

Operation Performance Evaluation Review

Tajik Agricultural Finance
Facility

Tajikistan

(A Technical Cooperation Operation)

November 2010

Evaluation Department
(EvD)



European Bank
for Reconstruction and Development

**TECHNICAL COOPERATION (TC)
OPERATION PERFORMANCE EVALUATION REVIEW (OPER)**

PREFACE

This Evaluation Report

The subject of this OPER is the Technical Cooperation Programme (TC Programme) Operation: Tajik Agricultural Finance Framework, which consisted of five TCs with an aggregate budget of €2,342,670, funded from the ETC Multi Donor Fund (€1,333,835), EBRD Shareholder Special Fund (€588,835) and the United States (€420,000). The TC Programme assignments were carried out over the period of December 2007 to February 2010.

The Operation Leader (OL) of this TC Programme also prepared the Project Completion Reports on the TCs, as part of the TC Programme. The Operation Team and other relevant Bank staff commented on an early draft of this OPER.

The evaluation was carried out by a Senior Evaluation Manager at the Evaluation Department (EvD). Information on the Operation was obtained from relevant teams and departments of the Bank and its files, as well as from external sector and industry sources. Fieldwork was carried out in August 2010. EvD would like to take this opportunity to thank those who contributed to the production of this report.

Post-evaluation selection and process

Selection of an operation for post-evaluation by EvD uses the following criteria: relevance to the Bank's likely future operations; lessons-learned potential; size of the Bank's investment commitment/exposure; balance among countries of operations; balance among sectors and types of operations; relative priority of investment operation OPERs within EvD's overall work programme priorities and resources.

The Bank's post-evaluation process is described in Chapter 8 of the Operations Manual. The responsible Operation Leader first writes a TC Project Completion Report (PCR). The PCR serves as a self-evaluation function and establishes the basic facts and lessons learned from the operation's implementation outcome and future prospects. EvD's independent evaluation follows, using the PCR as one of several inputs.

Exchange rates used in this report

USD 1 = TJS 3.6 (2009 average)

EUR 1 = USD 1.42 (2009 average)

**OPERATION PERFORMANCE EVALUATION REVIEW (TC OPER)
TAJIK AGRICULTURAL FINANCE FRAMEWORK
(TAJIKISTAN)**

Table of contents

	Page
Preface	
Table of contents	i
Abbreviations and defined terms	ii
1. The project	1
1.1 Introduction	1
1.2 Scope of this review	2
2. Project rationale	4
3. Achievement of objectives	4
3.1 Extent of TAFF outreach – number of PIs and their branches involved in TAFF and benefiting from technical assistance	5
3.2. Developing new loan products	6
3.3 Revising crop budgets	7
3.4 Market research	7
3.5 Agronomic data gathering	7
3.6 Development of appropriate loan security mechanisms	8
3.7 Development of lending procedures	8
3.8 Training and coaching staff of the PIs	9
3.9 Building a strong and diversified TAFF portfolio	10
3.10 Establishing transparent and objective decision-making mechanisms and representing the EBRD’s interests with respect to the subloans	13
3.11 Ensuring that PIs’ MIS can effectively monitor loans	13
3.12 Extension service to cotton farmers	14
3.13 Other benefits achieved by the TC Programmes 1 and 2	15
4. Overall assessment	15
5. Transition impact and additionality	16
5.1 Competition in the project sector	16
5.2 Expansion of markets	17
5.3 Skills transfer and setting standards	17
5.4 Institutions, laws and policies	17
5.5 Compliance with Country Strategies and Sector Policies	18
5.6 Additionality	18
6. Bank handling	18
7. Lessons learned and recommendations	19
List of appendixes	

Appendix 1 – Operations Performance Ratings
Appendix 2 – Transition Impact Analysis

Abbreviations

ADB	Asian Development Bank
AIB	AgroInvestBank
BCI	Better Cotton Initiative
BE	Bank Eskhata
CAP	Credit Assessment Programme
CPs	Conditions Precedent (to the disbursement of a loan)
DCC	Donors Coordination Council
DFID	Department for International Development (UK Government)
EBSF	European Bank Shareholder Special Fund
ETC	Early Transition Countries
ETCF	Early Transition Countries Multi Donor Fund
EU	European Union
EUR	Euro
EvD	Evaluation Department (EBRD)
GBP	British Pound
GDP	Gross Domestic Product
GoT	Government of Tajikistan
GRF	Guarantee Reserve Fund
GTZ	Gesellschaft fuer Technische Zusammenarbeit (German Government)
IFI	International Financial Institution
IGL	Institutional Group Lending
IMF	International Monetary Fund
IT	Information Technology
LIBOR	London Inter-Bank Offered Rate
MGL	Mutual Group Lending
MIS	Management Information System
MOU	Memorandum of Understanding
MSE	Micro and Small Enterprises
NGO	Non-governmental Organisation
OL	Operation Leader
OPER	Operation Performance Evaluation Review
OT	Operation Team
PAR	Portfolio at Risk
PCR	Project Completion Report
PI	Partner Institution
SME	Small and Medium Enterprise
TAFF	Tajik Agricultural Finance Framework
TC	Technical Cooperation
TCP	Technical Cooperation Programme
TI	Transition Impact
TJS	Tajik Somoni (Tajik currency unit)
TMSEF	Tajikistan Micro and Small Enterprise Finance Facility
ToR	Terms of Reference
TSOB	Tojik Sodiro Bank
USAID	United States Agency for International Development
USD	United States Dollar
USSP	United States EBRD SME Finance Facility
VCF	Value Chain Finance
WHR	Warehouse Receipt Programme

DEFINED TERMS

the Bank/EBRD	European Bank for Reconstruction and Development
the Operation/TAFF/ Framework	Tajik Agricultural Finance Facility
the OPER Team	Staff of the Evaluation Department who carried out the post-evaluation
the Operation Team	The staff in the Banking Department and other respective departments within the Bank responsible for the Operation appraisal, negotiation and monitoring

**OPERATION PERFORMANCE REVIEW
TAJIK AGRICULTURAL FINANCE FRAMEWORK
(TAJIKISTAN)**

BASIC DATA SHEET

Operation code TC OPID: 38309 (38517 and 39823)
Location: Tajikistan
Operation: Tajik Agricultural Finance Framework
Sector: Financial Institutions
Type: Technical Cooperation
Facilitators: ETC Multi Donor Fund, EBRD Shareholder Special Fund, United States
 TC Fund
Bank unit: FI Team

A. Funding

TC	TCFP commitment		
	Commitment no.	Commitment title	Amount (€)
TC1	USSP-2007-11-03	Tajik Agricultural Finance Framework (TAFF) – Technical Assistance for the Lending Programme	420,000 (US\$ 600,000)
TC2	ETCF-2007-12-60	Tajik Agricultural Finance Framework (TAFF) – Technical Assistance for the Lending Programme	500,000
TC3	ETCF-2008-05-19	Tajik Agricultural Finance Framework (TAFF) – Technical Assistance for the Lending Programme	245,000
TC4	EBSF-2008-12-82	Tajik Agricultural Finance Framework (TAFF) – Technical Assistance for the Lending Programme	588,835
TC5	ETCF-2008-12-42	Tajik Agricultural Finance Framework (TAFF) – Technical Assistance for the Lending Programme	588,835

B. Procurement

OPERATION PERFORMANCE EVALUATION REVIEW (TC OPER)

TAJK AGRICULTURAL FINANCE FRAMEWORK

(TAJKISTAN)

1. The Project

1.1 Introduction

Agriculture is one of the most important sectors of the Tajik economy, accounting for 25 per cent of the country's GDP and providing employment for 65 per cent of its population. Cotton is one of the main agricultural crops in Tajikistan, and in 2007 used 45 per cent of the total irrigated land (although in 2009 this share dropped to 28 per cent).

Following the success of the Tajikistan Micro and Small Enterprise Finance Facility (TMSEF), approved in 2003, under which the Bank provided financing to local commercial banks and non-bank microfinance institutions for on-lending to MSEs,¹ in 2007 the Bank undertook the preparation of a similar framework, for the provision of working capital finance to Tajik farmers.

In October 2007, the Board approved the Tajik Agricultural Finance Framework (the "TAFF" or the "Framework"), under which the Bank provided a US\$ 35 million facility designed to support the restructuring of Tajikistan's agricultural sector, including the cotton sub-sector, as part of a multilateral approach. The Framework incorporated credit lines for several commercial banks and non-bank microfinance institutions (the "Partner Institutions" or "PIs") to on-lend to small farmers in the form of working capital loans to purchase seed, fertilisers and other farming inputs. The Framework was to provide small farmers with untied, seasonal, working capital finance for primary agriculture, thereby offering them an alternative to the historic method of in-kind finance from local investors/entrepreneurs, whose financing was often seen as exploitative.

To support TAFF, an intensive Technical Cooperation (TC) programme in the aggregate amount of €1,165,000 was launched in December 2007 ("TC Programme 1"), financed by the United States and the Bank's Early Transition Countries Multi Donor Fund ("ETCF"). TC Programme 1 was designed primarily to train loan officers and agronomists at the Partner Institutions (PIs) that were to deliver TAFF, as well as to educate farmers in the benefits of TAFF financing, encourage them to diversify their crops and employ best farming practices. However the budget for TC Programme 1 was fully utilised by the end of 2008, much sooner than anticipated.² According to the explanations provided by the Operation Team, this was mainly due to the delay in procuring consultants and with their subsequent mobilisation, which resulted in TAFF loans being unavailable at the onset of the 2007/08 cotton season. Several other factors, many beyond the Team's control, also contributed to a slow start of TC Programme 1, for example, one of the harshest winters in Tajikistan's history, sickness of the project leader (who subsequently had to be replaced) or interference of the Government of Tajikistan. These "teething problems" resulted in the use of substantially more TC resources in the first six months than anticipated, while yielding only modest results.

