to operate the facilities using 10-year rent-to-purchase agreements. The farmer organizations will be selected on the basis of technical and financial qualifications, their seed agribusiness links, and proposals for sustainable operations. The selected farmer organizations will be provided with consulting services for technical support for linkage arrangements with seed-breeding companies and/or institutes and seed farmers, as well as legal and management training.

13. The Government agreed with the major change in scope for component 1 during the midterm review mission. MOA will be the Implementing Agency for the redesigned component.

#### **B. Component 2: Change in Target Beneficiaries and Implementation**

14. The original target beneficiaries for the subloans were farms that had resolved their debt as a result of component 1 activities. Given the proposed changes for the component 1 scope and the recent government decree writing off debts of all cotton farmers, the target beneficiaries have changed. Because the Project will no longer be directly involved with debt resolution, specifically targeting restructured farms will be difficult. In addition, farms are responding, albeit slowly, to Government reforms by diversifying their farming. Thus the target beneficiaries for component 2 will be changed to all farm households in the four pilot districts.

15. In addition, microfinance institutions will be included with the participating commercial banks as eligible financial institutions for onlending to farm households. The participating commercial banks have cumbersome and expensive lending procedures and microfinance institutions are already operating in the pilot areas, providing credit for agricultural purposes.

#### **C. Changes in Project Implementation and Monitoring Arrangements**

16. The major change in scope will require an extension beyond the original closing date of 30 September 2010, which the ADB Central and West Asia Department will process upon approval of this paper.

17. The change in scope and implementation arrangements will result in a change in the outcome statement, outputs, and monitoring indicators of the design and monitoring framework (Appendix 2).

#### **D. Revised Cost Estimates and Financing Plan**

18. The original cost estimates are presented in Appendix 3 and the revised estimates in Appendix 4; the original financing plan is in Appendix 5 and the revised plan in Appendix 6. The revised cost estimates and financing plan include previously approved minor changes in scope. The reallocation of loan funds is an increase of \$140,000 to the credit line (component 2) from funds originally allocated for Government equity in the Tajikistan–Wakefield joint venture (component 3), which is no longer needed. The ADF grant funds are reallocated as follows: (i) The original ADB grant financing for component 1 of \$4.56 million is reduced for the redesigned component 1 to \$4.18 million for construction, equipment, and related costs. (ii) Funding for component 2 is increased to \$142,020 to reflect the consultant's actual contract cost. (iii) Funding for component 3 is reduced as a result of the reduction in consultant's input. (iv) Component 4 financing is increased to reflect the construction supervision and related costs

for the revised component 1. A final reallocation of funds will be processed upon approval of the paper.

19. New financial and economic analyses were conducted. Under the proposed changes in scope, the return to farmers will increase from TJS938 (\$276) to TJS1,084 (\$319) per ton. For farmers using improved seed from the seed delinting, cleaning, and treatment plant, farm income is estimated to increase by TJS322 (\$95) per hectare (ha). The financial internal rate of return is 113% and the economic internal rate of return (EIRR) is 66%. The EIRR is sensitive to a 30% decrease of the international price of cotton (EIRR = 35%) and 20% increase in capital costs (EIRR = 59%). The combination of a 30% reduction in prices, 20% increase in capital costs, and 3-year delay in project benefits results in an EIRR of 20%.

20. Under the original design, net revenue per hectare increased from \$72 per ha to \$219 per ha. The EIRR base case was 28% and remained above 20% with a combined 10% reduction in both economic cotton prices and yields.

## **V. ASSESSMENT**

21. The proposed substantial change in the component 1 scope and the change in target beneficiaries and implementation arrangements for subloans in component 2 are supported. Since independence in 1991, cotton and other crop seed development programs that maintain seed quality and purity have collapsed. In a small-scale farm survey conducted during the midterm review mission, 97% of farmer respondents claimed that access to quality seeds is a major limiting factor to their production, with more than 71% of them planting seed from the previous year's crop. The import of quality seeds from neighboring countries is impeded by the absence of appropriately equipped plant quarantine facilities and staff at the borders who can detect and prevent infiltration of crop-based pests and other diseases. Tajikistan has no functioning seed-cleaning plants capable of processing a range of crop seeds. The effect of the unavailability of quality seeds is costing farmers at least 30% in the yield of fiber and technical seed, or a loss of \$40 million per annum on a national basis.

22. These proposed outputs are expected to improve access to imported quality seeds and generate breeder seeds to at least 60% of the cotton areas in Khatlon and Sughd; improve the yield of farmers by 20%–25%; and increase their net income by \$95 per ha. Compared with the previous design, the proposed change in scope will result in a much higher financial internal rate of return of 113% and economic internal rate of return of 66%. The improved economic status of farmers will help reduce poverty in these cotton-growing provinces.

