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An Assessment on the Development of Agricultural Initiatives for USAID/CAR

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Executive Summaries

Kazakhstan - Kyrgyzstan Tajikistan - Uzbekistan

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TERMINOLOGY AND ACRONYMS

TERMINOLOGY

<i>Hakim</i>	Local district administrator
<i>Kolkhoz</i>	Cooperative farm created during Soviet times
<i>Hukumat</i>	<i>Raion</i> governmental administration unit
<i>Oblast</i>	Regional administrative unit
<i>Raion</i>	Sub- <i>oblast</i> (district) governmental unit
<i>Sovkholz</i>	State farm created in Soviet times

ACRONYMS

ADB	Asian Development Bank
AFK	Agro Finance Corporation of Kazakhstan
CCK	Credit Corporation of Kazakhstan
CIS	Commonwealth of Independent States
EDP	Enterprise Development Project
EF	Enterprise and Finance
EPA	Environmental Protection Agency
EW	Energy and Water
FAO	United Nations Food and Agriculture Organization
GDP	Gross Domestic Product
GOKaz	Government of Kazakhstan
GOKyr	Government of Kyrgyzstan
GOT	Government of Tajikistan
GOU	Government of Uzbekistan
GDP	Gross Domestic Product
GTZ	German Society for Technical Assistance
HDI	Human Development Index
IAS	International Accounting Standards
ICWC	Interstate Commission for Water Coordination
I/D	Irrigation and Drainage
IDA	International Development Association
IFC	International Finance Corporation
IFDC	International Fertilizer Development Center
IMF	International Monetary Fund
KFC	Kyrgyz Finance Corporation
LARC	Legal Assistance to Rural Citizens
MASHAV	Center for International Cooperation of Israel
MOU	Memorandum of Understanding
NGO	Nongovernmental organization
RCCWU	Rural Consumer Cooperative of Water Users
SEAF	Small Enterprise Assistance Fund
TA	Technical Assistance
TACIS	Technical Assistance Commonwealth of Independent States

TIP	Trade Investment Project
UNDP	United Nations Development Program
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
WB	World Bank
WTO	World Trade Organization
WUA	Water Users Association

General Integrated Agriculture and Water Resource Development Model

The consultants recommend that USAID consider designing an integrated agriculture and water resource development activity adapted to local conditions within each country. We use the term integrated from two perspectives: 1) the integration of value-chain participants (production, processing, marketing, allied industries, and market intermediaries) into a systems approach; and 2) the integration of mutually beneficial donor-funded activities into a targeted geographic area to capture potential synergies among existing donor projects.

Within a geographic area, the integrated approach would focus existing resources in pilot hydrographic units based on proximity to existing donor resources. This activity would also focus on agroindustries in the water unit such as a the fruit and vegetable or cotton industry.

The rationale for an integrated approach is based on the need to: 1) facilitate transition from Soviet planned agriculture to a market-oriented system, 2) focus on land issues because many agricultural development issues revolve around land rights, ownership, and use, including the ability to buy sell and mortgage land, 3) mediate, if not resolve, land tenure and water management issues, 4) recognize sustainable agricultural development including production, processing, finance, and marketing activities, and 5) create synergies among donor projects by focusing diversified resources on common problems.

The primary goal of this approach would be to demonstrate to the government in each country how to achieve sustainable growth through increased efficiency in agricultural production, processing, and marketing enterprises and the networks in which they operate. Secondary to this goal, the approach will help: 1) reduce poverty, 2) manage natural resources, 3) contribute to national food security objectives, 4) ensure increased revenues for agricultural producers and rural citizens, and 5) build private/public partnerships, sustainable enterprise, and linkages among participating beneficiaries. These goals are consistent with governments' strategies and thus their willingness to support targeted pilot programs.

Critical Issues

The primary criterion for the selection of a targeted geographic area (hydrographic unit) is the presence of significant donor activity. The goal is to implement where resources are available and strive to create synergies among existing projects.