Therefore, in November 2008 the Operation Team requested the Bank and the Board to approve an extension of TC Programme 1, amounting in aggregate to €1,177,670 and financed 50/50 by the Bank Shareholder Special Fund and the ETCF ("TC Programme 2"; TC Programme 1 and TC Programme 2 are jointly referred to as the "TC Programmes").

¹ TMSEF (BDS03-80 and BDS03-80 Addendum 1), provided in aggregate US\$ 21 million of Bank financing for revolving credit lines, on-lent by partner banks to Micro and Small Enterprises (MSEs). In total, TMSEF has disbursed over 25,000 loans, the quality of the loan portfolio is excellent with less than 0.1 per cent of loans in arrears.

² TC Programme 1 was planned to last for two years, that is, until the end of 2009.

1.2 Scope of this review

This Operation Performance Evaluation Review (OPER) aims to evaluate the performance and impact of the TC Programmes. The TC Programmes consisted of several, separately funded TCs, which are presented in Table 1 below.

Table 1 *TCs, parts of TAFF technical assistance programmes*

No.	Commitment number	Amount €disbursed	Main focus of activities
TC1	USSP-2007-11-03	420,000 (US\$ 600,000)	A “bridge” TC, enabled a kick-start of the core technical assistance by providing financing for the first months of the programme.
TC2	ETCF-2007-12-60	500,000	The core assistance programme.
TC3	ETCF-2008-05-19	245,000	Extension of the core assistance programme up to the end of 2008.
Total TC Programme 1		1,165,000	
TC4	EBSF-2008-12-82	588,835	Continuation of the core assistance programme and training to PIs.
TC5	ETCF-2008-12-42	588,835	Continuation of the core assistance and training to PIs.
Total TC Programme 2		1,177,670	
Total TC Programmes		2,342,670	

The core technical assistance for the lending programme, which provided technical advice and training to the PIs, was broken down into TC1, TC2 and TC3, and its next stage into TC4 and TC5 due to availability of funding (and the need to use different funding sources), rather than project needs. However the objectives (and Terms of Reference or “ToRs”) of each of the TCs were essentially the same – that is, to assist PIs during the lending programme (the detailed objectives and their achievements are discussed in the section 3).

Thirteen consultancy companies expressed interest in the TC Programme 1 assignment and six were short-listed. The tender was won by one of Europe’s schools of finance and management, in consortium with the consultancy company that initially scoped the TC assistance (the “Consultants”). The Consultants’ competitive advantage lay mainly in their microfinance expertise, including group and individual lending and relatively good knowledge of the Tajik cotton sector, combined with a track record of advice and training provided to cotton farmers elsewhere in the world.

In addition to the above core technical assistance programmes, there have been several other TCs related to TAFF. They are not part of this review, however they are briefly described below for completeness.

It is also worth noting that some of the tasks originally assigned to the Consultants working under the TC Programmes were ultimately delivered by consultants working under these other programmes. The TCs associated with TAFF, other than TC Programmes, were the following:

TAFF Pre-feasibility Study – this TC, funded by a €23,000 grant from Luxembourg, covered the initial technical, environmental and socio-economic review of the Tajik cotton sector. It was part of the Bank’s due diligence review during the preparation for the Framework and was delivered by a consultancy company.

Agricultural Finance Framework – Warehouse Receipt Programme (WHR) project identification – the objective of this TC was to conduct an initial feasibility study into the potential to develop a WHR programme in Tajikistan. Such a programme could indirectly help to better collateralise the loans provided under TAFF. Funding of €50,000 for this TC was provided by the ETCF and the assignment was conducted in late 2008. The consultants concluded that despite many limitations, a WHR project would be possible in Tajikistan. Drafting the enabling legislation and signing a Memorandum of Understanding (MOU) with the Government of Tajikistan (GoT) could jump-start such a project. More extensive consultancy support would be needed to develop licensing and inspection services, control and marketing information, as well as a financial performance guarantee system. However, such a follow up TC was not pursued by the Bank’s Agribusiness Team and therefore the implementation of a WHR project in Tajikistan was never attempted.

Farm Business Management Training – funded with €90,000 from the FI Team’s budget and implemented in 2008, it provided “training of trainers”, that is, training of 11 Tajik extension services agents. The training consisted of three workshops and was focused on farm management skills (for example, budgeting, accounting, business plan preparation, loan pay-back calculation), although some agronomic topics (pest management, crop rotation, and so on) were also covered. The objective was to train local trainers who could then train the farmers. However no formal follow up of this initial project took place, therefore it is uncertain whether the trainers actually trained any farmers. There is evidence that only one of these 11 extension service providers has recently been hired under the Better Cotton TC (referred to below) and conducted the training of farmers in the Yavan region. However this training covered mainly agronomic issues.

Producing “Better Cotton” in Tajikistan – this TC (budget of €74,950), which started during the 2010 cotton growing season, will promote Value Chain Financing with the participation of an established cotton merchant. Although this project clearly has a commercial focus (the merchant will act as an off-taker of cotton, providing a degree of comfort to the PIs that their loans will be repaid), it also aims to promote sustainable farming, addressing the environmental and socio-economic issues raised by the consultancy company under the TAFF Pre-feasibility Study. Extension services are provided by a local NGO employing Tajik, Uzbek and Russian cotton experts, who after training (under the above-mentioned Farm Business Management Training TC), will train local farmers to improve farming practices and farm business management. A pilot project implemented in 2009, which tested the “better cotton” concept with 14 farmers, had mixed results (more details are in section 3.12). However, this TC follows it up on a larger scale, with nearly 250 participating farmers. This TC project is further referred to as the Better Cotton Initiative (the “BCI”).

The Tajik Agricultural Finance Facility TC Phase II (the “TC Programme 3”) – this TC is a continuation of TC Programmes 1 and 2, running from February 2010 (when TC Programme 2 finished) until the end of 2012. After this period, the PIs are expected to graduate from TAFF. The budget of €5,096,000 of this TC is financed by the European Commission. It is expected that under this TC the number of PIs will increase from the current three to at least seven and the geographical coverage will expand to all four regions of Tajikistan, compared with the current status, where TAFF covers one entire region and parts of two other regions of Tajikistan. The ToRs for TC Programme 3 are similar to those for TC Programme 2, however the Consultants’ tasks have been expanded and better defined. This TC’s objectives are divided into three pillars:

- Pillar I – Design and Implementation of the Framework, covering tasks similar to those under TC Programmes 1 and 2, which are so far unachieved. The target for disbursements under TAFF has been set at US\$ 70 million; the number of borrowers at 10,000, while the target for the number of loan officers to be trained is 200
- Pillar II – Rebuilding Value Chain covers advice and training to agro processors (cotton gins and other agribusiness companies)
- Pillar III – Efficient Promotion of the Agriculture and Agri-business Development Strategy addresses policy gaps and intensifies policy dialogue with GoT and other main stakeholders in the development of agriculture.

2. Project rationale

In 2007 when the Framework was approved, the international community, including the World Bank, Asian Development Bank (ADB) and International Monetary Fund (IMF), was working together with the GoT to establish a Cotton Debt Resolution Committee, which would restructure the debt owed by farmers to local investors.³ In addition, the World Bank and ADB were both providing comprehensive support for the reform of the cotton sector. Restructuring of the sector was expected to create demand for finance from farmers. In order to meet this demand, the EBRD undertook to provide funds (accompanied by the TC Programmes) to banks and non-bank financial institutions, which in turn would on-lend them to small farmers for working capital to purchase cotton farming inputs (average loan size was expected to be around US\$ 5,000), with repayments to be made once crops were sold.

The rationale for TC Programme 1 (and then 2) was based on the assessment of the relatively low capacity of potential PIs to implement TAFF, and of the local farmers to apply for and manage the loans. Based on experience from the TMSEF, it was clear that such a financing framework could be successful only if accompanied by an intensive technical assistance programme, under which the consultants would work at the PIs to design agricultural loan products and set up lending procedures in rural branches, as well as to train local credit advisers and agronomists to assess loan applications, provide advice to the farmers and monitor their performance. In the OPER Team's view, the TC Programmes were highly relevant.

3. Achievement of objectives

TC Programme 1 was initially designed to last for two years and the Bank expected that up to 10 (but at least seven) PIs would participate in TAFF and benefit from TC Programme 1.

It was hoped that after two years of TC assistance, the PIs would “graduate” from TC Programme 1 and continue lending to farmers based on TAFF's own principles. However, it very quickly became clear that the extent of assistance needed has been grossly underestimated.

Setting up a large-scale TC programme in Tajikistan proved to be much more difficult due to the PIs being much weaker than initially estimated, as well as logistical issues ranging from a particularly harsh winter to the sickness of the original project leader and the need to find a replacement. It became apparent that much more intensive technical assistance would be needed, over a longer period, to train the PIs' local staff and ensure that TAFF makes the desired impact on the PIs and the Tajik agriculture sector in general.

Nearly the entire budget for TC Programme 1 – initially planned to last for two years (€1.16 million) – was exhausted within one year. To continue with technical assistance, TC Programme 2 was proposed and planned to last one additional year (starting in January 2009).

