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Tajikistan: Improving Aid Coordination and Portfolio Management (Aid Coordination Component for Farm Debt Resolution Strategy) (Financed by the Government of the United Kingdom of Great Britain and Northern Ireland through the Department for International Development)

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Asian Development Bank

ABBREVIATIONS

ADB	Asian Development Bank
DCC	Donor Coordination Council
DFID	UK Department for International Development
EC	European Community
GoT	Government of Tajikistan
Hukumat	Local Government office or Head of the local government (used interchangeably)
IC	Independent Commission
JCSS	Joint Country Support Strategy
KI	Kredit Invest
LAC	Legal Aid Center
Min Ag	Ministry of Agriculture
NBT	National Bank of Tajikistan
P&D	Premium and Discount (cotton pricing schedule)
SDC	Swiss Agency for Development and Cooperation
SIDA	Swedish International Development Cooperation Agency
TA	Technical Assistance
TOR	Terms of Reference
UCGS	Universal Cotton Grading Standards
UNFAO	United Nations Food and Agriculture Organization
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WB	World Bank
WG	Working Group

CONTENTS

	Page
I. INTRODUCTION	2
II. ACHEIVEMENTS	3
a. Summary of Main Activities and Achievements	3
b. Support for Donor and Government Dialogue and Coordination	4
c. Strategic initiatives to move forward key aspects of Resolution	5
d. Develop a monitoring system for results expected under Resolution 111 and related reform program	6
e. Lessons Learned	7
f. Other Support	8
ANNEXES (available upon request)	
Annex 1	TA 4546-TAJ: Aid Coordination Component - First Consultant Report from July, 2007
Annex 2	Government of Tajikistan Resolution 111, dated March 2007
Annex 3	Government of Tajikistan Resolution 312, dated July 2008
Annex 4	Draft National Land Strategy
Annex 5	Summary of 2007 Farmer Survey
Annex 6	Summary of 2008 Farmer Survey
Annex 7	<i>Freedom to Farm</i> brochure
Annex 8	<i>New Financing Mechanisms</i> brochure
Annex 9	UNDP Communications Strategy for the IC
Annex 10	Cotton Pricing and Discount Table
Annex 11	Methodology for cotton pricing
Annex 12	Amendments to Law on Pledge of Movable Property
Annex 13	Discussion Paper: Legal Status of Dekhan Farms
Annex 14	BTOR- Russian Debt Resolution Study Tour
Annex 15	BTOR- Australia Study Tour
Annex 16	Cotton production by districts 1990 – 2007
Annex 17	Cotton sale tax data 1996-2000
Annex 18	Export of cotton by volume, average price and cost 2000-2006
Annex 19	Model and type of ownership of existing gins by district
Annex 20	KreditInvest debtors as of 01/01/07
Annex 21	JCSS Real Sector Report for June 2008 retreat

I. INTRODUCTION

Agriculture is a key sector of the Tajik economy, accounting for 24% of GDP, 66% of employment, 26% of exports, and 39% of tax revenue (2004). However, over the past 15 years there has been accelerating deterioration in Tajikistan's agricultural production and rural livelihoods, partially due to the Civil War but also due to the failure to reform and restructure the agricultural sector. Of particular importance is the accumulating debt burden related to cotton, with the steady decline culminated in the 2007/2008 food and energy crisis. In addition, the 2007 IMF mis-reporting situation and debilitating international debt burden directly links the failed agricultural sector reforms to the macro-economic stability of the country. Donors have indicated the need to more closely coordinate efforts in the agricultural sector and to speak with a unified voice to the government. Thus, TA 4546-TAJ "Improving Aid Coordination and Portfolio Management" was expanded to add a new component for Aid Coordination in Support of Farm Debt Resolution Strategy (defined hereinafter "Aid Coordination") to provide the coordination necessary to improve dialogue between themselves and with the government.