Caution. The consultants are not suggesting that USAID and other donor projects integrate their entire work plans to focus on this single geographic or hydrographic unit. We recognize that would be impractical, if not impossible to do. What we are suggesting, however, is that the individual projects dedicate a small portion of their expertise and resources to collaborate in the development of the integrated approach in the target area. For example, in the case of Kyrgyzstan, the LARC project has 18 offices throughout Kyrgyzstan, so let us suggest that they locate one office in the target area. Likewise, GTZ conducts agronomic training for farmers throughout Osh and other regions. It will be requested to implement a number of its well-developed training modules in the target area. Also, IFDC can implement one demonstration field; MASHAV can implement one drip irrigation activity, and so on. The consultants believe

that limited, agreed upon, and targeted collaboration is possible within a defined geographic area and will produce the synergies expected to the mutual benefit of all participants.

Coordination and management. To be effective, USAID should designate a senior coordinator — a “czar” — to manage the recommended integrated activity. The “czar” should: 1) have extensive business development experience, 2) be able to work independently from any one project, 3) be mandated to liaise with projects, donors, and officials, 4) be responsible for developing a donor project “integration strategy,” 5) have the authority to negotiate individual MOUs with all pertinent projects, 6) be responsible for monitoring and evaluating impact, 7) facilitate intercountry linkages, 8) be tasked with the collection of donor project data on needed policy reform that can be used to foster agroindustrial growth, and 9) be responsible for the dissemination of policy reform data and memoranda to interested trade associations and business groups who are able to advocate for policy reform.

Approach

The Integrated Agriculture and Water Resource Development Activity could be organized into the following four components that correspond with the components of existing donor projects, such as the EDP project:

- A: Agroindustry Strategy Development and Policy Reform
- B: Association and/or member organization development
- C: Business Advisory Services
- D: Business and Market Linkages

Component A: Agroindustry Strategy Development and Policy Reform

This component would respond to two important needs: 1) agroindustries lack comprehensive strategies for their own development, and 2) agroindustry entrepreneurs can and should lead policy reform efforts.

- Agroindustry strategy development: The objective of agroindustry strategy development would be to bring entrepreneurs together to develop agroindustry strategies, where strategies define objectives, constraints, and resource requirements and inform specific action plans. These strategies would be used to orient TA to focus on opportunities and constraint mitigation.
- Policy reform: The objective of the policy reform activity would be to condition the enabling environment in which these enterprises operate. This would be accomplished by: identifying and prioritizing policy constraints throughout value chain (coordinate information sharing); utilizing Agroindustry council’s local knowledge and influence to promote policy reform; and by collaborating with associations and NGO’s to advocate for reform.

Component B: Association and/or Member Organization Development

The objective of an association development component would be to encourage entrepreneurs to form effective member organizations to collaborate on 1) joint procurement and marketing mechanisms, 2) organized information diffusion, 3) recurrent training and capacity building, and 4) increasing the market orientation of members and democratic processes.

There are different legal forms of member organizations and consideration should be given, depending on resources available in the targeted area. The fundamental question is to focus on a traditional association model or a corporate structure such as the IFC membership organization model.

Component C: Business Advisory Services

The objective of the business advisory services is to increase business capabilities of producers, processors, and market intermediaries. The following needs have been identified for each of these three groups:

- Producers (land users) have limited or no agronomic or animal husbandry education, resource management training, market knowledge, or business skills
- Processors are reliant on old technologies and methods, are not market-oriented, unable to access credit, and they often collude with government
- Market intermediaries provide limited services.

Component D: Business and Market Linkages

The objective of the business and market linkages component is to facilitate linkages among participants in Agroindustry value chain, such as producer-processor linkages, finance linkages, market linkages, and public-private linkages.

The objective of the finance linkages task would be to facilitate financial linkages between borrowers and creditors, in that there is a need to provide a menu of financial options depending on country's formal financial climate.