## **VI. THE PRESIDENT'S RECOMMENDATION**

23. The President recommends that the Board approve the proposed major change in scope and implementation arrangements as detailed in paras. 11–15.

24. Following the Board's approval of the proposed major change in scope and implementation arrangements stated in paragraph 23, the Financing Agreement for the Project and other relevant documents will be amended as necessary to give effect to the changes.

## ORIGINAL DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanism	Assumptions/ Risks
<p><b>Impact</b> An economically sustainable cotton subsector in Tajikistan's two major cotton-producing regions, Khatlon and Sughd, has developed.</p>	<p>The percentage of profitable<sup>a</sup> farms/total number of indebted farms in Khatlon and Sughd will have increased from 10% in 2006 to 50% by 2015.</p> <p>At least one third of the cotton farms in Khatlon and Sughd have diversified their income sources by 2015. Poverty incidence (using purchasing power parity of \$2.15/day at 2003 prices) in Sughd and Khatlon cotton-growing areas will have decreased from 32% to 26% for Khatlon and from 30% to 24% for Sughd by 2015.</p>	<p>The monitoring database of the Independent Commission, an interministerial government body established by the President of Tajikistan in March 2005 to address and resolve cotton farm debt</p> <p>Updates of the Poverty Reduction Strategy Program</p>	<p><b>Assumptions</b> The Independent Commission implements the debt workout and farm resolution protocols on a cotton subsector-wide basis.</p> <p>Government members of the Independent Commission implement the medium-term policy and institutional reforms as outlined in the government-issued Cotton Farm Debt Resolution Strategy of March 2005 and Independent Commission action plan of September 2005.</p>
<p><b>Outcome</b> Debt-restructured cotton farms in Yovon and Vose raions (districts) of Khatlon, and Mastchoh and Zafarabad raions in Sughd, have sustainably improved their financial viability based on market principles.</p>	<p>At least 150 farms with restructured debts show capacity to repay farm debt from farm and nonfarm income by end of year 3 of project implementation, and produce at least 2.4 tons of cotton per hectare (ha) in year 3.</p> <p>The share of the farm gate price of seed cotton to the cost, insurance, freight (CIF) price for raw cotton will have increased from 52% in 2005 to 65% by year 3 of project implementation.</p>	<p>Reports of the Independent Commission and National Bank of Tajikistan (NBT), progress reports of consultants, project performance reports (PPRs), and project completion report (PCR)</p> <p>Sales reports of the Tajikistan Universal Goods Exchange</p>	<p><b>Assumption</b> International cotton prices do not decline drastically.</p> <p><b>Risk</b> <i>Hukumats</i> (district governments) continue to implement the one-gin and one-investor policy.</p>
<p><b>Outputs</b> 1. Strategies, policy measures, and mechanisms to effectively address and resolve indebtedness of cotton farms in four raions are in</p>	<p>At least 200 cotton farms are ready to or have reached mutually agreed debt restructured workouts with the private parties concerned by</p>	<p>Progress reports, PPRs, PCR</p> <p>Minutes of Independent Commission meetings</p>	<p><b>Assumptions</b> The Government and the Independent Commission provide the necessary political support to the raion and supervisory teams so that they can efficiently and</p>

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanism	Assumptions/ Risks
place.	year 3 of project implementation.	Independent Commission reports	effectively conduct the farm debt work. Investors and farmers agree to this process.
<p>2. Participating commercial banks (PCBs) provide suitable financing products and services to the debt restructured cotton farms.</p> <p>3. Grading and marketing regulations, a joint venture established by the Government with an</p>	<p>200 indebted farms with farm debt resolution agreements are implementing their business plans by year 3 of project implementation. Farm debt resolution manual will be adopted subsector-wide by end of year 2 of project implementation.</p> <p>Free movement of seed cotton between districts; freedom by farmers to decide from a range of production options; and bankruptcy declarations in the context of debt resolution options are implemented in the four delegated raions by year 2 of project mass implementation.</p> <p>At least 150 success stories of restructured indebted farms disseminated through media by year 3 of project implementation.</p> <p>At least two alternative financing schemes for cotton farmers by year 2 of project implementation.</p> <p>Financing to at least 100 restructured farms in the four raions by year 3 of project implementation.</p> <p>Universal cotton grading standards installed by end of year 1 of project implementation.</p>	<p>Progress reports, PPRs, PCR</p> <p>Independent Commission reports</p> <p>Independent Commission reports</p> <p>Progress reports, PPRs</p> <p>Gin receipt and out-turn documents</p> <p>Independent Commission reports</p> <p>Media releases of success stories</p> <p>Reports from PCBs, progress reports</p> <p>Reports of PCBs; progress reports</p> <p>International cotton association register</p> <p>Progress reports,</p>	<p><b>Risks</b> Investors will not participate faithfully in the debt resolution process.</p> <p>Farm reorganization (or land reform) continues without synchronous farm debt restructuring.</p> <p><i>Hukumats</i> interfere in the farm debt resolution process.</p> <p><b>Assumptions</b> Banks are capable of and interested in providing alternative financing products and services to restructured cotton farms.</p> <p>Restructured farms may not understand the options for alternative finance.</p> <p><b>Risk</b> Commercial banks hesitate to participate in seasonal production-input financing based on their own risk assessments and internal capacity.</p> <p><b>Risks</b> Tajikstandard's new role as regulator is implemented imperfectly.</p>