This report covers the period from 01 October, 2007 through 20 September 2007 and coincides with the contract terms of the current international consultant.¹ The Aid Coordination component's team consists of one international consultant and one local consultant. The Terms of Reference (TOR)² under the current contract include:

- a. Advise the Government on the development and implementation of the Farm Debt Resolution Strategy (FDRS) and related reform agenda so as to ensure a high level of transparency, accountability and improved governance
- b. Assist donors with the further development of a programmatic approach to their relevant assistance programs, consistent with the FDRS and assistance that the Government requires to fulfill its obligations under Resolution #111.
- c. Help donors design and implement a financing program for both the farm debt resolution and Resolution # 111. In this process, carefully document and map the work that is going to be done both geographically and technically so gaps and overlaps can be concretely and rapidly addressed.
- d. Identify gaps and overlaps and support Government to locate resources to finance these, from donors or by own resources.
- e. Help and advise donors on Government and IC strategy
- f. Help donors develop a monitoring system for results expected under Resolution #111 and related reform program, inclusive of policy and institutional reforms, under their joint activities and mechanisms to share results on their related individual projects. Advise on how field-level effective monitoring and evaluation can be effectively undertaking.

¹ The report submitted to ADB by the first initial international consultant is attached as annex 1

² The original TOR underwent a series of changes to reflect government, ADB and other donor focus for the agricultural sector. While the original TOR focused most on Farm Debt Resolution (FDR), later developments led to a broader engagement in agricultural sector reform and donor coordination.

II. ACHEIVEMENTS

A. Summary of Main Activities and Achievements

- Facilitated creation of Donor Coordination Council Agricultural Sector Group (DCC ASG) in October 2007 and was appointed as the coordinator
- Organized and facilitated meetings with the DCC- Independent Commission (DCC-IC)
- Developed TOR for a National Land Policy and obtained funding from FAO and USAID to fund TA for the National Land Policy initiative
- Advocated for and received confirmation of continued SIDA funding for the Seed Project and Cadastre Project until SIDA phase out from Tajikistan is complete in 2010
- Supported Legal Aid Center (LAC) coordination group: led the development of *Freedom to Farm* and *New Financing Mechanism for Agricultural Production* brochures
- Reached agreement with UNDP to finance publication of the 50,000 copies of *Freedom to Farm* and 50,000 copies of *New Financing Mechanism for Agricultural Production* brochures
- Reached agreement with the EC to fund publication of new farmer brochures on other 6 topics
- Received USAID Project agreement to develop and fund a LAC database
- Advocated for and received agreement from USAID to extend project support for land reform and LAC, post September 2008
- Designed and conducted two small farmer surveys in late 2007 and early 2008
- Coordinated design of a larger Farm Monitoring Form
- Obtained SDC agreement to fund assessment for the creation of national LAC network; drafted concept paper and TOR for SDC assessment
- Participated in drafting of amendments to the Land Code and advocated approval of this key piece of legislation (Land Code approved in December 2007)
- Participated in the Working Group that drafted implementing legislation for the new Land Code
- Attended meetings to coordinate with World Bank and IMF missions on debt resolution issues and solutions
- Completed JCSS Real Sector Report (agriculture, energy and infrastructure)
- Wrote proposal for formalization of the DCC Secretariat
- Assisted in the development of a Premium and Discount table of cotton pricing in accordance with Universal Cotton Grading Standards
- Worked with the government's committee on development of new methodology for cotton pricing
- Provided consultancy to PIU of Sustainable Cotton Sub-sector Project, Ministry of Agriculture and Tajikistan-WIS Joint Venture for the implementation and progress with the market reform component of the project.
- Developed proposals for amendments to legislation for crop liens (Law on Pledge of Movable Property)

A more detailed description of the main contributions, activities and achievements is found below.

B. Support for Donor and Government Dialogue and Coordination

One of the most significant achievements during the TA was the creation of the Donor Coordination Council Agricultural Sector Group (DCC ASG) in October 2007. The Aid Coordination component's team was appointed as the coordinator for the donor members who include ADB, DfID, EC, SDC, SIDA, USAID and the World Bank. The DCC ASG seeks to better coordinate efforts amongst donors involved in the agricultural sector and to communicate with a unified voice to the Government of Tajikistan (GoT).

The DCC ASG held a series of regular meetings with both the Independent Commission (IC) and Office of the Deputy Prime Minister, thereby allowing discussions and monitoring at the highest levels of both the government and the donors. The meetings focus on implementation and monitoring of Resolution 111 as well as other issues such as food security and agricultural input problems.³ The relationship with the DCC ASG and the IC has become an effective mechanism for dialogue with government.