KAZAKHSTAN - EXECUTIVE SUMMARY

Kazakhstan is ranked 75th out of 162 countries by the 2001 Human Development Index (HDI). The HDI measures a country's achievements in terms of life expectancy, education, and adjusted real income.

The main economic reform measures taken after independence liberalized most prices and freed up internal trade. However other reforms have moved more slowly. Land privatization has only recently begun and some economic sectors are still not entirely privatized, although the mass privatization program and the privatization of small-scale enterprises were nearly completed by 1995. The reform process in Kazakhstan seems to be gaining speed in recent years, and this has received endorsement from the international community, which is committed to support the transition process.

Kazakhstan's agricultural resources are enormous, with 20 percent of CIS agricultural land. However, agricultural production is low and declining. There has been a large push toward the privatization of farming and the agribusiness sector in Kazakhstan as part of its drive to secure greater self-sufficiency in food. The use of land has been transferred into private hands on over 90 percent of state farms. The agricultural distribution system is currently undergoing significant changes, evolving from a state system to one responsive to market demand. Restructuring and raising the efficiency of production and distribution, on- and off-farm, remain elusive goals and still present an enormous challenge.

In mid-April 2002, the Ministry of Agriculture produced its most recent agricultural strategy, the State Agro-Food Program of the Republic of Kazakhstan for 2003-2005, containing an Indicative Plan for 2003-2005. This strategy has been approved by Parliament. According to this strategy, an important goal for the agricultural sector is the establishment of a land market, with the objective to establish private ownership of land.

The goals for the agricultural sector under this Agro-Food Program are essentially: 1) to ensure food security of the country by a strategy of import substitution, whereby increased domestic supply of higher quality food products will satisfy domestic demand, and 2) to ensure that this improvement in both quantity and quality (the latter to international standards) of food products should also ensure competitiveness in external markets.

Proposed land reform measures. Legislating private property on agricultural land; institutionalizing responsibility for inefficient use of land encouraging preservation and increasing fertility of agricultural land; review of compliance of land distribution with the existing legislation; improving land evaluation methodology: four-stage land quotation in all regions; differentiation of capitalization ratio for all soil types and sub-types under the existing status of the country's economy; improving financial and credit relations in the agricultural sector involving land and land tenure secured mortgage through credit mechanisms.

Some 35 million hectares of Kazakhstan land are under arable crops, grain crops occupying 23 million hectares. Per capita, there are around 12 hectares of agricultural land and over 2 hectares

of arable land. The dominant crops are wheat, oats, barley, and industrial crops (flax, sunflower), as well as cotton, rice, sugar beet and tobacco in the south of the country. There are also considerable numbers of orchards and vineyards, as well as vegetables, melons, and gourds.

Livestock production is a traditional and dominant agricultural subsector. No less than three quarters of all agricultural land is used for grazing. Sheep breeding is predominant, although cattle, pigs, horses, and camels are also produced.

The existing level of technical equipment is the major constraint for the efficient development of agricultural production, causing simplification of agricultural cropping, pest prevalence, and ultimately reducing the product quality. The average age of the existing tractor and harvester fleet is 13-14 years with a design service life of 7-10 years.

Financing the Kazakh agricultural sector during the past decade has been very difficult due to the transition and transformation of the sector to a market economy. The transition has been slow with the most important capital resource — land — still not privatized in a manner that facilitates optimal commercial use. Product and commodity markets have been both volatile and trending lower causing producers to rethink production decisions and land use.

Financial institutions have a very difficult time financing a sector that has volatile and uncertain production and revenue yields, does not have the long term capital or management base for overcoming these business issues, and does not have very much collateral to enable a bank to recover loan principal and interest in the event of default. Commercial banks everywhere have competing business opportunities to finance and generate interest and fee income.