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanism	Assumptions/ Risks
<p>internationally recognized cotton classification organization, and bonded warehousing of cotton following international standards are in effect.</p> <p>4. An effective Common Center for Project Management (CCfPM) is established.</p>		Independent Commission reports	
	<p>A decree or resolution on the streamlined regulatory function of the Tajikstandard, and the Tajikistan Universal Goods Exchange cotton pricing formula revised by end of year 1 of project implementation.</p>	<p>Independent Commission reports</p> <p>Project reports</p>	<p>Tajikistan Universal Goods Exchange delays changes in the price formula.</p>
	<p>Joint venture with third party cotton grading registered locally by end of year 1 of project implementation.</p>	<p>Project reports</p> <p>Deeds of Register</p>	
	<p>Agreements of two bonded warehouses with private sector entities by year 2 of project implementation.</p>	<p>Project reports</p>	
	<p>80% of farmers and gin owners in four raions, and 75% technical staff in key government agencies are knowledgeable of universal cotton grading standards by year 2 of project implementation.</p>	<p>Project reports; PPRs</p>	
	<p>Timely implementation of work schedule and delivery of inputs and outputs for the Project</p> <p>Full implementation of the gender action plan with demonstrable positive results on the ground.</p> <p>Project performance monitoring system in place with baseline data by month 9 of project implementation; monitoring and evaluation reports submitted to the Executive Office of the President and the Asian Development Bank (ADB) on a quarterly basis starting in month 6 of year 1 of project implementation.</p>	<p>Project reports; PPRs; PCR</p>	

Activities with Milestones	Inputs
<p><b>1.0 Output: Strategies, policy measures, and mechanisms to address and resolve indebtedness of pilot cotton farms in the four raions are in place.</b></p> <p>1.1 Establish farm debt resolution negotiating, policy support, and public outreach teams as well as four raion-based farm debt resolution teams by month 3.</p> <p>1.2 Develop the CCfPM's working protocols and procedures by month 3.</p> <p>1.3 Conduct farm-by-farm debt workouts in the four raions and attempt to complete the debt workout in all qualifying indebted farms in the designated raions that agree to participate in the process (completed by month 28).</p> <p>1.4 Develop model financial and farm business plans for pilot-testing by month 3 and start the implementation of viable financial and farm models by month 13.</p> <p>1.5 Complete model debt resolution and related agreements, and a farm debt resolution manual that can be applied subsector-wide by month 20.</p> <p>1.6 Prepare policy studies and recommendations consistent with the road map for action of the Independent Commission, starting by month 4.</p> <p>1.7 Disseminate success stories of restructured farms (at least 30 stories by month 14).</p> <p><b>2.0 Output: PCBs provide suitable financing products and services to the restructured cotton farms.</b></p> <p>2.1 Develop tender for prequalified banks showing participation and tender requirements (completed by month 7).</p> <p>2.2 Invite and evaluate tenders (completed by month 10).</p> <p>2.3 Arrange signing of subloan agreements for PCBs (completed by month 13).</p> <p>2.4 Ensure funds released for onlending to farms with restructured debt (start by month 14).</p> <p><b>3.0 Output: Grading and marketing regulations, joint venture established by the Government with an internationally recognized cotton classification organization, and bonded warehousing of cotton follow international standards are in effect.</b></p> <p>3.1 Register the joint venture by month 2.</p> <p>3.2 Complete tender process for 3 laboratories under the joint venture, and laboratory equipment by month 4.</p> <p>3.3 Finalize tender process for high-volume instruments/rapid tester machinery by month 5.</p> <p>3.4 Conduct informational seminars for government, industry, farmers, gin owners, etc. by month 6.</p> <p>3.5 Undertake legal review and changes for cotton grading institutional requirements by month 5.</p> <p>3.6 Undertake tender process for civil works on the rehabilitation of the two warehouses and ancillary equipment (start by month 8).</p> <p>3.7 Rehabilitate two warehouses, with external oversight (start by month 13).</p> <p>3.8 Operation of bonded warehouses (start by month 16).</p> <p><b>4.0 An efficient CCfPM is established.</b></p> <p>4.1 Establish project implementation unit counterpart of ADB with the World Bank's project implementation unit under the CCfPM by month 2.</p> <p>4.2 Procure project equipment and vehicles (completed by month 5).</p> <p>4.3 Finalize arrangements for consultants and field as needed by month 5.</p> <p>4.4 Establish project monitoring and evaluation system (completed by month 9).</p> <p>4.5 Implement gender action plan by month 10.</p>	<p>ADB loan: \$5.50 million  ADB grant: \$6.50 million  Government: \$1.76 million  Private sector: \$1.53 million</p>