The Consultants' scope of work under TC Programme 2 was to be similar to that for TC Programme 1; however the detailed objectives were updated (some quantitative targets were more realistically defined). The ToRs for TC Programme 2 mentioned that the ultimate objective of the TC was to build the capacity of the PIs, but did not specify when they could be expected to “graduate”. The budget for TC Programme 2 (€1.18 million), designed to last one year, was approximately the same as that just used up during TC Programme 1, indicating that a lesson had been learned from TC Programme 1 in this respect.

³ By the time TC Programme 2 was completed, the bulk of the old cotton debt was restructured or written off, including US\$ 435 million of farmers' debt owed to investors financed by Kreditinvest and US\$ 113 million of similar debt financed by local banks. The GoT supported the restructuring of this debt by replacing cotton debt with Treasury Bills (although with long maturity and low interest).

Both programmes were conceived as dual projects with a specific capacity building component on the one hand (assisting PIs in developing a sound agricultural portfolio) and a broader mandate (although vaguely defined) requiring a contribution to the restructuring of the Tajik agricultural sector on the other hand. The success of the TC Programmes was to be inherently connected to the success of the TAFF Framework project itself, as the Consultants' ToRs specified minimum lending targets, portfolio quality, borrower diversification and other objectives to be achieved by the PIs with which the Consultants were to work.

The overall achievement of objectives as defined in the TC Programmes is rated as *Partially achieved*. Presented below is an analysis of the achievements of the specific objectives under TC Programme 1 (TCP 1) and TC Programme 2 (TCP 2), on which the overall rating has been based.

3.1 Extent of TAFF outreach – number of PIs and their branches involved in TAFF and benefiting from technical assistance

Objectives (according to the Terms of References (ToR)):

- | | |
|-------|--|
| TCP 1 | • Support 7-10 Partner Institutions with multiple branches. |
| TCP 2 | • Support 6-8 Partner Institutions (in at least 50 branches, assuming EBRD funding of at least US\$ 22.5 million or, if below, then in two branches per every US\$ 5 million disbursed). |

Partially Achieved – by the end of TC Programme 2 (February 2010), TAFF had signed participation agreements with three PIs – AgroInvestBank (AIB), Bank Eskhata (BE) and Tojik Sodiro Bank (TSOB). Cooperation with AIB involved 34 branches of that bank, while BE and TSOB had eight branches each participating in TAFF.⁴ In addition, pilot projects were undertaken with two non-banking institutions – Oxus and Humo. As explained by the Consultants, there have been three main reasons for lower than expected interest from Tajik banks and micro-finance institutions in TAFF, that is:

- Although one of the objectives of TAFF was to introduce more banks to agricultural lending, it is mainly AIB that specialises in agricultural lending in Tajikistan and has a relatively well developed network of branches in rural areas. The strategy of the other banks is to focus on corporate and trade financing, rather than agriculture, which even in the case of BE and TSOB accounts for less than 5 per cent of their total portfolio. They concentrate on Dushanbe and two or three main regional cities and therefore their presence in rural areas is very limited.
- Several Tajik banks that participated in the past in government-sponsored cotton farming financing programmes have already “burned their fingers” and are unwilling to make the same mistake (even though the purpose of TAFF is precisely to mitigate the credit risks related to agricultural/cotton lending).
- Also, some microfinance institutions prefer to lend to small businesses, viewing agricultural lending as a much higher risk. Moreover, they can lend only in local currency, while the Bank's TAFF loan was denominated in US dollars as the Bank did not (and still does not) provide financing in TJS.

AIB's and BE's officials interviewed by the Evaluation Department (EvD) confirmed these views. Nevertheless, the Consultants tried hard to involve as many branches of the three banks as possible in TAFF, training loan officers and/or agronomists in a total of 50 branches of these PIs (34 AIB, eight BE and eight TSOB), while also providing limited training to three Humo and two Oxus branches under the pilot programmes.

It is also worth mentioning that the efforts to involve more banks have been continued under TC Programme 3 and in mid-2010 the fourth bank (Amonatbank) signed up to TAFF (although it has already issued a statement that it will not finance cotton farmers due to the defaults this sector is associated with).

⁴ Although only eight branches of Bank Eskhata participate in TAFF, this accounts for about 60 per cent of all branches of this bank, which is much smaller than AIB.

The OPER Team is of the opinion that the objective related to TAFF's outreach should have been set differently, that is, due to AIB's specialisation and actual domination in this sector, the number of branches (rather than PIs) participating in TAFF, or the regional coverage, should have been defined as an objective for the Consultants.⁵

Overall, the objective related to the broad outreach of TAFF is considered *Partially achieved*, as despite a much lower number of PIs than targeted, a substantial number of AIB branches (34) have been participating in TAFF.

3.2 Developing new loan products

Objectives (according to the ToR)

- | | |
|---------|---|
| TCP 1 • | Design a range of products tailored to various agricultural outputs, different sizes of borrowers and defining criteria for each loan product and type of borrower. |
| TCP 2 • | Develop new products as necessary. |

Achieved – TAFF has designed four different products:

- **Individual credits**, which form the bulk of TAFF loans
- **Mutual Group Lending (MGL)**, based on schemes already largely implemented by microfinance institutions, recommended for groups of small farmers (household plots, which provide the bulk of vegetable, meat and dairy production). In MGL, borrowers are jointly and severally liable
- **Institutional Group Lending (IGL)**, designed for small-size farmers already involved in institutional groups (consumer cooperatives or water user associations). In IGL, the cooperative or association first designates borrowers from among its members for a loan from a PI. The PI grants credit directly to these members with the corporate guarantee of their cooperative or association. It also requires part of the proceeds of each loan (3 per cent) to be paid to the guarantor and placed into a Guarantee Reserve Fund (GRF) pledged in favour of the PI. As the total volume of credit to be given by the PI to the members of the association or cooperative is proportional to the amount of the GRF, they have a built-in interest in fostering good repayment behaviour among their members;
- **Value Chain Finance (VCF)** loans are based on a tripartite agreement between lending banks, farmers and agro-processors/off-takers. An important feature of this financing is that the payment for crops provided to the off-taker is paid first to the banks (not the farmers) and credited to the repayment of the loan. So, the banks have a much greater certainty that their loans will be repaid. This type of financing is a cornerstone of the Better Cotton Initiative (BCI), which is being implemented by an international agricultural commodity trader. Under this programme, TAFF also provides extensive training and agronomic advice to farmers who signed up to VCF-TAFF. Based on interviews with the farmers, EvD believes that developing and introducing this type of financing has been one of the key benefits achieved by TAFF.

3.3 Revising crop budgets

Objectives (according to the ToR)

⁵ The reason for setting the objective in this way could have been inherited from TMSEF, for which five banks and two microfinance institutions signed up relatively quickly. However, it should have been taken into account that microfinance lending is more universally practised and less risky than lending to farmers. It also requires already developed network of branches in rural areas to effectively participate in such a programme. Furthermore, the Operating Team explained that one of the TAFF's objectives was to diversify risk by involving more banks in agricultural lending, while supporting AIB's strategy of not being a purely agriculture-financing bank. In EvD's opinion such an expectation was unrealistic given AIB's branch network and loyal customer base in the rural areas, which other banks lacked.

- TCP1 • Revise existing tech cards (crop budgets) for each of the crops or agricultural activities likely to be financed under TAFF.
- TCP2 • As above.

Achieved – TAFF consultants not only revised the existing tech cards and continue doing so on a regular basis, but also introduced an innovative agro-credit scoring system by making use of these tech cards and calculations of gross margins for 21 crops for a qualitative and quantitative credit assessment of clients. This expert system, denominated CAP (Credit Assessment Programme), is based on Excel software and is very user friendly. A presentation used as a CAP training tool is in Appendix 4.

3.4 Market research

Objectives (according to the ToR)

- TCP1 • Assisting PIs to identify in which Jamoats⁶ and regions there are large numbers of private farms, untied gins and cooperative local authorities.
- TCP2 • As above.

Achieved – Since the beginning of the transition process, 32,500 “private” so-called Dekhan farms have been created out of 600 collective farms. The process of reorganisation is still going on as small farms tend to be more efficient and more profitable than big farms, which are faced with acute organisational and governance problems. Between 2007 and 2008, 6,000 new farms were registered, linked both to the reorganisation of former big collective farms and to the subsequent sequential reorganisation of already existing Dekhan farms into smaller units. Slowly, family controlled units are becoming the norm.

The Consultants concentrated their activities on the Yavan region (northern Khatlon province) due to the support from the local administration, the interest of the farmers and the relatively well-developed AIB network.

TAFF has also been introduced, although on a lesser scale, in Sughd and southern Khatlon. Simultaneously, the Consultants have been visiting other regions, identifying opportunities and limitations. In particular several Jamoats have been identified where Decree 111 (freedom to farm) has not yet been fully implemented by the local authorities, especially in the south-west of Khatlon. This was linked with the policy dialogue objective and enabled PIs to focus on regions and stakeholders able to enter and foster a more open, market-oriented approach. Also, the Consultants identified untied gins with the help of other stakeholders working under the Better Cotton Initiative.

3.5 Agronomic data gathering

Objectives (according to the ToR)

- TCP1 • Identify types of land and levels of irrigation in each of the Jamoats.
- TCP2 • No reference to this objective.

Achieved – Soil quality as well as water availability has been assessed through questions asked of the farmers in the process of CAP qualitative client analysis and validated on the ground by TAFF and PIs’ agronomists.

Irrigation levels differ over time and among regions, therefore constant agronomic research is required. The Consultants have been also working on these issues with the National Water Users Association (supported by USAID-Winrock).

⁶ Jamoat is a subdivision of a region or “oblast”.