Today, the Kazakh financial sector has substantial liquidity to finance economic growth from any sector. All of these financial institutions must find income-generating loans and other investments for their funds. As creditworthy profitable opportunities in other sectors become more difficult to find, commercial banks will turn to the agricultural sector. Commercial banks are providing loans to food industry and agricultural producers though actual loan volumes are not known, as banks do not give detailed information on their portfolios. Agricultural loans to producers appear to be focused more on larger and medium sized producers that have demonstrated a strong business and revenue history as well as have sufficient collateral to support a commercial bank loan.

Recommendations for Kazakhstan

Recommendation 1. Kazakhstan - Integrated agriculture and water resource development activity

Design and implement an integrated agriculture and water resource activity in a target hydrographic unit, such as in the area of Taraz, near a water training institute and on the border with Kyrgyzstan. Selection of the hydrographic unit should be based on existing donor presence, scope of their work activity, and commitment to coordination efforts.

There are a number of inter-related critical issues that need to be considered if USAID undertakes project design work for Kazakhstan that center around the ability of producer –

processor – market intermediaries to develop mutually beneficial business relationships. Producers have limited access to seasonal working capital that constrains their production capacity and efficiency. Processors are constrained by a shortage of working capital which further constrains their ability to offer producers/suppliers reliable production contracts. These constraints are further compounded by late payment schemes offered by purchasers of finished products. Markets are underdeveloped and the skills required to develop existing markets are not present to any degree.

Recommendation 2. Provide training/skill development in agricultural finance

Proposed Assistance: Develop program for training commercial bank officers, in such technical areas as:

- Agricultural production credit and agroindustrial and food processing cash flow and credit analysis training for commercial bank officers of banks interested in learning how to finance the sector or improving their performance.
- Work with bankers and processors to develop a working capital financing formula that gives processors needed financing and bankers secure comfort of repayment or collection upon default.
- Work with bankers to develop appropriate loan pricing programs that meet their profit and revenue targets; have comfortable gross and net interest rate margins; and reflect the reasonable cash flows that agricultural sector borrowers can generate.
- Agricultural bank training for bank officers should be available to all commercial banks and nonbanks, such as CCK, financing agriculture.
- Develop borrower training to improve the quality of their business presentations to bankers and their understanding of what banks will and will not do in financing a borrower's operations.
- Borrower training of promising agroindustrial businesses (food processors, wholesalers, processing, and marketing associations of producers) should be available.
- Technical assistance in seeking nonbank credit for agricultural production — supplier credit, processor credit, and trade credit should be considered.
- Promotion of quality agroindustrial, food processor, and agricultural association borrowers to banks for seeking financing.
- Meet with banks to learn of their interest in financing the sector.
- Learn of banks' capabilities, rates, and fee structures, business plans and information requirements.

- Assist borrowers in preparing business plan financial projections including loan servicing costs in accordance with average bank rates and fees.
- Strong government, donor, and business official comments on the limited knowledge of bank management and loan officers on the underlying economics of agro-industrial, food processing, and agricultural production.

Because the agricultural sector is a high-volume, low-margin business with substantial internal and external risks, lending to the agricultural sector requires substantial understanding of the business, the people involved, the product cycles of different commodities, and historical markets and market trends.

A high element of the creditworthiness of any agricultural sector buyer is character — is he or she capable and going to do what is proposed? In addition to having adequate capital and assets, experience in the business, good credit history, favorable economic conditions to generate proposed revenues from market sales, the bank and borrower need to get to know one another as both face substantial risk if either does not do what is promised.

- Banker: If the borrower does not grow or process the purported crop or product, the banker has little to liquidate other than land and machinery at a fire-sale price. Rarely do agricultural lenders come out whole in the case of a loan default in high-risk markets.
- Farmer or processor: If a banker does not provide the promised funds during the narrow time window in which they are needed, the entire crop will not be grown or processed. Timing is critical.

Agricultural bank training programs for loan officers and borrowers can present many opportunities for the lender and borrower to learn about each other and develop the type of long-term bank/borrower relationship critical to quality commercial agricultural production and processing.