<sup>a</sup> Yield performance and repayment capacity will be the basic indicators for demonstrating the financial viability of the farm. During the debt assessment process and the development of business plans for debt-restructured reforms, relevant farm financial and economic indicators will be generated to provide a more comprehensive picture of financial viability. These could include the farm's (i) repayment capacity [e.g., term debt and capital lease coverage ratio, capital replacement and term debt repayment margin]; (ii) solvency [debt-asset ratio, debt-equity ratio]; (iii) liquidity [current ratio and acid test ratio]; (iv) financial efficiency [net farm income from operations ratio and asset turnover ratio]; and (v) profitability [operating profit margin ratio and rate of return on farm equity].

## REVISED DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanism	Assumptions/Risks
<p><b>Impact</b></p> <p>An economically sustainable cotton subsector in Tajikistan's two major cotton-producing regions—Khatlon and Sughd—has developed.</p>	<p>Percentage of profitable cotton farms in Khatlon and Sughd increased from 10% in 2006 to 50% by 2015</p> <p>Poverty incidence (using purchasing power parity \$2.15/day at 2003 prices) in Sughd and Khatlon cotton-growing areas decreased from 32% (Khatlon) and 30% (Sughd) to 26% (Khatlon) and 24% (Sughd) by 2015</p>	<p>The monitoring database of the Independent Commission, an interministerial government body established by the President on March 2005 to address and resolve the cotton farm debt</p> <p>Updates of the Poverty Reduction Strategy Program</p>	
<p><b>Outcome</b></p> <p>Improved access to quality seeds, finance, and market infrastructure by cotton farmers</p>	<p>The share of the farm-gate price of seed cotton to the cost, insurance, freight price for raw cotton increased from 52% in 2005 to 65% by year 5 of project implementation</p> <p>1,000 tons of quality seed for sale in 2012</p> <p>Amount of cotton fiber classified and issued with certificates that conform to universal cotton grading standards increased from 1,000 tons in October 2008 to 30,000 tons in 2010</p> <p>At least 1,000 cotton producers access finance by end-2010</p>	<p>Reports of project performance monitoring system to the Executing Agency and the Independent Commission, project performance reports (PPRs), and project completion report (PCR)</p> <p>Sales reports of Tajikistan–Wakefield Inspection Services</p>	<p><b>Assumption</b></p> <p>International cotton prices do not decline drastically.</p> <p><b>Risk</b></p> <p><i>Hukumats</i> (district governments) continue to implement the one-gin and one-investor policy.</p>
<p><b>Outputs</b></p> <p><b>Component 1: Seed Quality Improvement</b></p> <p>1.1 Farmer-owned acid-delinting and seed-cleaning facilities established in Sughd and Khatlon through public-private partnership (PPP) scheme</p>	<p>Two facilities operating by January 2011</p> <p>Contract with agribusiness seed company signed by June 2011</p> <p>Contracts signed for minimum of 300 hectares of seed cotton under production by January 2012</p>	<p>Quarterly progress reports</p> <p>Sales reports of PPP-established company</p> <p>Reports of seed facilities</p>	<p><b>Assumptions</b></p> <p>The Government and the Independent Commission provide the necessary political support for the implementation of Decree 111.</p> <p>Farmers adapt effectively to their changed role as shareholders of company</p> <p><b>Risks</b></p> <p><i>Hukumats</i> interfere in the PPP operations</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanism	Assumptions/Risks
<p>1.2 Plant quarantine laboratories at central, regional, and strategic cross-border areas constructed and operating.</p>	<p>Central plant quarantine laboratory operating by Q4 2011</p> <p>Regional laboratories in Khatlon and Sughd operating by Q4 2011</p> <p>Border inspection posts in five sites operating by Q4 2011</p> <p>Three airport inspection posts equipped and operating by Q4 2011</p> <p>Plant quarantine certificates issued in laboratories by Q4 2011</p>	<p>Project reports</p> <p>Project reports</p> <p>Project reports</p> <p>Project reports</p> <p>Project reports</p>	<p><b>Assumption</b> Capacity building for plant quarantine skills is conducted in a timely manner</p> <p><b>Risk</b> Costs of building materials and equipment do not increase dramatically during construction period</p>
<p><b>Component 2: Agriculture Financing Innovation</b></p> <p>2.0 Financial institutions provide suitable financing products and services to cotton farms in the four raions.</p>	<p>At least three participating financial institutions (PFIs) provide finance to cotton farms in four raions by end-2010</p>	<p>PFI reports</p>	<p><b>Assumption</b> PFIs are capable and interested in providing alternative financing products and services to restructured cotton farms.</p> <p><b>Risk</b> Commercial banks hesitate to participate in seasonal production-input financing based on their own risk assessments and internal capacity.</p>
<p><b>Component 3: Market Development</b></p> <p>3.0 Grading and marketing regulations joint venture established by the Government with an internationally recognized cotton classification organization, and bonded warehousing of cotton following international standards are in effect.</p>	<p>Universal cotton-grading standards installed by end of year 1 of project implementation.</p> <p>A decree or resolution on the streamlined regulatory function of the Tajikstandard, and the Tajikistan Universal Goods Exchange cotton-pricing formula revised by end of year 1 of project implementation.</p> <p>Joint venture with third party cotton grading company registered locally by end of year 1 of project implementation.</p> <p>Agreements of two bonded warehouses with private sector entities by Q2 2010 developed.</p> <p>80% of farmers and gin</p>	<p>International cotton association register</p> <p>Progress reports, Independent Commission reports</p> <p>Independent Commission reports</p> <p>Project reports</p> <p>Project reports,</p>	<p><b>Risks:</b> Tajikstandard's new role as regulator is imperfectly implemented.</p> <p>Tajikistan Universal Goods Exchange delays changes in the price formula.</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanism	Assumptions/Risks
<p><b>Component 4: Project Management</b></p> <p>4.0 Efficient project implementation unit (PIU) is operating and effective.</p>	<p>owners in four raions, and 75% technical staff in key government agencies are knowledgeable of universal cotton-grading standards by 2010</p> <p>Timely implementation of work schedule and delivery of inputs and outputs for the Project</p> <p>Full implementation of the gender action plan with demonstrable positive results</p> <p>Project performance monitoring system in place with baseline data by month 9 of project implementation and monitoring and evaluation reports submitted to the Executive Office of the President, and the Asian Development Bank (ADB) on quarterly basis starting during month 3 of year 2 of project implementation.</p>	<p>Deeds of Register</p> <p>Project reports</p> <p>Project reports; PPRs</p> <p>Project reports; PPRs; PCR</p>	
<p><b>Activities with Milestones</b></p> <p><b>1.1 Farmer-owned acid-delinting and seed-cleaning facilities established in Sughd and Khatlon through public-private partnership scheme</b></p> <p>1.1.1 Call for tenders for farmer organizations.</p> <p>1.1.2 Evaluate tenders.</p> <p>1.1.3 Register farmer-owned companies.</p> <p>1.1.4 Design seed-cleaning facilities.</p> <p>1.1.5 Call for tenders for seed-cleaning facilities.</p> <p>1.1.6 Evaluate tenders and complete contracts.</p> <p>1.1.7 Install and operate facilities.</p> <p><b>1.2 Plant quarantine laboratories at central, regional, and strategic cross-border areas constructed and are operating</b></p> <p>1.2.1 Design laboratories.</p> <p>1.2.2 Call for separate tenders for civil works and laboratory equipment.</p> <p>1.2.3 Evaluate tenders and complete contract.</p> <p>1.2.4 Call for tenders for laboratory equipment.</p> <p>1.2.5 Evaluate tenders and complete contract.</p> <p>1.2.6 Install and operate facilities.</p> <p><b>2.0 Financial institutions provide suitable financing products and services to cotton farms in the four raions.</b></p> <p>2.1 Develop tender for prequalified PFIs showing participation and tender requirements.</p> <p>2.2 Invite and evaluate tenders.</p> <p>2.3 Arrange signing of subloan agreements for PFIs.</p> <p>2.4 Ensure funds released for onlending to beneficiaries.</p>			<p><b>Inputs</b></p> <p>ADB loan: \$5.50 million  ADB grant: \$6.50 million  Government: \$1.76 million  Private sector: \$1.53 million</p>