3.6 Development of appropriate loan security mechanisms

Objectives (according to the ToR)

- TCP1 • Review of different types of security, including joint and several liability, land certificates, movable and immovable property, and preparing a collateral policy with respect to each of the loan products.
- TCP2 • Updating collateral policy to include land use rights when relevant legislation is in place.

Partially achieved – A draft collateral policy has been developed, with the registration of immovable collateral for credits over US\$ 5,000 and of movable assets under this amount. For group lending, small amounts of credit are guaranteed mainly by joint and several liability (for MGL) or corporate guarantee (for IGL), but PIs retain the right to include movable assets if they wish to.

Collateral emerged as a major issue under TAFF, in particular for the bigger farms, as there is no private ownership of agricultural land in Tajikistan and land titles cover only inheritable land use rights.

There is still major work to be done in this respect. USAID is currently working with GoT on the privatisation of land user rights that will allow their holders to mortgage them as if they were property titles. This will greatly improve the collateral package of the PIs. One of the aims of VCF is to use the underlying contracts between farmers and agro-processors/off-takers as a substitute for traditional collateral (please see Box 1).

Box 1 – Comments of one of the Consultants in respect of the collateral policy of PIs

“The lack of standard collateral often leads PIs to overstate the value of collateral such as administrative buildings or former Soviet farm buildings (stables of the sovhoze), so as to reach collateral requirements (130 per cent security with a discount of 50 per cent on the “market” value of collateral). This approach is obviously quite problematic as this kind of collateral is illiquid and often useless. The lack of a functioning property market and professional valuation agencies, which could perform meaningful property valuations in accordance with international standards, further aggravates this problem. For that reason, TAFF considers that PIs will need to use other forms of collateral, particularly for medium-size farms in the cotton sector, for example the pledge of off-take contracts with reliable buyers as part of the collateral package in addition to other assets (home mortgages, and so on). Under VCF, an off-taker doesn’t pay the farmer for cotton delivered, but rather the bank that pre-financed the farmer. This payment is first credited to the repayment of the loan and only the balance is paid to the farmer’s account.”

It needs to be mentioned that the warehouse receipt programme (WHR) could have provided another form of collateralisation. According to the Consultants, it is very unfortunate that it has not been pursued further by the EBRD.

3.7 Development of lending procedures

Objectives (according to the ToR)

- TCP1 • Create efficient agricultural lending procedures.
- TCP2 • Maintain efficient agricultural lending procedures.

Achieved – A streamlined approach has been developed, with CAP being the first step in the lending procedures, followed by thorough financial analysis. These methods were simplified for small borrowers. Procedural documentation has been drafted for all loan products. Appendix 5 contains samples of some of the documentation developed by the Consultants, including a loan application and a credit evaluation form. However, there is a constant need to revise the quality of lending procedures and to find the best balance between the control of risk and the control of operational costs. The Consultants recognise that procedural documentation will need further refinement and elaboration as TAFF expands.

3.8 Training and coaching PI staff

Objectives (according to the ToR)

- TCP1 • Train local consultants and the PIs' staff in lending procedures. It is expected that one lending team will be trained in each participating branch. In total, at least 60 agri-loan officers and 60 agronomists will be fully trained.
- TCP2 • Continue to train local consultants and PI staff in lending procedures. Further capacity building at the farm level (coordinate with other donors). At least 50 loan officers and 46 agronomists to be trained (depending on level of funding).

Partially achieved – The Consultants have provided classroom training, as well as on-the job coaching, both for the team of local consultants and for PI staff based in Khatlon and parts of Sughd regions. So far, 14 local consultants (local trainers) have been fully trained, however only seven were active by the end of TC Programme 2 as the rest left to take up other jobs or were deemed unable to cope with their responsibilities. The Consultants' report states that at the PI level, 78 loan officers, 22 agronomists and 20 trainees (120 in total) were trained, as follows: at AIB, 52 loan officers, 19 agronomists and 20 trainees; at BE, nine loan officers; at TSOB, 11 loan officers and three agronomists have been fully trained. In addition, during pilot programmes with Humo and Oxus four and two loan officers, respectively, from these institutions have been trained.

The Consultants exceeded the target for training loan officers. This is commendable, however EvD notes that their job was somewhat facilitated as during May to October 2007 other consultants, working under TMSEF, had already trained 32 loan officers working for 20 AIB branches in the basic elements of agricultural lending and risk analysis.⁷ This training was performed as part of the Institution Building for Commercial Banks, a TC funded with €394,000 from ETCF.

Although TAFF has exceeded the target in respect of trained loan officers, it trained far fewer agronomists than initially planned. This is mainly because the PIs and the Consultants have so far had difficulty in finding good candidates for agronomists. They tried to recruit graduates from the local Tajik schools and universities. However, the technical capacity of the students currently finishing their studies appeared low. Most of the students interviewed had only a very vague notion of modern agriculture and animal production, and nearly all of them were unable to speak Russian. This situation reflects the dire evolution of the Tajik educational system. PIs (and the Consultants) now prefer the concept of "hybrid" agro-credit officers or "agrobankers" rather than hiring separate credit officers and agronomists.

While training loan officers in the assessment of new loan applications was the initial focus of the Consultants' work, by the end of TC Programme 2 coaching had shifted to the management of bad loans as the quality of the portfolio has tended to deteriorate both in absolute and relative terms (*vis-à-vis* the total portfolio). The Consultants are aware that the good results achieved in terms of portfolio quality must be maintained in the long term if TAFF is to remain a benchmark for agricultural credit in Tajikistan.

However, coaching in the management of bad loans proved to be a difficult task. Many heads of branches, especially in southern Khatlon (Kurgan Tube, Bokhtar, Vaksh), are used to suffering an extremely high rate of default for cotton loans (around 50 per cent for 2008 MinFin loans in these areas). They do not believe in the possibility of having "normal" repayment rates, knowing that they are also under strong pressure from local authorities not to enforce their collateral in the case of default by well-connected farms. Therefore, the Consultants have had to put some pressure on PI headquarters to ask the branches to adopt a stricter approach to address repayment arrears.

⁷ OPER No: PE07-397 Tajikistan Micro & Small Enterprise Finance Facility, May 2008.

3.9 Building a strong and diversified TAFF portfolio

Objectives (according to the ToR):

- | | |
|-----------------------------|--|
| <p>TCP1 •</p> <p>TCP2 •</p> | <p>Build a relatively diversified but high-quality loan portfolio (it is anticipated that as much as 65 per cent may be cotton during the first season); at least 20 per cent of the portfolio to have been disbursed in loans for crops other than cotton; average loan below US\$ 10,000; level of arrears over 30 days of outstanding loans less than 5 per cent.</p> <p>As above, plus a minimum of 2,250 loans disbursed and an aggregate minimum loan amount of US\$ 22.5 million (or 500 loans per US\$ 5 million disbursed if disbursements are below the assumed aggregate of US\$ 22.5 million).</p> |
|-----------------------------|--|

Achieved – By the end of TC Programme 2 (January/February 2010), 3,998 loans with aggregate amount of US\$ 16.5 million were extended to farmers under TAFF. Therefore this objective is considered as technically achieved (on account of the lower target defined in brackets in the ToRs for TCP 2). However the low aggregate amount of loans disbursed is disappointing, particularly as out of US\$ 16.5 million only US\$ 12.2 million was drawn from EBRD’s TAFF loan.⁸ This was well below the US\$ 22.5 million targeted at the time of TC Programme 2 approval (and the US\$ 35 million of total Bank financing initially earmarked for the Framework).⁹ The main reasons for the limited draw down by the PIs from the Bank’s loan were as follows:

- AIB (US\$ 10.7 million drawn down from the Bank’s loan) – for a long time this bank was in breach of the conditions precedent to disbursement from the Bank’s loan, in particular the capital adequacy ratio, as it was burdened by old cotton debt. AIB only complied with the covenant after the GoT restructured such debt (most of it was replaced by treasury bills, however at a low rate and long maturity). AIB still remained in breach of the portfolio concentration covenant (which requires it to have less than 25 per cent of its loans in the agricultural sector and, of that, less than 50 per cent in the cotton sub-sector). The Bank finally waived this covenant but only in October, past the planting season and too late for most of the farmers.
- Bank Eshkata (no drawdowns from the Bank’s loan) – this bank is over liquid and has access to lower priced funding.
- TSOB (US\$ 1.5 million drawn down from the Bank’s loan) – has been in breach of some financial covenants. Moreover, integrity concerns were recently raised as it became clear that TSOB provided financing to a related party (one of its shareholders) at preferential rates.

Interest in working capital financing among farmers was relatively high in 2009 as the Ministry of Finance decided to allocate TJS 180 million (approximately US\$ 50 million) to six local banks for on-lending to farmers. Such loans were provided to farmers at a margin of 14 per cent, which was relatively low by Tajik standards. The Ministry of Finance imposed this rate on the banks by lending to them at 12 per cent with a condition that the banks charge a maximum 2 per cent margin on top of this re-financing rate.

Most of such loans were then granted to farmers under the “old” system, that is, using less rigorous due diligence than TAFF required but taking farmers’ houses as collateral, even on very small loans. However, towards the end of 2009 some loans with funding sourced from the Ministry (estimated

⁸ According to most recent reports (August 2010) the disbursements from the Bank’s TAFF loan increased to US\$ 15.9 million (consisting of US\$ 13.9 million for AIB and US\$ 2 million for TSOB). However no disbursements were made to Bank Eshkata due to continuing over-liquidity of this bank.