Recommendation 3. Long-term government corporate agricultural finance strategy

Provide the Kazakh government with technical assistance to develop a comprehensive long-term strategy for transferring the government-sponsored agricultural credit companies (CCK and AFK) and services to the private sector with the objective of obtaining a greater and continuous amount of adequate financing for optimal agricultural production and agriculturally related businesses.

The Kazakhstan government has embarked upon a government-sponsored agricultural financial system to provide short- and long-term commercial credit services to agricultural producers, primarily because the developed and competitive Kazakh banking industry has largely declined to finance agricultural producers. While the production credit structure is government sponsored, funded and partially capitalized, it has a private sector component at the retail level providing the retail credit service and assuming the credit risk of its loan portfolio. The government does not want to become the permanent lender to the agricultural sector and has set an outside goal of six years for transferring the government sponsored financial institutions to the private sector.

Nevertheless, the government wants to develop a fully operational and sustainable agricultural financial system providing a continual source of adequate and reliable financing to creditworthy borrowers of the agricultural sector.

A fully competitive financial market will finance the level of agricultural production that the market demand taking into consideration other competing goods and services. Governments often, particularly those of more developed countries such as the US, the EU and Japan, subsidize or sponsor agricultural production or credit to produce a higher level of agricultural production for food security and to provide its citizens with an adequate supply of affordable food. Agricultural interests in those countries were generally able to generate political support for subsidies and favorable access to financing during difficult economic times when major structural adjustments were taking place in their economies that drew available financial resources away financing the high volume, low margin agricultural sector. Subsidies and preferential access to agricultural credit both stimulates more production than the market would normally demand as well as puts agricultural production resources into the hands of the less efficient producers. Preferential access to agricultural credit or subsidized interest rates clearly reduces the total amount of debt capital that the financial community is willing to risk in the agricultural sector.

Kazakhstan is at the precipice of embarking on a potentially long term program of agricultural subsidies and sponsorship of agricultural credit programs and facilities. The government appears genuinely interested in developing a strong agricultural production base and making sure that producers have adequate access to financing for that production. Measures undertaken to date suggest that the government wants to facilitate development of a private agricultural sector and not dependent upon ever increasing government subsidies. At this juncture, the Kazakh government would greatly benefit from a comprehensive review of the Kazakh agricultural sector, of the policy issues related to subsidizing and financing agricultural production, and of the long term policy implications and considerations for spawning a fully developed and competitive private agricultural sector.

Proposed Assistance:

- Provide the GOK with a comprehensive budgetary and financial review in Kazakhstan with the Ministry of Agriculture and Ministry of Finance to give the government a realistic picture of the funding resources need to achieve government policy goals.
- Develop scenarios of different types of agricultural production systems and determine the short- and long-term financing needs for each scenario.
- Work with the government to develop alternative methods for financing a fully competitive agriculture through the private sector.
- Present different financing approaches in different markets for financing agriculture including government agency securities, government sponsored private financing initiatives with a long-term goal of private financing of the agricultural sector.

- Make recommendations on agricultural reforms remaining that would improve private financing of the agricultural sector.
- Assist the government to develop alternative financing approaches gradually phasing out government involvement in financing the sector.
- Make recommendations on the development of sustainable government-financing corporations that includes privatization of such entities in phases, with strategic investors committed to financing the agricultural sector.
- Make recommendations on various scenarios for development of sustainable government financing corporations with a phase privatization to strategic investors committed to financing agriculture and the rural Kazakh sectors.
- Develop a long-term government plan to achieve the buildup and privatize the activities.
- Develop a timetable for sunsetting of government subsidies so that the market will adjust accordingly.
- Provide technical assistance on the financial and operational mechanics of government sponsored liquidity fund for guaranteeing official warehouse receipts issued by bonded warehouses.
- Provide the government with other alternatives for improving the availability of financing for appropriate agricultural inputs, the marketing and processing of agricultural commodities and livestock, and the free flow of funding to the agricultural sector.
- Provide the Kazakh Agriculture Finance Corporation and the Agro Finance Corporation with technical advice on long capitalization and funding strategies based on current market and loan or leasing growth strategies.

