

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: CWAE

TA No., Country and Name TA 4664-TAJ: Farm Analysis and Awareness-Raising for Debt Resolution		Amount Approved: \$800,000 Revised Amount: \$1,300,000	
Executing Agency: Office of the President		Source of Funding: Poverty Reduction Cooperation Fund; and Canadian International Development Agency	Amount Undisbursed: \$130,077
			Amount Utilized: \$1,169,923
TA Approval Date: 4 Oct 2005	TA Signing Date: 7 March 2006	Fielding of First Consultants: July 2006	TA Completion Date Original: 31 Oct 2006; Actual: 31 Dec 2007 31 Dec 2007 (after major change) Account Closing Date Original: 31 Dec 2007 Actual: 18 Sep 2008
Description			
<p>Cotton sector performance has been declining, with production down by 56% since 1980, and yields down by 42%. Farm productivity and profitability have been negatively affected by significant government interference in all the value chain phases of the cotton sector; inadequate financial market products; and inappropriate farm privatization arrangements. Seasonal cotton lending practices dominated by trader/processors have focused on short-term cotton production targets rather than farm profitability. The consequence has been a large and increasing accumulation of debt ostensibly owed by farms, further constraining productivity, profitability, and competitiveness. This exacerbated poverty for the 65% of the population dependent on cotton for their livelihoods. In 2004, ADB undertook a study of cotton farm debt¹ for the first time in the country, documenting \$240 million in estimated unpaid debt as of January 2004. ADB's further involvement in the sector culminated in the Cotton Farm Debt Resolution Strategy approved by the President of Tajikistan in March 2005. The Strategy aims at the fair and transparent resolution of debts, laying out the short- and medium-term policy, legal, and institutional reforms. A Cabinet-level Independent Commission (IC) was set up to oversee implementation, under strong support by donors who committed to help implement the Strategy. The IC faced a number of unanswered questions, including the amount of the cotton debt, the reasons for its accumulation, key parties involved, circumstances on farms regarding debt awareness and government interference, and capacity of the farms to address the debt. The TA was approved to answer these questions, raise awareness among stakeholders, and establish the basis for farm debt resolution by the IC.</p>			
Expected Impact, Outcome and Outputs			
<p>The expected impact of the TA was to ensure that farm debt is resolved according to the Government's Farm Debt Resolution Strategy, and the outcome was to ensure that the IC established fair, timely, and systematic mechanisms to resolve farm debt on each farm. The TA was based on the assumption that debt issues could be analyzed and resolved on a farm-by-farm basis. The three specific outputs included (i) a detailed analysis of debt circumstances and farmer awareness for up to 10 major farms; (ii) standard farm analysis and farmer awareness protocols for use by the IC on farm debt resolution; and (iii) a database for ongoing farm debt monitoring. A major change in scope added \$500,000 to expand the scope to 21 farms for developing the debt resolution protocols.</p>			
Delivery of Inputs and Conduct of Activities			
<p>At TA completion, a total of 33 person-months (pm) international consultants, 139 pm of national consultants (all as individual consultants at the Government's insistence) and one national firm (for audit of two major domestic cotton financiers) were engaged. The consultants were productive and collaborative, with exceptions of two national consultants in database management and land tenure, whose work was taken over by other national consultants. The TA was properly supervised with an inception and three review missions over a period of 2 years. Close and regular engagement was maintained with the IC Deputy Chairman and senior officials of the National Bank of Tajikistan (NBT) as well as the Executing Agency (EA), developing a strong working relationship with Government.</p>			
Evaluation of Outputs and Achievement of Outcome			
<p>The TA not only delivered the three key outputs – debt analysis, farm analysis and farmer awareness protocols, and the database for debt monitoring– but it also produced additional results. Key value addition products were: (i) trained persons on over 100 farms on aspects of agronomy, farm management, accounting, taxation issues, ownership and shareholder rights, and gender issues and rights; (ii) an assessment of the chain of debt from farmer through domestic cotton financiers (DCFs) and traders, KreditInvest, national/international banks, and the NBT, including analysis of the debt database in the NBT, and the reliability and enforceability of the legal agreements between farmers and DCFs; (iii) value chain analysis of the cotton sector and a comparative assessment with neighboring cotton producing countries; and (iv) broader mechanisms and approaches for debt workouts at both the farm and national level to address systemic concerns and prevent debt recurrence. The delivery of these outputs ensured the achievement of the TA outcome. Specifically, the TA has identified the appropriate option for debt resolution and the principles of and mechanics for the debt workouts at the farm and sector-wide levels. More significantly, the TA provided the Government with thorough</p>			

¹ TA 4052-TAJ *Farm Debt Resolution and Policy Reforms*, for \$960,000, approved on 18 December 2002.

studies that enabled the Government to better understand that sustainable debt resolution requires policy, regulatory, and institutional reforms that will enable the agriculture sector to become productive, profitable, and competitive.