The work of Aid Coordination component of the TA 4546-TAJ quickly gained the respect of both the donors and the government and has been identified as they key component in bringing donors together for discussions and planning for the agricultural sector. Once ADB announced its intention to withdraw from the lead role in the agricultural sector in June, 2008, other donors cited the need for a continued coordination and have mobilized alternative mechanisms to support their position. The DCC ASG now proposes to create a formal Secretariat to guide and coordinate activities amongst the donors and the GoT. Until a more comprehensive agricultural sector reform policy is adopted, the DCC and GoT will use Resolutions 111 and 312⁴ to guide efforts in the agricultural sector.

In addition, the DCC ASG and the GoT have identified four topical areas in the agriculture sector that are expected to be discussed in joint DCC-GoT working groups: Cotton Debt Resolution, Land Reform/Water issues, Agriculture Financing and Agricultural Sector Policy. The steps for funding of the DCC Secretariat are being finalized and should be in place to prevent a gap in the transfer from the ADB as the lead institution in the sector. With the assistance of the consultants under Aid Coordination component, donors are also reviewing and adjusting their current agricultural programs to provide the necessary technical support for the Working Groups.

C. Strategic initiatives to move forward key aspects of Resolution 111

As part of the DCC-IC dialogue, the team under Aid Coordination component of TA 4546-TAJ created and updated the donor matrix for Resolution 111 and was able to identify the gaps in funding as well as the initial sequence of priority reforms that are needed. The team then worked closely with the donors to use existing programs to address the priorities and to develop future programs in better coordination. A summary of the results are outlined below:

³ Resolution 111, *Action Plan for the Implementation of the Farm Debt Resolution Strategy for 2007-2009*, was adopted in March 2007 and is the basic plan for the economic transition of the cotton sector. Resolution 111 addresses 'Freedom to Farm' without Government interference, secure land rights, inputs and outputs markets, agricultural credit, removal of government interference in a variety of key areas, and improved public information access. (see annex 2)

⁴ Resolution 312, *On Resolution of Cotton-growing Farm Debts and Improvement of Financial Conditions for Agricultural Producers in the Republic of Tajikistan*, dated 2 July, 2008. (see annex 3)

Land Reform

- With regard to land issues, the Aid Coordination component of the TA 4546 successfully advocated the development of a National Land Strategy and received agreement of FAO to fund 3 months of consultant time. USAID also agreed to facilitate GoT involvement under the *Working Group on Structural and Land Reforms*. The draft strategy was finalized and submitted to a wider GoT and donor audience for comment in July, 2008 (see annex 4)
- USAID has agreed to continue support for Land Reform and Legal Aid Centers. In order to prevent a gap in funding between the current Land Reform Project (ending in September 2008) and a new project scheduled for late 2009, USAID was able to secure funding for a 10 month 'bridge' program. This will allow continued support for LACs and some (limited) policy work.
- Amendments to the Land Code were approved in December 2007 and signed by the President in January 2008. The Aid Coordination component's team participated in the development of the amendments and advocacy for the policy shift. The approval of this law reflects 2 years of effort and will support more secure land use rights as well as allowing a land market to develop.
- Based on the observations that the LAC needs a more coherent form, the TA's Aid Coordination component obtained SDC agreement to fund an assessment for the creation of national LAC network and drafted the concept paper for the assessment. The assessment was conducted in summer 2008 and will result in a multi-year project with the SDC.

Seed

- After several discussions with SIDA, they have agreed to continue funding for the Seed Project and Cadastre Project until the SIDA phase out from Tajikistan is complete in 2010. The Aid Coordination component's team met with SIDA head office representatives and assisted in revising the Cadastre Project proposal to reflect the changes in legislation and donor agreements with the GoT.