Recommendation 4: Assistance for improved water resource management

The Ministry of Agriculture sees the maintenance of irrigation and drainage systems, which have become the inter-farm systems, as a great problem, because there is no effective caretaker. The problems of deferred maintenance, increased salinity of lands, and dramatic decrease of land productivity have prompted some irrigators to create an Irrigators Alliance. The Alliance is trying to raise awareness amongst farmers but has very limited resources.

The water resources officials feel that if assistance can be provided to increase the knowledge and skills of water system operators, as well as equipping the WUAs with modern technical equipment for on farm water measuring and financial support to the nascent WUAs, it would result in more effective use of water resources. Intensified training for awareness and understanding of the WUAs concept and principles of their work countrywide, as well as application of simple water saving technologies and organizational/management measures can be seen as priorities for making visible improvements in irrigation management.

In Kazakhstan as in other countries of central Asia, there is not enough water resource management expertise, at the higher policy level, middle management, and the level of the local water users'. This implies that that a narrow focus on water users associations alone, as expected by some local professionals, would not be fruitful. It needs to be accompanied by corresponding changes in policy, law, procedures, incentives, and organizations, and interface with state authorities and support systems. Institutional changes in particular, even the least controversial procedural changes cannot be achieved without a clear understanding of what is needed.

The Government of Kazakhstan would like to see the water users' associations/RCCWUs cover at least 1 million ha in the future, which is less than 50 percent of irrigated land in the country. There is a perceived problem with the further establishment of these associations. Farmers are basically afraid to trust the new structures and become members, because they do not see much difference from the former *kolkhoz*, and thus prefer to farm by themselves. Because of this, the Kazakh Ministry of Agriculture/Department for Foreign Investment and Relations is convinced that more technical assistance in form of awareness and training for farmers is needed, which would provide them with practical assistance. Similar TA is needed for the local government to bring more understanding of the new on-farm water management.

Elements of this recommendation should include:

- Training for leaders and specialists of farms, local governments, and trainers for market development of irrigated agriculture.
- Organization of study tours for representatives of water user association leaders and local government officials.
- Development and dissemination of suitable brochures and publications on water rights and management techniques.
- Preparation of additional regulations for improvement of functioning of RCCWUs.
- Preparation of educational audiovisual materials and broadcasting.

Regional Issues

Regional agricultural land and water management training

Provide funding support for Central Asian regional agricultural land and water management training activities. Such activities would focus on land and water user rights, provision of land and water mediation services, on-farm land and water management best practices, and curriculum development. The idea is to support activities that develop viable solutions to land and water problems, create discussion/actions on land and water policy issues, and facilitate the regional dissemination of information on land and water issues.

For a number of reasons, locating training and education activities in Taraz, Kazakhstan would appear to be an optimal choice. Even though the consultants did not visit the Kazakh Research

Institute of Water Management, we believe there is logic to supporting the proposed regional training and education activities in collaboration with this institute. Taraz has a long historical tradition as a city of academic research and learning (Taraz State University, twinned with Indiana University). It is equidistant between Shymkent and Almaty covering most of the Kazakh area of agricultural production that primarily relies upon irrigation. Taraz is close to Kyrgyzstan and reasonably close to Uzbekistan, particularly the Fergana Valley, which relies heavily upon irrigated agriculture and thereby would encourage use by academics and agribusiness people and water authorities of both.

For example, support for the Institute of Water Management, could include the establishment of a mediation training program for providing land and water mediation services. This activity could also train mediators and the trainers of mediators to develop a cadre of professional to serve rural mediation needs. A USDA type program for mediating complex water management issues could be used as a model for this activity.