Activities with Milestones	Inputs
<p><b>3.0 Grading and marketing regulations joint venture, established by the Government with an internationally recognized cotton classification organization and bonded warehousing of cotton follow international standards are in effect.</b></p> <p>3.1 Register the joint venture by month 2 of proposed implementation plan (PIP).</p> <p>3.2 Complete tender process for three laboratories under the joint venture and for laboratory equipment by month 4 of PIP.</p> <p>3.3 Finalize tender process for high-volume instrument testing equipment by month 5 of PIP.</p> <p>3.4 Conduct information seminars for government, industry, farmers, gin owners by month 6 of PIP.</p> <p>3.5 Undertake legal review and changes for cotton-grading institutional requirements by month 5 of PIP.</p> <p>3.6 Undertake tender process for civil works on the rehabilitation of the two warehouses and ancillary equipment (start by month 26 of PIP).</p> <p>3.7 Rehabilitate two warehouses, with external oversight (start by month 28 of PIP).</p> <p>3.8 Develop business prospectus and business plan for incorporation into tender documents with international warehouse firms (start by month 34 of PIP).</p> <p>3.9 Operate bonded warehouses (start by month 40 of PIP).</p> <p><b>4.0 Efficient project implementation unit (PIU) operating and effective</b></p> <p>4.1 Establish PIU counterpart of ADB by month 2 of PIP.</p> <p>4.2 Procure project equipment and vehicles (completed by month 5 of PIP).</p> <p>4.3 Finalize arrangements for consultants and field as needed by month 5 of PIP.</p> <p>4.4 Establish project monitoring and evaluation system (completed by month 9 of PIP).</p> <p>4.5 Implement gender development action plan by month 10 of PIP.</p>	