⁹ The balance of approximately US\$ 4.3 million was funded by the PIs own funds or sourced from US\$ 50 million provided in 2009 by the Ministry of Finance to pre-finance cotton farmers.

US\$ 3 million) were extended using TAFF methodology. This also diminished demand for EBRD funding. However in 2010 the Ministry is not providing any such funding, which is reflected in higher drawdowns from the Bank's loan this year (see footnote 8).

The six banks participating in the Ministry of Finance scheme in 2009, particularly AIB (which received US\$ 13.8 million – the largest portion of the Ministry of Finance funds), claimed that they made losses on such lending and therefore in 2010 the interest rate on agricultural loans under TAFF would be higher. This caused many farmers to take much smaller loans or turn back to private investors.

While pricing of agricultural loans funded by the Ministry of Finance (14 per cent) and partially granted to farmers under TAFF in 2009 was clearly below Tajik market's benchmarks and therefore unsustainable, a jump of interest charged on TAFF loans to much higher rate in 2010 made a strong negative impact on demand for such loans.

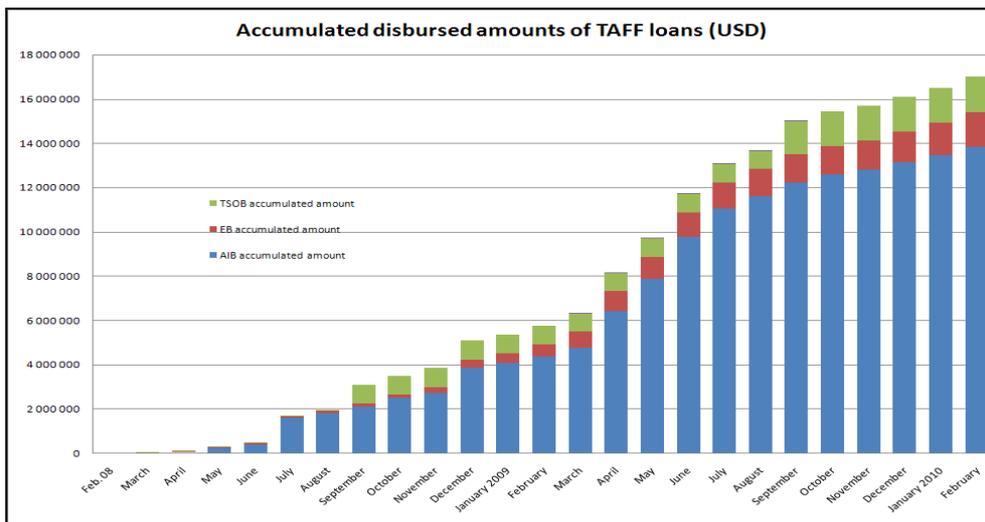
Although the EBRD promotes market pricing and the PIs are free to set prices for their loans, excessive pricing contradicts the primary objective, for which TAFF was established in the first place, that is, to provide farmers with an alternative to financing by investors/entrepreneurs who offered such financing at exploitative terms.¹⁰

Out of 3,998 loans provided under TAFF, 78 per cent have been granted by AIB, 17 per cent by BE, and 4 per cent by TSOB. Oxus (14 loans) and Humo (three loans) still play a marginal role. Taking into account that most TAFF loans have been non-repeated loans, it is estimated that one out of 10 Tajik Dekhan farms has benefited from a TAFF loan.

The Consultants substantially exceeded their objectives in terms of the number of the loans to be granted by PIs, however the total amount of disbursements has been lower than planned (73 per cent of the amount planned under TC Programme 2 or 47 per cent of the entire amount allocated to TAFF by the Bank).

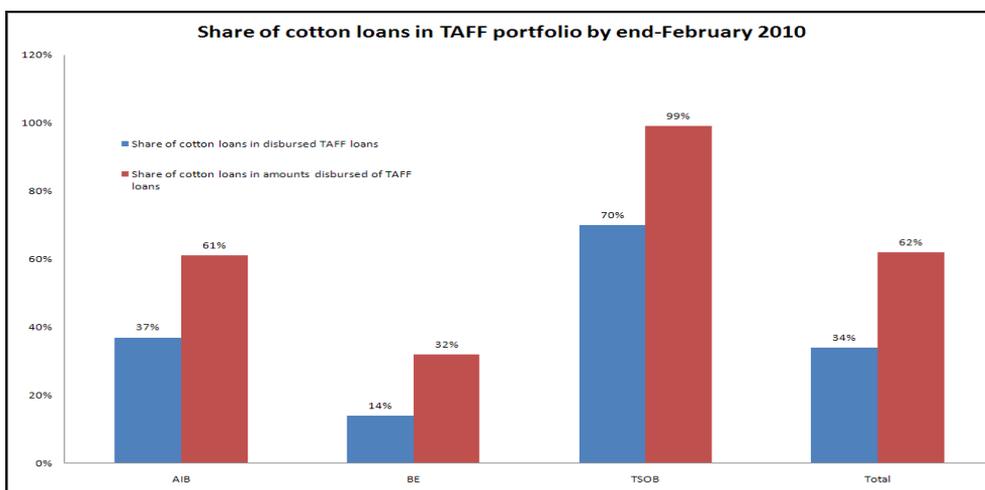
Graph 1 – Accumulated disbursements of TAFF loans

¹⁰ Farmers interviewed by EvD reported that they are aware that in 2010 some farmers have turned away from TAFF and reluctantly returned to private investors' financing as they view it as a better value. This could not be verified, however EvD noted that deposit rates on 12-month notice accounts offered by AIB branch in Yavon were 16 per cent, implying that any interest on loans would have to be substantially higher.



At the end of TC Programme 2, the volume of disbursed loans was mainly geared towards cotton, which represented 62 per cent of the outstanding portfolio and 34 per cent of total number of loans. Differences among PIs were substantial, as evidenced by the following graph.

Graph 2 – share of cotton in TAFF portfolio



The relatively high importance of cotton loans in the TAFF portfolio corresponds to one of the original goals of TAFF, namely to provide an alternative to traditional non-transparent “investor” finance in the cotton sector. It has also been reinforced by AIB’s and TSOB’s use of MinFin resources linked to cotton that provided a substantial part of TAFF’s financial resources in 2009. However, many loans granted under TAFF also financed other crops, as TAFF methodology puts heavy emphasis on crop diversification within farms. According to the Consultants, the objective of portfolio diversification (less than 50 per cent in cotton) will be achieved by 2011, when TAFF moves to other regions where cotton farming is less prevalent than in the regions currently covered.

With regard to the average loan size (the ToRs require an average loan amount of less than US\$ 10,000), as at end-February 2010 the average amount of a disbursed TAFF loan was US\$ 4,255, so well within the target. There are substantial differences between PIs, with BE, Oxus and Humo providing many small loans to non-cotton farmers. Women have received 8.5 per cent of TAFF loans and 4.8 per cent of disbursed amounts. Loans granted to women farmers are for an average of US\$ 2,289 against US\$ 4,437 for men.

The total problem loans (PAR>30) and restructured loans amounted to US\$ 642,360, accounting for 3.7 per cent of the total portfolio, well within the maximum target of 5 per cent. The geography of bad loans shows that they are still very much associated with cotton producing regions. In some cases, cotton production was bad in 2009 (for example in Huroson, where heavy

rains in May forced a replanting of cotton late in June), but in other regions it was both good and profitable as prices were higher than in 2008.

Institutional reasons still played a major role in bad loans, with two main problems previously identified by the Consultants to which the PIs, and AIB in particular, did not react:

- extremely weak management of some branches with branch managers reluctant to take action
- weak liquidity management of PIs that prevented them from disbursing their committed loans on time, forcing farmers to contract with middlemen for the harvest of their crops.

3.10 Establishing transparent and objective decision-making mechanisms and representing the EBRD's interests with respect to the subloans

Objectives (according to the ToR)

- | | |
|--------|---|
| TCP1 • | Establish transparent and objective decision-making mechanisms that may rely on judgmental credit scoring but will ensure that there are specialised and qualified Credit Committees operating at the branch level in each of the PIs; represent the EBRD's credit interest with respect to the subloans if they exceed a pre-agreed limit. |
| TCP2 • | As above. |

Achieved – The TAFF decision-making process is based on codes of procedures that are both transparent and objective. The agro-credit scoring CAP is just one of the elements in the decision-making mechanism. It is preceded by a preliminary screening of loan applications to see whether they fit the requirements of the programme. If the results of CAP are positive, credit officers in the PIs undertake a subsequent financial analysis, including cash-flow projections, balance sheet analysis (balance sheets are usually established during the analysis as accounts, if they exist, are usually unreliable), analysis of the income and expenses of the borrower's family (generally with a large contribution of cash remittances from Russia), and lastly an analysis of the proposed collateral.

The Consultants have the right of veto in Credit Committees and this right has been frequently exercised, mostly for big loans when it was obvious that the local PI staff were under pressure from local power-brokers to indiscriminately disburse loans as in the past. This has led to bouts of tension with some branches, usually those with the highest levels of delinquency. On the other hand, there has also been a progressive transfer of responsibilities to the best branches whose most experienced staff have been granted delegation powers.¹¹ In that case, the Consultants' control is exercised mainly *ex-post*.