KYRGYZSTAN - EXECUTIVE SUMMARY

Kyrgyzstan is a small mountainous country with a predominantly agricultural economy. The 2001 Human Development Index (HDI) ranks Kyrgyzstan 92nd out of 162 countries. Kyrgyzstan has been one of the most progressive countries of the former Soviet Union in carrying out market reforms. Cotton, wool, and meat are the main agricultural products and exports; industrial exports include gold, mercury, uranium, and hydropower.

The agricultural sector is the main economic sector of the Kyrgyz economy in terms of its contributions to gross domestic product (45 percent), employment (40 percent), and exports (30 percent). Development of the sector is a major government priority, as agriculture is expected to continue to lead the recovery and future growth of the economy. The transition from central planning to privatization of collective and state farms and processing enterprises has led to the dislocation of elements of the agricultural production, processing, and marketing system.

Agricultural exports consistently exceed imports, with exports mainly to the Commonwealth of Independent States (CIS). But exports of processed foodstuffs declined severely from \$127 million in 1996 to just \$11.8 million in 2000. Foodstuff imports have exceeded exports since 1999. Domestic food-processing industries have not seen major reinvestments and obsolete processing facilities are unable to meet market demands or have ceased to operate. The emergence of new food-processing industries has been limited.

The Asian Development Bank has recently noted that the poverty level in rural areas is still very high, and the reduction in poverty is hindered by serious problems in the agricultural sector. The level of support services in the republic for rural producers is insufficient, and the share of financing provided from the national budget to agriculture is decreasing every year. The national system that facilitated the agricultural production cycle has been significantly degraded, from production of agricultural produce to processing and further sales.

Following independence, the government embarked on a massive and comprehensive reform program to transform the country into a market economy. Privatization of state-owned enterprises began in 1991. Massive legislative reforms started in 1992 and resulted in a legal regime supporting private enterprise as the primary growth engine of the economy. The Kyrgyz Republic borrowed heavily to finance its economic transformation without the economic growth to support the debt service. The Russian financial crisis in 1998 and the accumulation of government-guaranteed debt for former state-owned enterprises also contributed to the mounting foreign debt. Government foreign debt rose from 36 percent of GDP in 1995, to 51 percent in 1997, and to 94 percent by 2001. This is the highest external debt to GDP of any Central Asian Republic.

The IMF has taken a strong interest in institutional and economic policy reforms to accelerate the Kyrgyz economic transition to a market economy. Despite the significant reforms undertaken by the Kyrgyz Republic of the last decade, many remain. The Kyrgyz judiciary remains technically weak and reportedly permeated with rent-seeking to effect judicial decisions. Impartial enforcement of commercial law in the newly established economic courts system is lacking.

As a WTO member since 1998, the Kyrgyz Republic continues to work on harmonizing its trade regime, laws and regulations that impact trade in conjunction with the signed protocols and bilateral agreements that enabled the country's accession to the WTO. Many of these legislative, administrative, and regulatory reforms affect the agricultural sector. The Soviet era GOST system of standards, for example, need substantial reforms to meet international standard for trading in goods, particularly commodities and food products. The Kyrgyz government knows and understands what has to be done but the lack of sufficiently educated and trained personnel with the capacity to develop and implement the regulatory and administrative reforms are lacking.

Following independence, the Kyrgyz Republic continued financing agriculture under the Soviet era system until appropriate reforms could be undertaken. Until mid-1994, only the state-owned Agroprombank financed agriculture and the rural sector of Kyrgyzstan with subsidized financing rates and terms. Commercial banks are free to lend to the sector but very few agribusiness or agricultural producers are bankable. In addition, the banks' institutional capacity and the financial legal infrastructure are not sufficiently developed to finance agricultural loans safely.