**ORIGINAL COST ESTIMATES BY COST CATEGORY AND FINANCIER  
(\$)**

Item	The Government		ADB Loan		ADB Grant		Private Sector		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>I. Investment Costs</b>										
A. Civil Works	150,000	24.6	460,405	75.4	0	0.0	0	0.0	610,405	4.0
B. Vehicles, Equipment and Materials										
1. Vehicles	7,632	7.1	0	0.0	99,212	92.9	0	0.0	106,844	0.7
2. Equipment and Materials	325,384	12.9	1,597,154	63.2	603,432	23.9	0	0.0	2,525,971	16.5
<b>Subtotal Vehicles, Equipment and Materials</b>	<b>333,016</b>	<b>12.6</b>	<b>1,597,154</b>	<b>60.7</b>	<b>702,644</b>	<b>26.7</b>	<b>0</b>	<b>0.0</b>	<b>2,632,815</b>	<b>17.2</b>
C. Consultants										
International Consultants	0	0.0	0	0.0	1,974,584	100.0	0	0.0	1,974,584	12.9
National Consultants	224,509	12.9	0	0.0	1,495,454	86.8	0	0.0	1,719,964	11.0
<b>Subtotal Consultants</b>	<b>224,509</b>	<b>6.1</b>	<b>0</b>	<b>0.0</b>	<b>3,470,038</b>	<b>93.9</b>	<b>0</b>	<b>0.0</b>	<b>3,694,548</b>	<b>24.0</b>
D. Training and Study Tours										
International	0	0.0	0	0.0	108,033	100.0	0	0.0	108,033	0.7
National	0	0.0	0	0.0	806,179	100.0	0	0.0	806,179	5.3
<b>Subtotal Training and Study Tours</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>914,212</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>	<b>914,212</b>	<b>6.0</b>
E. Credit Line	0	0.0	3,000,000	100.0	0	0.0	0	0.0	3,000,000	19.6
F. Joint Venture Equity	0	0.0	320,000	44.4	0	0.0	400,000	55.6	720,000	4.7
G. Reorganization Cost	282,516	100.0	0	0.0	0	0.0	0	0.0	282,516	1.8
H. Warehouse Sites - Land	100,000	100.0	0	0.0	0	0.0	0	0.0	100,000	0.7
<b>Total Investment Costs</b>	<b>1,090,041</b>	<b>9.1</b>	<b>5,377,559</b>	<b>45.1</b>	<b>5,086,894</b>	<b>42.4</b>	<b>400,000</b>	<b>3.4</b>	<b>11,954,495</b>	<b>77.9</b>
<b>II. Recurrent Costs</b>										
A. Salaries	423,576	18.3	0	0.0	884,419	39.7	975,452	42.1	2,283,447	15.2
B. Office Operations and Maintenance	241,702	26.0	0	0.0	520,046	55.8	169,644	18.2	931,392	6.1
<b>Total Recurrent Costs</b>	<b>665,278</b>	<b>20.5</b>	<b>0</b>	<b>0.0</b>	<b>1,404,465</b>	<b>44.3</b>	<b>1,145,096</b>	<b>35.2</b>	<b>3,214,839</b>	<b>21.2</b>
Interest During Implementation	1,755,319	11.6	5,377,559	35.4	6,491,359	42.8	1,545,096	10.2	15,169,333	99.2
Interest During Implementation	0	0.0	122,440	100.0	0	0.0	0	0.0	122,440	0.8
<b>Total Project Costs</b>	<b>1,755,319<sup>a</sup></b>	<b>11.5</b>	<b>5,500,000</b>	<b>36.0</b>	<b>6,491,359</b>	<b>42.5</b>	<b>1,545,096</b>	<b>10.1</b>	<b>15,291,773</b>	<b>100.0</b>

a Includes duties and taxes amounting to US\$602,692.

ADB = Asian Development Bank

Source: ADB estimates.