On determining the protocols for debt resolution, the TA used an iterative process that produced several debt resolution approaches and resulted to timely governance action at the macro level. First, initial work focused on a farm by farm analysis, as espoused in the TA design. This was found inappropriate given the scale of the activities required and the need to address the situation urgently and comprehensively. Second, an alternative approach which addressed the debt problem at the level of the DCF was tried out. Audits of two domestic cotton financiers with 39% of the outstanding debt in arrears were conducted, which revealed that most firms were undercapitalized, and did not have sufficient resources to absorb much in the way of debt write-offs from farmers. The analysis also showed that farm debt was not just a private sector issue between farmers and DCFs/domestic banks, but that the central bank and Government had been deeply involved by providing guarantees to international bank debt through Kreditinvest to DCFs. This finding, along with ADB encouragement to the Government to disclose this public-debt guarantees to the International Monetary Fund (IMF) led to the IMF's conduct of a Staff Monitored Program (SMP) to address systemic weaknesses in debt management for Government and its related agencies and companies.

Noting that debt resolution could not be done at DCF level, the TA examined the approach of involving a public-run debt resolution agency, and compared this with a commercial debt resolution process. It noted that the faster, more efficient and more comprehensive way to address the problem was through a commercial debt resolution approach. The Government concurred with this finding. The ADB held dialogues with the Government, the World Bank, and the IMF to facilitate implementation of this approach. However, ADB and the World Bank could not agree on the sector-wide approach to debt resolution. The differences were on the appropriateness of a separate Government structure for debt resolution, and the requirement to address the international and domestic debts simultaneously and jointly. In view of the impasse on resolving these two points, ADB decided to withdraw from debt resolution activity in January 2008 to give way to the World Bank to support the Government in implementing debt resolution. The TA's works will nevertheless provide important inputs to the prospective debt resolution activities of the Government and the World Bank.

Aside from achieving the outcome, the TA also provided recommendations for managing cotton production financing. Using this information the Government independently took the following actions: paid off in full the international trading companies; renegotiated where possible key loans with international banks secured on country foreign exchange reserves; closed the lending activities of KreditInvest; and lent commercial banks in the country about \$50 million to facilitate seasonal lending to farmers as opposed to use of DCFs as was previously practiced.

Overall Assessment and Rating

The TA design was appropriate and flexible enough to accommodate the changing economic and political circumstances in the country. The resources were sufficient for ADB to be proactive about the increasingly complex and difficult set of debt problems as they emerged from the initial work. In this way further assessment and additional activities and outputs became possible, leading to engagement of key players (like IMF and World Bank) and immediate-term debt-resolution activities of the Government. The array of awareness raising activities among stakeholders and donors resulted to coordinated action on the necessary comprehensive reforms for agriculture development.² Most of the recommendations are either being implemented or are planned to be implemented both by Government and other donors. Overall the TA can be rated successful.

Major Lessons

Three lessons emerged from this TA. First, having significant resources flexibly available when tackling a complex issue where the circumstances are non-transparent was important. Second, timely Government decision on which approach to implement could have averted the continued accumulation of debt. Finally, Government's insistence on individual consultant recruitment while this became a more responsive method to addressing emerging issues and was more cost-effective, placed significant burden on project administration. Ways of reducing the burden could improve TA administration.

Recommendations and Follow-Up Actions

Once the IMF has completed its SMP, the donors will be able to focus on the key structural areas that impede the cotton sector from becoming productive, competitive and profitable. ADB has been leading this process for the last four years, and a determination of whether it will continue in this role has not yet been made, pending IMF reporting on the Government's progress on the SMP. In the interim, it is important that a monitoring and evaluation mechanism be developed that will monitor and assess the actions taken by the Government in implementing the measures under the Government's Resolution #111. It is also essential that the coordination work on the farm debt resolution/sustainable agriculture development that are being done by the donor community be continued.

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² On March 2007, the Government issued Resolution no. 111. This measure lays down the short- and medium- term policy, regulatory, and institutional reforms that will be required to ensure the sustainable development of the agriculture sector.