Universal Cotton Grading Standards

- The Aid Coordination component's team assisted in the development of a Premium and Discount table of cotton pricing in accordance with Universal Cotton Grading Standards (UCGS). The historical price/quality gradation quoted by the Tajik Universal Goods and Commodity Exchange (TUGCE) did not reflect the actual class of cotton and after introduction of the Universal Cotton Grading Standards (UCGS), it was necessary to amend the method of cotton pricing to reflect UCGS standards. The new P&D schedule gives precise cotton price gradation within classes as per UCGS. (see annex 10). As of September, 2008, the P&D schedule has been reviewed and was supported by the all key agencies of the government and is expected to be applied for the 2008 season cotton crop.
- In addition to the Premium and Discount Table, the Aid Coordination component's team assisted in developing the pricing formula and Methodology that calculates the sale price and limiting dimensions of transport and other expenses related to cotton fiber marketing in Tajikistan. Adjustments to the Methodology included: (i) incorporation of P&D schedule for price determination; (ii) reference to A Index for CA cotton at the Liverpool Cotton Exchange with delivery point Far East ports and shift to CFR terms of delivery (as per Incoterms); (iii) elimination of the requirement to obtain permission from the TUGCE for export of cotton; and (iv) adjustment of fees and rates of related agencies for determination of the ex-works price for cotton. The first draft of the revised Methodology is complete and has been presented to the government. (see annex 11)

Legislation on crop liens

- The current legislation in Tajikistan gives priority to withdraw a pledged asset to the initial creditor. In other words, the creditor who provided finance first has the priority right to take a pledged asset. In the cotton sector this was one of the reasons for debt accumulation because the legislation does not encourage creditors to undertake a proper and careful credit assessment of a borrower because they are confident that in case of failure of a farmer, they still can claim next season's crop as having higher priority over the next year's financier. With the 2008 involvement of the commercial banking sector in financing cotton production and given that farmers have accumulated large amounts of unpaid debt it is critical to ensure that new financing will not be directed to cover historic debt. Also international practice shows that the financing of agriculture crop production is secured only with the crop produced that particular year. Thus, the team analyzed the acting legislation related to crop liens (the Civil Code and Law on Pledge of Movable Property) and drafted amendments to ensure that financiers should apply a careful credit risk assessment and do not rely on next year's crop (see annex 12). The proposed amendments were discussed and fully supported by leading commercial banks and then passed to the government and the Central Bank in 2007. However, the legislation has not been enacted and there may be severe consequences for the commercial banks who lent to farms with historic debt.

Government and IC communication strategy

- Under the initial phase of the Aid Coordination component of the TA 4546-TAJ in 2006-2007, the consultant was able to secure agreement from UNDP to fund the development of the IC strategy. The draft strategy was submitted to the IC in late 2007 but there was little substantive movement on implementation of a comprehensive strategy (see annex 9). Until the GoT adopts the formal strategy, donors will continue to use the Legal Aid Center Coordination Group and their respective projects to develop and disseminate brochures (see Section D, below) and provide information to farmers via trainings, consultations, mobile theatres etc.

D. Develop a monitoring system for results expected under Decree #111 and related reform program

Part of the DCC-IC efforts included the creation of a new monitoring mechanism for the concept of Freedom to Farm and other provisions under Resolution 111. In order to provide rapid feedback from the field, the Aid Coordination component's team designed and conducted two farmer surveys in October 2007 and again in March 2008. (see Annexes 5 and 6 for summary findings of the surveys).

Questionnaires were used to conduct on-farm level surveys related to cotton planting, financing contracts, harvest and pricing data with the assistance of members of the Legal Aid Center Coordination Group. Data received were combined into simple tables, analyzed and presented to the donors and IC. The information collected from the surveys was also used by the government in their meetings with regional executive bodies and farmers to stress an importance of provision of *freedom to farm* as well as UNFAO and the World Bank in their respective reports and analyses.

The two surveys can be used as the baseline for continued M&E work and follow up surveys are expected to be conducted under the DCC Secretariat in December, 2008 and in spring 2009.

The Aid Coordination component's team under TA 4546-TAJ also participated as core members of the Legal Aid Center Coordination Group (LAC CG). The LAC CG consists of projects and institutions that work at the field implementation level and focus on providing legal assistance to farmers.