**REVISED COST ESTIMATES BY COST CATEGORY AND FINANCIER**  
(\$)

Item	The Government		ADB Loan		ADB Grant		Private Sector		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>I. Investment Costs</b>										
<b>A. Civil Works</b>			543,542		530,000		-		1,073,542	
<b>B. Vehicles, Equipment and Materials</b>										
1. Vehicles	13,767		-		84,000		-		97,767	
2. Equipment and Materials	161,052		1,694,018		3,371,929		-		5,226,999	
<b>Subtotal Vehicles, Equipment and Materials</b>	174,819		1,694,018		3,455,929		-		5,324,766	
<b>C. Consultants</b>										
International Consultants	-		-		541,950		-		541,950	
National Consultants	-		-		61,457		-		61,457	
<b>Subtotal Consultants</b>	-		-		603,407		-		603,407	
<b>D. Training and Awareness Raising</b>										
Training of government officials	-		-		32,613		-		32,613	
Stakeholders awareness raising	-		-		400,000		-		400,000	
<b>Subtotal Training and Awareness Raising</b>	-		-		432,613		-		432,613	
E. Credit Line	-		3,140,000		-		-		3,140,000	
F. Equity, factory sites, working capital	-		-		-		1,533,220		1,533,220	
G. Reorganization cost, Tajikstandard	65,000		-		-		-		65,000	
H. Warehouse land, Plant Quarantine lab & border sites, counterpart time	750,000		-		-		-		750,000	
<b>Total Investment Costs</b>	<b>989,819</b>		<b>5,377,560</b>		<b>5,054,562</b>		<b>1,533,220</b>		<b>12,955,161</b>	
<b>II. Recurrent Costs</b>										
A. Salaries	81,959		-		733,438		-		815,397	
B. Office Operations and Maintenance	26,775		-		612,000		-		638,775	
C. M&E			-		100,000		-		100,000	
<b>Total Recurrent Costs</b>	<b>108,734</b>		-		<b>1,445,438</b>		-		<b>1,554,172</b>	
<b>TOTAL PROJECT COSTS</b>	<b>1,098,553</b>		<b>5,377,560</b>				<b>1,533,220</b>		<b>8,009,333</b>	
Interest During Implementation (IDI)			-		122,440		-		122,440	
<b>Total Disbursement</b>	<b>1,098,553</b>		<b>5,500,000</b>		<b>6,500,000</b>		<b>1,533,220</b>		<b>14,631,773</b>	
Taxes and Duties	660,000		-		-		-		660,000	
<b>TOTAL PROJECT COSTS including IDI and Taxes</b>	<b>1,758,553</b>	<b>11.5</b>	<b>5,500,000</b>	<b>36.0</b>	<b>6,500,000</b>	<b>42.5</b>	<b>1,533,220</b>	<b>10.0</b>	<b>15,291,773</b>	<b>100.0</b>

IDI = interest during implementation, M&E = monitoring and evaluation.

Source: Asian Development Bank.