3.11 Ensuring that the PIs' Management Information System (MIS) can effectively monitor loans

Objectives (according to the ToR)

- | | |
|--------|--|
| TCP1 • | Ensure that the PIs' MIS can track loans and subsectors (that is, for each crop); assess the existing electronic data processing systems of the PIs and, if necessary, create new or additional electronic data processing systems together with the necessary monitoring procedures; monitor the subloan portfolio. |
| TCP2 • | As above. |

Partially achieved – So far the loans have been monitored mainly through simple Excel spreadsheets, into which data has been entered manually. This objective has been hampered by

¹¹ Most delegations are for loans below US\$ 5000.

the fact that AIB, which is the dominant PI in TAFF, is currently beginning to overhaul its whole IT system, so as to make it compliant with EBRD standards. It was therefore not feasible to invest much time or financial resources in an MIS system that could have been useless shortly after installation.¹²

3.12 Extension service to cotton farmers

Objectives (according to the ToR)

- | | |
|-----------------------------|---|
| <p>TCP1 •</p> <p>TCP2 •</p> | <p>The international agronomist will provide advice on optimal farming practice and which alternative crops to grow; average cotton yield per hectare on farms in receipt of EBRD finance at least 10 per cent higher than average yield across the sector; average price per ton of seed cotton received by farmers – at least 10 per cent higher than the average across the sector; by the end of the first year at least 10 per cent of farmers in receipt of EBRD finance to implement best practice crop rotation, increasing to 20 per cent by end of year 2.</p> <p>Given the limited knowledge of the small farmers in the country, further capacity building will be needed at the farm level. Other donors are also working on this and the consultants will coordinate with other donors' inputs.</p> |
|-----------------------------|---|

Partially achieved – The achievement of specific objectives referred to under TC Project 1 has not been verified as there is not enough data to measure such achievements.

Moreover, different donors (as well as the EBRD under other TCs) provided similar assistance to farmers, so it is difficult to establish who should get credit for which type of extension service. However, most of the work in this field seems to have been done not under the TC Programmes but under the pilot Better Cotton Initiative (BCI) project implemented mainly by an international cotton merchant, which sub-contracted a local NGO to provide such extension services together with the consultancy company (the BCI Training Curriculum is attached as Appendix 6). The local NGO has been previously trained under the Farm Business Management Training TC (see section 1.2). As it was later acknowledged that some consultants have been better placed to provide extension services to farmers, rather than the TAFF consultants concentrating on financial management capacity building at PIs, the objectives related to the extension services were no longer specified in the ToRs related to TC Programme 2. Instead, a more vague “coordination with other donors” was referred to in respect of capacity building at the farm level.

It is worth mentioning that the pilot BCI VCF (implemented with 14 farmers in 2009) was faced with numerous difficulties, which led most of the farmers to deliver only one third of the expected cotton. There were two main reasons why this pilot did not work out:

1. Most farmers did not receive their last tranche of credit on time due to lack of resources at AIB during the crucial harvesting period (AIB received Ministry of Finance funds in October rather than in August and the EBRD did not disburse a new TAFF tranche before that date either, as compliance with the Conditions Precedent (CPs) was being verified). The farmers consequently had to sell their harvest to middlemen to get the resources needed to pay for cotton pickers in the fields. This increased AIB's risk as it lost control of the future crop “pledged” under the VCF scheme.
2. Farmers refused to deliver their cotton to the designated gin because the gin heavily discounted their cotton upon delivery.¹³ Eventually, farmers who processed their cotton in that gin and sold it managed to obtain a final price for their crop that was 20-25 per cent higher than that obtained by those who sold their cotton as seed cotton to middlemen. In the 2010 season, an international

¹² The Consultants have solicited quotes from IT companies for the development of a new monitoring system. Majority of quotes came in the region of US\$ 100,000, which the Consultants deemed as excessive.

¹³ Cotton gins, which clean and separate fibre cotton from seeds, usually discount (subtract a few percentage points from the weight of cotton delivered by farmers) due to water and/or dirt content. In this case, the farmers felt that discounting was excessive and they have been cheated.

cotton merchant company leased, and now operates, its own gin to ensure this does not happen again. The farmers apparently took comfort from this as over 250 farmers signed up for this year's VCF/BCI.

3.13 Other benefits achieved by TC Programmes 1 and 2

In addition to the objectives described in the ToRs, TAFF was to play a role (although vaguely specified) in Tajik agricultural sector reforms. To this end, GoT has given TAFF a coordinating role in the Working Group on the Reform of Agriculture Finance. Among the activities performed by the Consultants under this initiative, there have been: the organisation of an International Conference on Agricultural Finance that took place in Dushanbe in December 2009 (the agenda for this conference's agenda is presented in Appendix 7); the preparation of an Agricultural Finance Policy Document for GoT, submitted through the Donors Coordination Council (DCC) (a presentation of the main points of this policy is contained in Appendix 8); and the preparation of a policy document dealing with the impact of the proposed land reform (a presentation of the main points related to this document is contained in Appendix 9). The Consultants were asked to play a leading role in the preparation of these policies and providing advice on them to the GoT.

This final period of the TC Programme 2 also coincided with an exercise attempting to bring together most of the agencies involved in agriculture and rural development in Tajikistan. Of particular importance was the decision by the UK's Department for International Development (DFID) to apply for £2 million of funding for projects providing technical assistance to farmers and farm cooperatives to be implemented by Gesellschaft fuer Technische Zusammenarbeit (GTZ) in strict coordination with TAFF.

4. Overall assessment

In the Project Completion Reports (PCRs), the Operation Leaders (OLs) have rated all TCs under the TC Programmes as *Successful* in respect of outcome and *Good* in respect of the Consultant's performance.

Summing up the achievements of both Programmes, EvD rates the TC Programmes overall as *Partially successful* and their Transition Impact as *Satisfactory* with *Excellent* long-term potential (to be hopefully achieved under TC Programme 3, which is a continuation of TC Programme 1 and 2). This rating reflects TAFF's achievements to date, particularly the fact that although major progress was made by the Consultants, for example in the capacity building at the participating PIs, as well as in developing lending products and establishing related procedures (all within the difficult environment of an early transition country), the achievements in terms of the number of PIs participating in TAFF (or TAFF's coverage of Tajik regions), as well as the amount of financing actually provided to farmers, are still far from reaching the key objectives set at the time the TC Programmes and the Framework were approved.

Most importantly, the amount of effort required from the Consultants in order to deliver these objectives was greatly underestimated, while the targets set very ambitiously. The Consultants, although they have done a very solid job, had no real incentive pushing them to achieve these very challenging targets (for details, please refer to section 3).

The initial TC budget of €1.16 million, which was to bring up to 10 PIs to graduation within two years, had to be increased to €2.34 million and ultimately evolved into an aggregate €7.5 million of the current TAFF TCs budget, under which up to seven PIs are hoped to participate in the future in TAFF programme and only after five years, when TC Programme 3 ends (2012).¹⁴ EvD recognises difficult and particularly unfortunate developments at the beginning of TC Programme 1 (the harsh winter and the need to replace the first project leader), however it could be also argued that had the

¹⁴ Although admittedly, some of the targets for the number of both loans and disbursements under TAFF have been increased for TC Programme 3.

Consultants' remuneration package been partly performance-related (for example, linked to reaching PI participation targets or/and achieving larger geographical outreach), the outcomes of the TC Programmes might have been closer to the ambitious targets set in the Terms of Reference.

Nevertheless, it is evident that the Consultants' input has been instrumental in establishing and running TAFF, particularly at AIB. Through this one Partner Institution and its 34 branches, TAFF is now completely covering one Tajik region and partially covering a further two. The number of loans granted greatly exceeded initial expectations (nearly 4,000 loans versus 2,250 target), setting an example to other banks and non-banking institutions that may get involved in TAFF under TC Programme 3.

Importantly, TAFF is now well established and it is recognised by other IFIs and donor agencies working in agriculture, as a model for primary agriculture financing. The fact that the EU approved relatively large grant financing for TC Programme 3 confirms the good reputation TAFF established internationally.

5. Transition impact and additionality

The transition impact of the TC Programmes is closely related to that of the TAFF project. Therefore in the absence of defined TI objectives for the TC Programmes, EvD measures the TI of the TCs against the benchmarks set for TAFF. More specifically, the Board document for the Framework set the following TI benchmarks:

Competition in the project sector

- at least six PIs providing finance to farmers
- exit of at least three of the main five investors from the provision of non-transparent pre-financing to farmers

Expansion of markets

- establishment of a new supplier and/or farm service company
- crop diversification (50 per cent of sub-loans portfolio to be non-cotton)

Skills transfer and setting standards

- at least 60 lending teams trained (consisting of one loan officer and one agronomist in each team), at least 45 trainers trained to train farmers in farm business and at least 3,000 farmers to have received some training (all by the end of 2010)
- elimination of forced labour on farms receiving EBRD funds

Institutions, laws and policies

- legislation for WHR in place
- effective WHR up and running (by end 2010).

In view of the TI-related achievements during the last two years versus the targets listed above, the transition impact of the TC Programmes is rated *Satisfactory*, reflecting solid progress, although almost all TI targets remain unmet (see below and Appendix 3).

5.1 Competition in the project sector

Under both the TC Programmes, the Consultants were able to enlist three local banks to participate in the TAFF. Of these three banks only AIB, with its 34 branches, actively pursues TAFF's objectives and markets TAFF effectively, while the participation of BE and TSOB (with eight branches each) has a much more limited impact. The objective of having six PIs working under TAFF might be achieved in the future as in 2010 Amonotbank signed an agreement to participate in TAFF and pilot projects have been conducted with Oxus and Humo, which reportedly are also close to signing.

According to the Consultants and the farmers interviewed, the “private investors”, who seemed to be less prolific in 2009, have now returned and are more active as AIB provides its loans under TAFF at a very high interest rate.