The LAC CG has developed a series of brochures for farmers that will allow the various donor-funded offices to provide clear, accurate and consistent messages to farmers. It should be noted that the LAC CG requested that ADB materials developed under TA 4664 (farm debt resolution) be included in the series of brochures, however, this request was not approved by the ADB Team Leader of TA 4664. Thus, the Aid Coordination component's team members worked with the LAC CG on developing new materials as part of a nation-wide information campaign to inform farmers about new trends and developments in agricultural policy reforms. The list of brochure topics includes the following:

- New Financing Mechanisms for Agricultural Production (with ADB as the lead drafter);
- Freedom To Farm (with ADB as co-Drafter with USAID);
- Taxation and Tax Administration in Farming;
- Protection of Rights Of Farmers;
- Contracts and Arrangements in Farming;
- Reorganization and Creation of Dekhan Farms;
- Setting Up Water Users Association; and
- Farm Business Management.

Although the current TA did not have funds for publication and distribution, the Aid Coordination component's team leader was able to negotiate agreement with UNDP to cover the costs of printing 50,000 brochures for both the *New Financing Mechanism for Agricultural Production* and the *Freedom to Farm* brochures. Distribution was coordinated through the various members of the LAC CG. (see annexes 7 and 8 for brochures)

Finally, the Aid Coordination component worked with the USAID Land Reform Project to develop and fund a LAC database designed to record information on the 90+ LAC as well as information received from the various LAC monitoring reports. Donors now use the database and map to help plan for further support to LAC.

E. Lessons Learned

The Aid Coordination component's team has been asked to comment on lessons learned and recommendations to move forward implementation of Resolution 111 due to the fact that this type of TA support will no longer be the route in the near future.

First, it should be noted that any support for dialogue and coordination between donors and the government requires not only technical input but also a fair degree of administration and translation. Due to the creation of the DCC ASG and its role in liaising with the GoT, the Aid Coordination component's team leader requested additional translation/administrative staff. Given the resource constraints, an existing translation budget was used for *ad hoc* document and oral translation. It should be noted that this arrangement was not very efficient and more could have been done with the GoT under the TA with the proper administrative support.

Second, the current challenges facing the agricultural sector in Tajikistan are complex and increasing. At the same time, the GoT policy to export its labor and rely on remittances means that a significant proportion of the country's professional and educated citizens have left. Without a mechanism to provide technical expertise to the ADB resident mission and to the

development, implementation and monitoring of ADB projects, the reputation risks for ADB are high. Some mechanism for providing this needed technical expertise needs to be developed, perhaps with added TA in the projects themselves.

In addition, until the GoT can adequately perform donor coordination on its own, it will continue to need outside assistance. This fact is supported by the decision of the DCC ASG to formalize a Secretariat and to work with the GoT on developing its capacity for donor coordination and implementation of the agricultural sector reform agenda.

F. Other

Due to the shifts in ADB focus away from FDR, as well as the needs of the various missions that came to Tajikistan, the Aid Coordination component of the TA 4546-TAJ worked on many diverse issues. Additional support provided to both the GoT and donors is outlined below.

a. Provided consultancy for the implementation of market reforms in the current ADB and World Bank Cotton Projects

The Aid Coordination component's local consultant arranged regular meetings and consultations with government agencies (Office of the President, Ministry of Agriculture, Ministry of Economic Development and Trade, Tajikstandard, Project Implementation Unit) involved in the implementation of the market reforms component of the ADB Sustainable Cotton Sub sector project and the newly created Joint-Venture Tajikistan-WIS (Independent Cotton Inspection). Activities the the consultant include:

- Establishment and accreditation of a Joint-Venture between Ministry of Agriculture and Wakefield Inspection Services;
- TORs for three Consultants (one international and two locals) for development of UCGS were produced and consultants hired;
- UCGS was developed, widely discussed, accepted and registered by Tajikstandard; and
- Three laboratories under JV Tajikistan-WIS were established, necessary equipment for laboratories was tendered, and the budget for nation-wide information campaign on introduction of UCGS was developed.