**ORIGINAL FINANCING PLAN BY PROJECT COMPONENT AND FINANCIER  
(\$)**

	The Government		ADB Loan		ADB Grant		Private Sector		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>A. Farm Debt Resolution</b>										
1. Core Debt Advisors, Negotiating Team	-	-	-	-	1,998,749	100.0	-	-	1,998,749	13.1
2. Mobile Teams	627,034	20.8	-	-	1,240,600	41.2	1,145,096	38.0	3,012,730	19.7
3. Outreach and Information	-	-	-	-	537,740	100.0	-	-	537,740	3.5
4. Office Operations, Vehicles and Equipment	187,453	19.3	-	-	782,260	80.7	-	-	969,713	6.3
<b>Subtotal Farm Debt Resolution</b>	<b>814,487</b>	<b>12.5</b>	<b>-</b>	<b>-</b>	<b>4,559,350</b>	<b>69.9</b>	<b>1,145,096</b>	<b>17.6</b>	<b>6,518,933</b>	<b>42.6</b>
<b>B. Cotton Market Development</b>										
<b>1. Adoption of Universal Cotton Grading Standards</b>										
Joint Venture Setup and Establishment	12,560	2.7	140,000	30.1	112,455	24.2	200,000	43.0	465,015	3.0
Upgrade of Laboratories	386,268	18.6	1,694,017	81.4	-	-	-	-	2,080,285	13.6
Institutional Reforms	282,516	100.0	-	-	-	-	-	-	282,516	1.8
<b>Subtotal Adoption of Universal Cotton Grading Standards</b>	<b>681,344</b>	<b>24.1</b>	<b>1,834,017</b>	<b>64.9</b>	<b>112,455</b>	<b>4.0</b>	<b>200,000</b>	<b>7.1</b>	<b>2,827,816</b>	<b>18.5</b>
<b>2. Bonded Warehouses</b>										
Prospectus and Bid Setup	-	-	-	-	174,896	100.0	-	-	174,896	1.1
Construction and Leasing of Bonded Warehouses	100,000	11.9	543,542	64.4	-	-	200,000	23.7	843,542	5.5
Counterpart Contributions/Time	13,076	100.0	-	-	-	-	-	-	13,076	0.1
<b>Subtotal Bonded Warehouses</b>	<b>113,076</b>	<b>11.0</b>	<b>543,542</b>	<b>52.7</b>	<b>174,896</b>	<b>17.0</b>	<b>200,000</b>	<b>19.4</b>	<b>1,031,515</b>	<b>6.7</b>
<b>3. Training and Awareness</b>										
Officials' Awareness/Study Tours	-	-	-	-	108,033	100.0	-	-	108,033	0.7
Officials Training /a	-	-	-	-	442,390	100.0	-	-	442,390	2.9
<b>Subtotal Training and Awareness</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>550,423</b>	<b>100.0</b>	<b>-</b>	<b>-</b>	<b>550,423</b>	<b>3.6</b>
<b>Subtotal Cotton Market Development</b>	<b>794,420</b>	<b>18.0</b>	<b>2,377,559</b>	<b>53.9</b>	<b>837,774</b>	<b>19.0</b>	<b>400,000</b>	<b>9.1</b>	<b>4,409,753</b>	<b>28.8</b>
C. Agricultural Finance Innovation	-	-	3,000,000	98.3	52,500	1.7	-	-	3,052,500	20.0
<b>D. Project Management</b>										
Support Staff	-	-	-	-	481,219	100.0	-	-	481,219	3.1
Office Operations, Vehicles and Equipment	141,031	23.9	-	-	449,529	76.1	-	-	590,559	3.9
Monitoring and Evaluation	-	-	-	-	117,620	100.0	-	-	117,620	0.8
<b>Subtotal Project Management</b>	<b>141,031</b>	<b>11.9</b>	<b>-</b>	<b>-</b>	<b>1,048,367</b>	<b>88.1</b>	<b>-</b>	<b>-</b>	<b>1,189,398</b>	<b>7.8</b>
<b>Total PROJECT COSTS</b>	<b>1,749,938</b>	<b>11.5</b>	<b>5,377,559</b>	<b>35.4</b>	<b>6,497,990</b>	<b>42.8</b>	<b>1,545,096</b>	<b>10.2</b>	<b>15,170,584</b>	<b>99.2</b>
Interest During Implementation	-	-	122,440	100.0	-	-	-	-	122,440	0.8
<b>Total Disbursement</b>	<b>1,749,938</b>	<b>11.4</b>	<b>5,500,000</b>	<b>36.0</b>	<b>6,497,990</b>	<b>42.5</b>	<b>1,545,096</b>	<b>10.1</b>	<b>15,293,024</b>	<b>100.0</b>

<sup>a</sup> Stakeholders comprise Government officials, investors, gin owners, and farmers.  
Source: Asian Development Bank estimates.

**REVISED FINANCING PLAN BY PROJECT COMPONENT AND FINANCIER**  
(\$)

Item	The Government		ADB Loan		ADB Grant		Private Sector / Farmer Groups		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>A. Seed Quality Improvement</b>										
1. Plant Quarantine	500,000				1,301,064				1,801,064	
2. Seed Cleaning Facility					2,878,865		787,200		3,666,065	
<b>Subtotal</b>	<b>500,000</b>		-		<b>4,179,929</b>		<b>787,200</b>		5,467,129	
<b>B. Agriculture Finance Innovation</b>			<b>3,140,000</b>		<b>142,020</b>				3,282,020	
<b>C. Cotton Market Development</b>										
Upgrade of Laboratories for UCGS	381,090		1,694,017		532,613		350,000		2,957,720	
Construction and Leasing of Bonded Warehouses	100,000		543,542		200,000		396,020		1,239,562	
Counterpart Contributions/Time	16,735		-		-		-		16,735	
<b>Subtotal Cotton Market Development</b>	<b>497,825</b>		<b>2,237,559</b>		<b>732,613</b>		<b>746,020</b>		4,214,017	
<b>D. Project Management</b>	<b>100,728</b>		-		<b>1,445,438</b>		-		1,546,166	
<b>TOTAL PROJECT COST</b>	<b>1,098,553</b>		<b>5,377,559</b>		<b>6,500,000</b>		<b>1,533,220</b>		14,509,332	
Interest During Implementation (IDI)	-		122,440		-		-		122,440	
<b>TOTAL PROJECT COST including IDI</b>	<b>1,098,553</b>		<b>5,500,000</b>		<b>6,500,000</b>		<b>1,533,220</b>		<b>14,631,773</b>	
Taxes and Duties	660,000								660,000	
<b>TOTAL PROJECT COST including IDI and Taxes</b>	<b>1,758,553</b>	<b>11.5</b>	<b>5,500,000</b>	<b>36.0</b>	<b>6,500,000</b>	<b>42.5</b>	<b>1,533,220</b>	<b>10.0</b>	<b>15,291,773</b>	<b>100.0</b>

IDI = interest during implementation, UCGS = universal cotton grading standards.

Source: Asian Development Bank.