On balance, TI related to competition in the project sector is rated as *Satisfactory* on account of the progress made in involving 34 AIB’s branches in TAFF.

5.2 Expansion of markets

At the end of TC Programme 2, the volume of disbursed loans was mainly geared towards cotton, which represented 62 per cent of the outstanding portfolio. Therefore the objective of 50 per cent of financing being for non-cotton crops, as measured by the outstanding portfolio, has not yet been achieved. In the Consultants’ view, this objective was incorrectly set as TAFF was supposed to start operating in predominantly cotton-growing regions and therefore it was unrealistic to expect a high degree of diversification. They expect that this target will be easily met as soon as TAFF moves to Tajikistan’s non-cotton growing regions (which is expected under TC Programme 3).

The Consultants and the farmers interviewed were unaware of any new supplier or farm service company that started operating in Tajikistan in recent years. The achievement of TI benchmarks related to the expansion of markets is rated *Satisfactory*, giving credit to the attainment of a 38 per cent non-cotton portfolio, while operating in predominantly cotton-growing regions of Tajikistan.

5.3 Skills transfer and setting standards

So far the Consultants have trained 78 loan officers and 22 agronomists. In addition 20 trainee loan officers have received basic training. Finding technically qualified candidates for the agronomists jobs proved to be much more difficult than initially expected. It can, however, be argued that training related to some aspects of extension services and implementing the Better Cotton Initiative TC have been performed primarily by one consultancy firm. Moreover, consultants from another firm, working under the Farm Business Management Training TC, provided coaching and training in farm business to 11 local extension service companies.

In terms of forced labour, government officials and the Consultants confirmed that the practice of closing schools during the cotton harvest to force children to help in cotton picking has been stopped in recent years and there are no plans to reintroduce it. However, some of the farmers interviewed admitted that their children sometimes voluntarily offer their labour services to neighbours (after school) to earn some pocket money. Therefore, although child labour is no longer systematic, it still exists. The verified impact in this category is rated as *Good*, although such a rating was achieved mainly thanks to several different TCs.

5.4 Institutions, laws and policies

As mentioned in section 2.1, following an initial project scoping TC, WHR has not been pursued by the Bank. However, the Consultants contributed in other ways to policy dialogue with the GoT in respect of agricultural finance policy and land reform. None of the Consultants’ recommendations have been implemented yet by the GoT but since the IMF recently requested that all agricultural lending in Tajikistan be based on TAFF methodology, there is a reasonable likelihood that this policy will be introduced in the future.

Key representatives of the Ministry of Agriculture interviewed by EvD stated that they were invited back in 2008 to a workshop related to the launch of TAFF. However, since then nobody has coordinated any activities with them. They had some information from their regional representatives and third parties, mainly related to the complaints by farmers about “expensive lending under TAFF”, which local banks blamed on “high costs of EBRD’s loan”. Such a misunderstanding, damaging the Bank’s reputation, could have been avoided had the Ministry of Agriculture (and its local representatives) been kept informed by the Consultants about the nature and the progress of TAFF.

Although the TI benchmarks set in this category at the time of approval have not been achieved (or even attempted), the impact of the TC Programmes on institutions, laws and policies is rated as *Satisfactory* mainly on account of the work the Consultants completed with the Ministry of Finance and in the expectation that some of their recommendations will be implemented soon. Improved communication with the Ministry of Agriculture is strongly recommended.

5.5 Compliance with country strategies and sector policies

The TC Programmes complied with the country strategy and sector policies as they served the achievement of objectives under the Framework. The Framework was consistent with the Bank’s country strategy for Tajikistan, which notes “*The Bank will continue to focus on micro businesses, through further development of micro and small business credit lines administered by local and banks and non-bank financial institution. A particular focus...fostering penetration of financial institutions in secondary cities and towards the rural areas, thus increasing financial intermediation in rural areas and the agricultural sector.*” The Framework was also consistent with the MSME Strategy, which states that “*much more emphasis will be placed on creating and tailoring products for rural and agricultural lending*”. It also states that “*The Bank is developing risk-sharing products...*”.

The Agribusiness Strategy states “*.... to test and demonstrate new ways and instruments to finance activities in the agribusiness SME sector, particularly in the primary agriculture sector which in turn should provide ongoing support to the rural areas in the Bank’s countries of operations.*” And that “*in co-operation with other better suited IFIs, to develop frameworks for markets by promoting directly or indirectly private land ownership and farming, the liberalisation of prices and other State controls, the development of an adequate legal framework, market information and essential infrastructure.*”

5.6 Additionality

Additionality is *Verified in all respects* as it is unlikely there would be other entities than IFIs or development agencies willing to arrange financing for free-of-charge advisory and training services to PIs. As such other donors have been working on other aspects of Tajik agricultural sector, the Bank played a highly additional role in establishing TAFF. As the Bank’s earlier experience with a similar programme implemented in Tajikistan (TMSEF) indicated, to get PIs interested in TAFF and then ensure the Framework’s success, the provision of grant-financed TC was critical. Among many IFIs and development agencies working in Tajikistan’s agricultural sector, the World Bank, ADB and IMF concentrated on structural reforms and on existing debt abatement.

6. Bank handling

Bank handling is rated *Satisfactory*, because the Operation Team was able to develop a complex, innovative and highly relevant TC. However, the resources and time needed to implement it have been either substantially underestimated, or/and TC targets set too ambitiously or/and the consultants insufficiently motivated to achieve ambitious performance targets. Part of the Consultant’s remuneration package could have been structured as performance-related, which in turn could have motivated them to make better effort to involve more PIs and to introduce TAFF in more regions of Tajikistan. Objectives, scope of work and deliverables under TC Programme 1 were

not always coherent and logically inter-linked. Some of the objectives and tasks of the TC Programmes overlapped with other TCs developed later (or simultaneously with TC Programmes), for example the provision of agronomic extension services, which also featured prominently in BCI and Farm Business Management Training. Coordination with some key stakeholders, particularly with the Ministry of Agriculture, could also have been better.

However, key lessons learned after the budget for TC Programme 1 ran out were incorporated in the ToRs for TC Programme 2, for example a larger budget for one year, and in many cases more modest objectives and some objectives eliminated, particularly those that had been, or were to be, addressed under other TCs. This reflects the Operating Team's effort to better coordinate TAFF on the country level, as well as its insistence on complementarity of various TCs related to TAFF. The Bank should also be credited with bringing an international cotton merchant to Tajikistan under the Better Cotton Initiative (BCI). Subsequently, BCI has decided to make Tajikistan a pilot country for the whole BCI, raising Tajikistan's international profile as a prime cotton producer.

7. Lessons learned and recommendations

7.1 Motivating consultants to meet a TC's objectives, particularly in respect of complex TCs in early transition countries. The remuneration for consultants working under TAFF was based on a daily rate and this quickly exhausted the budget allocated for TC Programme 1. Subsequently their contract has been extended, first under TC Programme 2 and ultimately under TC Programme 3 (with an aggregate budget almost five times the original one). Although it appears that some of the Consultants' objectives were, indeed, very ambitious, better performance and results could likely have been obtained if part of the Consultants' remuneration had been tied to the achievement of key objectives set in ToRs.

Lesson learned:

The importance of incorporating performance-related incentives in the Consultants' remuneration package to motivate them to achieve the desired results, particularly in cases where there is a combination of very ambitious objectives and a difficult operating environment. For higher budget consultancy projects (above €1 million) at least a part of the Consultant's remuneration package should be linked to the achievement of agreed objectives and/or timely provision of deliverables. This would motivate the Consultants to try harder to achieve the results agreed under the TC. Consultants whose payment is based exclusively on a daily fee can usually get away with a substandard performance as they are aware that their contract and the budget would likely be extended. This applies particularly to ETC countries where the operating environment is difficult and can be used to justify poor results (although the obstacles inherent in the operating environment should be taken into account when setting the budget and time frame and agreeing the objectives). In short, at least some of the risk related to performance under a TC should lie with the consultants.¹⁵

Recommendation: Try to incorporate performance-related incentives in the Consultants' remuneration packages, particularly for large budget TCs, to be implemented in ETCs.

7.2 Setting conditions precedent for agricultural loans and the subsequent impact on the timely provision of financing, which is critical in the seasonal farming business. Most of the Tajik farmers interviewed by EvD praised TAFF's principles, but pointed out that it was very disappointing for them when, despite having approved loans, the local banks (particularly AIB) were unable to provide financing to them in spring 2009. This was because AIB was in breach of one or several of 13 CPs, most importantly the portfolio concentration in the agricultural sector set at maximum 25 per cent and cotton at maximum 12.5 per cent. This prevented the EBRD from disbursing to AIB, resulting in its inability to disburse earlier arranged loans to the farmers. The

¹⁵ In case of the future TAFF TCs, part of the Consultants' remuneration package (for example, 20-30 per cent) could be linked to the number of PIs they are able to sign up for the programme and/or geographical outreach, that is, the larger part of Tajikistan covered by TAFF, the higher the "bonus".

farmers got their loans only in October (when CPs were waived), while the agricultural production cycle requires funds mainly in spring, when inputs for such production (seeds, fertilisers, pesticides, and so on) must be purchased and immediately applied.