The project is on-going and by the completion date it is expected that the UCGS will be fully applied, the JV will be operational and capable to cover the entire cotton crop produced in Tajikistan, two bonded warehouses created and the required environment and regulation for bonded warehouse operations will be established.

b. Participated in donor Working Group on status of Dekhan Farms

Dekhan farms (DF) in Tajikistan are unique business entities specialized in agriculture production. Their uniqueness (and short coming) is that they are not registered in a form of legal entities recognized under Tajik legislation. The basis for the creation of a Dekhan Farm is a joint agreement of individuals for creation of DF and a Land Use Certificate issued by the state authorities which allocates the use of a portion of agriculture land [owned by the state]. On one hand this uniqueness facilitates the creation of a DF that operates jointly as an entity. On other hand however, it creates a number of problems such as governance questions, rights of shareholders, irresponsibility of DFs against borrowed funds, and hence difficulties to access credit recourses, irresponsibility in reporting and book-keeping, weak security of creditors in the judicial system, contract arrangements with DF, absence of a bankruptcy procedure for the non-legal entity, and many other issues.

The Aid Coordination component's local consultant worked with a small group of donor project representatives to analyze the existing legislation and to draft a discussion paper on how to transfer the status of DFs to a legal entity (see annex 13). Two options are given as a solution to the problem: to bring DF under the existing legal status and system of registration of business entities with simplification of registration procedure, or to create in the Civil Code special provisions and requirements for DF as a new category of business entity. The options were widely discussed but there remains supporters of (and those who oppose) both options. It was agreed, however, that the choice of any option has to be done at the highest political level before the legislation can be drafted.

The issue and relevant documents on policy reforms or regulations have been delivered to the joint donor/government Working Group on Land and Structural Reforms. Donors will need to advise and push the government to make a political decision on which option to take before the Working Group will be able to develop the legal and regulatory framework necessary to define a DF as a legal entity.

c. Analyzed and prepared report on Russian experience of debt settlement of farmers based on study-tour to Moscow

The Aid Coordination component's local consultant participated in the a study-tour to Moscow organized by the DFID financed Third Party Arbitration Court project in order to learn the Russian experience in debt resolution for agricultural business entities. On the basis of the study-tour the consultant provided a Back-To-Office report which includes a brief analysis of lessons learned and possibilities to apply the Russian experience in Tajikistan. (see annex 14).

d. Arranged and lead a study-tour to Australia for cotton growing, classing and marketing

The Aid Coordination component's local consultant jointly with the first international consultant arranged and participated in a study-tour to Australia. The objective of the study-tour was to examine cotton sector production: land preparation and crop rotation, seed application, post farm gate competitiveness issues, transport, storage, processing, classification and marketing. A Back-To-Office Report was issued following the tour outlining the lessons learned and possible application of Australian experience to Tajikistan cotton sector. (see annex 15).

e. Collected and produced statistics, research data and analyses related to cotton and the agricultural sector

The following data and sector works were produced and/or collected by the Aid Coordination component's team:

1. Statistical data produced:
 - Cotton crop area and production by districts during 1990 – 2007 (see annex 16);
 - Cotton sale tax data for 1996-2000 (see annex 17);
 - Export of cotton by volume, average price and cost for 2000-2006 (see annex 18);
 - Model and type of ownership of existing gins (see annex 19); and
 - KreditInvest debtors as of 01/01/07 (see annex 20).

f. Joint Country Support Strategy (JCSS)

The Tajikistan JCSS is a joint donor approach to ensure effective use of aid to support Government's growth and poverty reduction objectives. A joint donor strategy is expected to improve effectiveness and reduce the cost of aid delivery by strengthening mutual accountability, improving predictability of aid, moving towards programmatic approaches where appropriate, allowing for division of labor and improving government capacity and planning of aid. The JCSS process began in 2007 and is open to all donors. In 2008, the process continued with the drafting of background information on the 5 main sectors including:

- Real Sectors (Transport, Energy, Agriculture)
- Private and Financial Sector Development
- Public Sector
- Human Rights and Rule of Law
- Social Sectors (Health, Education, Social Protection)

The ADB took the lead role for the Real Sectors and the Aid Coordination component's international consultant drafted the report according to the criteria defined by the JCSS consortium and with input from ADB sector leaders. The report was intended to summarize the situation and analyze donor programs with regard to the Poverty Reduction Strategy and was limited to 30 pages total.

The report was presented at the JCSS retreat from 1-3 June 2008. Based on the discussion and results of the retreat, ADB and other donors will continue to develop the comprehensive JCSS documents and agreements. It is tentatively proposed that the JCSS report be prepared for ADB Board consideration in the second quarter of 2009. (see annex 21)