Lesson learned:

Setting conditions precedent for agricultural loans. While working with the local banks specialising in agricultural finance, which are to on-lend EBRD funds to local farmers, the Bank should realistically assess the chances of such banks complying with portfolio concentration or diversification ratios. As such banks, by nature of their business, specialise in agricultural lending (for example, AgroInvestBank of Tajikistan), setting low concentration ratios from year one for their agriculture-related portfolio or any given crop might be unrealistic. The Bank should consider *gradual phasing in* of risk-mitigating strategies (concentration ratios), allowing the local banks to reach internationally accepted sector concentration limits only after several years. Delays in the provision of sub-loans to farmers by the partner banks can have devastating repercussions for such farmers as they can miss the planting/sowing season. Unlike with other sectors, late availability of financing is not acceptable due to the seasonal nature of the farming business. Refusal to disburse loan on time can also have very damaging long-term impact on the programme the Bank is supporting, as the farmers rarely understand the reasons for unavailability of funds (breach of covenants by the partner banks). Having had a bad experience in the first year of the programme's operation, they might not come for funding under TAFF in the future years.

- 7.3 Coordination of TCs with the project's key stakeholders.** TAFF consultants have been working primarily with the PIs (local banks), other donors and IFIs, as well as with the Ministry of Finance (on agricultural financing reform) and the Deputy Prime Minister. However TAFF, being an agricultural financing programme, has been insufficiently coordinated with the Ministry of Agriculture, although this ministry is responsible for setting agricultural policy in Tajikistan. The Ministry of Agriculture plays an important role, shaping policies related to cotton farming (for example, irrigation, crops export, and so on) and has local representatives who can facilitate TAFF delivery. Incorrect information obtained from third parties (for example, related to the pricing of the Bank's financing) caused misunderstandings and a negative perception of TAFF by the Ministry. It also exposed the Bank to reputational risk.

Lesson learned:

The importance of coordinating a TC with the project's key stakeholders. The Bank should encourage Consultants implementing the Bank's TCs to appropriately coordinate their activities with key stakeholders, particularly the governmental agencies responsible for the sector in question. If applicable, this should be linked to the policy dialogue undertaken by the Consultants.

- 7.4 Reliance on local experts, who are to be trained by the Consultants and ultimately implement the Bank's project, particularly in the ETCs.** One of the key tasks of the Consultants working under TC Programmes 1 and 2 was to train local trainers, as well as agronomists (60 under TC Programme 1, later reduced to 46 under TC Programme 2). Even the reduced expectations proved difficult to fulfil as the Consultants discovered that the graduates of the local schools and universities had very limited knowledge of modern agriculture. Ultimately only 22 agronomists were trained, while there are only seven local trainers active.

Lesson learned:

A need for realistic expectations as to the capacity of local graduates who are to be trained by the Consultants and implement the Bank's project. Local universities, particularly in ETCs, may

not be able to educate to international standards. There are always talented individuals who are able to educate themselves to high standards but reliance on a high number being trained as trainers for the end-beneficiaries should be avoided.

Recommendation: The Bank should consider exploring with the World Bank, ADB or an international development agency, their interest in an agronomic education improvement project in Tajikistan.

OPERATION PERFORMANCE RATINGS
TAJIK AGRICULTURAL FINANCE FRAMEWORK (TC)
(TAJIKISTAN)

Performance indicator	Rating
Overall Transition Impact (Analysis in Appendix 3): (Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Negative)	Satisfactory
Environmental performance of the project and sponsor: (Ratings: Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Highly Unsatisfactory) <i>Good environmental performance rating gives credit to the Producing Better Cotton TC (implemented alongside but separately from the TCs evaluated under this OPER). It has been decided that TC Programme 1 and 2 would focus on building lending capacity at the PIs, while Producing Better Cotton TC would address environmental and socio-economic issues. Under this TC, a pilot project involving 14 farms has been completed and a larger project involving 250 farmers prepared for future implementation. It addresses child labour in cotton farming, sustainable use of fertilisers and pesticides, and environmentally responsible irrigation.</i>	Good
Extent of environmental change: (Ratings: Outstanding, Substantial, Some, None/Negative) <i>The effects of the Producing Better Cotton TC are yet to be seen but if the project is well received and its recommendations followed, it has the potential of making Substantial environmental change.</i>	Some/Substantial
Additionality: (Ratings: Verified in all respects, Verified at large, Verified only in part, Not verified) <i>Additionality is Verified in all respects as it is unlikely there could be any institution other than the Bank IFIs willing to arrange financing for free-of-charge advisory and training services to PIs.</i>	Verified in all respects
Project financial performance: (Ratings: Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Highly Unsatisfactory)	NA
Company financial performance: (Ratings: Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Highly Unsatisfactory)	NA
Fulfilment of project objectives: (Ratings: Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Highly Unsatisfactory) <i>Fulfilment of objectives is rated Satisfactory as progress was made in establishing and implementing TAFF under both TCs. However performance in terms of number of banks participating, total amount of funds lent under subloans, agronomists trained, MIS implementation and so on are still far from targets set at approval. TC Programme 3, which started recently, is expected to fulfil these objectives, which would warrant then a Good or higher rating.</i>	Satisfactory
Bank handling: (Ratings: Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Highly Unsatisfactory) <i>Bank handling is rated Satisfactory, because on one hand the Bank was able to develop a complex and highly relevant TC. However on the other hand, the resources and time needed to implement it have been substantially underestimated (US\$ 1.16 million versus US\$ 7.5 million and two years versus five years currently planned, although some targets have been increased). The objectives, scope of work and deliverables under TC Programme 1 were not always coherent and logically inter-linked. Lessons learned after the budget for TC Programme 1 ran out, were incorporated in TORs for TC Programme 2(for example, a larger budget for one year, in many cases more modest objectives, and some objectives eliminated, particularly those that have been or were to be addressed under other TCs).</i>	Satisfactory
Bank's investment performance: (Ratings: Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Highly Unsatisfactory)	NA
Overall performance: (Ratings: Highly Successful, Successful, Partly Successful, Unsuccessful)	Partly Successful

**TRANSITION IMPACT ANALYSIS
TAJIK AGRICULTURAL FINANCE FRAMEWORK
(TAJIKISTAN)**

TI checklist categories	TRANSITION IMPACT <i>Ex Post</i>	Short-term verified impact	Longer term transition impact potential	Risk to potential TI
	STEP I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	Rating¹	Rating²	Rating³
3	Private ownership <i>At the time of the TC, local PIs were already privately owned.</i>	Marginal	Marginal	Low
5	Skill transfers <i>Under both TC Programmes, 72 loan officers and 22 agronomists have been trained. In addition, 20 trainee loan officers have been also trained. Although the number of agronomists falls short of the planned 60, verified impact is rated Good to reflect substantial skill transfer to loan officers.</i>	Good	Excellent	Medium
6	Demonstration effects	NA	NA	NA
7	New standards for business conduct <i>The Consultants developed four new lending products, tailored to specific borrowers and crops. New lending procedures have also been developed, including a scoring system. The role of a formal Credit Committee has been enhanced.</i>	Good	Good	Low
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	Rating	Rating	Rating
1	Competition <i>Under the TC Programmes, the Consultants were able to enlist three local banks to participate in the TAFF. Of these three banks, AIB with its 34 branches actively pursues TAFF's objectives and markets TAFF effectively. Bank Eshkata and TSOB participate in TAFF to a lesser extent (eight branches each). The objective of having more PIs working under TAFF might be achieved in the future.</i>	Satisfactory	Good	Medium
2	Market expansion <i>At the end of the TC Programme 2, the volume of disbursed loans was mainly geared towards cotton representing 62% of the outstanding portfolio, therefore the objective of financing of 50% non-cotton crops, as measured by the outstanding portfolio, has not yet been achieved. However, the Consultants are confident to achieve a more diversified portfolio when TAFF moves into non-cotton growing regions of Tajikistan (expected in 2010-11). The objective of attracting a new agricultural inputs supply company to Tajikistan has not been verified.</i>	Satisfactory	Excellent	Medium
3	Private ownership	NA	NA	NA

¹ This range is: Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Negative.

² This range is: Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Negative.

³ This range is: Low/Medium/High/Excessive.

4	<p>Frameworks for markets</p> <p><i>GoT has given TAFF a leading role in the Working Group on the Reform of Agriculture Finance, requiring the Consultants' involvement. Among the numerous activities conducted by the Working Group, there have been the organisation of an International Conference on Agricultural Finance that took place in Dushanbe in 2009; the preparation of a policy document for GoT submitted through the DCC (the suggested mechanism of agricultural financing); and the preparation of a policy document dealing with the impact of the proposed land reform. Objectives related to WHR implementation, set at approval of TAFF for this TI category, have not been fulfilled as the Agribusiness Team decided not to pursue a WHR project.</i></p>	Good	Good	High
5	<p>Skills transfers</p> <p><i>Most of the extension services to farmers have been provided under the Better Cotton Initiative implemented. No substantial extension services were provided by the Consultants.</i></p>	Marginal	Satisfactory	Medium
6	<p>Demonstration effects</p> <p><i>Both TCs Programmes succeeded in demonstrating to farmers alternative (to exploitative "investors") ways of financing seasonal working capital for agricultural crop farming. However, judging by the number of local banks that joined the TAFF programme, its demonstration effect seems rather limited. Due to high interest rates charged by AIB on TAFF loans, many farmers had to turn back to the "investors" for inputs financing during 2010's planting season.</i></p>	Satisfactory	Good	High
7	<p>New standards for business conduct</p> <p><i>The TAFF Consultants played an instrumental role within the Working Group on the Reform of Agricultural Finance and developed two important policy papers. These policies are yet to be implemented, however a good start has been made.</i></p>	Good	Excellent	Low
	<p>SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS</p>	Satisfactory	Excellent	Medium
	<p>OVERALL TRANSITION IMPACT RATING:⁴</p>	Satisfactory		

⁴ This range is: Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Negative.