Kyrgyz agriculture is diverse. Out of a total of 10 million hectares of agricultural land, there are 1.5 million hectares of arable land in lowlands under intensive production, and 8.5 million hectares of upland grasslands and pastures under extensive livestock grazing. There has been an increase in domestic vegetable production due to the increased demand from the neighbouring states primarily Kazakhstan and Eastern Russia (Siberia) which take 97 percent of all Kyrgyz fruit and vegetable exports. Kyrgyzstan has exported significant quantities of onions and tomatoes to Siberia. The increase in demand has stalled since the August 1998 Russian economic crisis.

Rising vegetable production is a direct result of the break-up of state farms and small private farmers entering into the cultivation of what is considered a more profitable crop. It is less regulated than grains and not such a drain on the farmer's financial resources as fruit. Potato production has also increased over the last four years.

The number of the vegetable processing enterprises is about 12 percent of 590 enterprises of the food industry (about 35 plants and 18 mini-processing plants), registered in the statistical committee of the Republic. At present the number of actually operating enterprises is not more than 25. At most enterprises the workshops for production of tinned products don't work but the equipment is operable.

Since most arable lands are irrigated, further productivity gains may be difficult to achieve as the conditions of the irrigation systems have deteriorated due to lack of maintenance. Efficiency of irrigation water use remains a major issue. Irrigation is the most important water use, using almost 90 percent of water resources. Kyrgyz Republic is well endowed with water resources but the balance between available water and the potentially irrigable area varies tremendously between different catchments and different *oblasts*, causing local deficits of water and lower crop yields. Water is mainly diverted from the rivers (Talas, Chui, Naryn and Kara Darya), some of which are partially regulated by reservoirs.

Recommendations for Kyrgyzstan

Recommendation 1: Osh - Integrated agriculture and water resource development activity

Implementing the integrated approach described above in Osh should be a high priority for USAID because of the direct benefits to Kyrgyzstan as well as benefits for any regional initiatives in the Fergana Valley.

There are a number of interrelated critical issues that need to be considered if USAID undertakes project design work for the Osh Region of Kyrgyzstan that center around the ability of producer-processor-market intermediaries to develop mutually beneficial business relationships. Producers have extremely limited access to seasonal working capital that constrains their production capacity and efficiency. Processors are constrained by a shortage of working capital which further constrains their ability to offer producers/suppliers reliable production contracts. These constraints are further compounded by late payment schemes offered by purchasers of finished products. Markets are underdeveloped and the skills required to develop existing markets are not present to any degree.

There is a terrific opportunity in Osh to create the kind of synergies among donor projects that is required for sustainable agricultural development. Existing donor projects are working on producer, processor, marketing, allied industry, and support institution activities that together, if focused on a target geographic area, could provide the type of development model the government of Kyrgyzstan is looking for in their pursuit of poverty reduction.

Recommendation 2: Application of the IFC farmer ownership model

The consultants were impressed with the IFC Farmer Ownership Model's attempts to resolve constraints on agricultural production, processing, and marketing for its membership. Utilizing an organization for the provision of technical assistance to improve production efficiency, resolve linkages with processors, and support marketing initiatives for its members is a fine example of an integrated approach to agricultural development. We note that although organization currently focuses on cotton production, processing, and marketing, it is also involved in the fruit and vegetable industry.

Recommendation 3: Kyrgyz commercial bank training for agricultural sector

Develop program for training commercial bank officers, including: 1) Agricultural production credit and agro-industrial and food processing cash flow and credit analysis training for commercial bank officers of banks interested in learning how to finance the sector or improve their performance; 2) Work with bankers and processors to develop a working capital financing formula that gives processors needed financing and bankers secure comfort of repayment or collection upon default, 3) Work with bankers to develop appropriate loan pricing programs that meet their profit and revenue targets; have comfortable gross and net interest rate margins; and reflect the reasonable cash flows that agricultural sector borrowers can generate.

In addition, develop training for borrowers to improve the quality of their business presentations to bankers and borrowers' understanding of what banks will and will not do in financing their operations. For example:

- Borrower training of promising agroindustrial businesses (food processors, wholesalers, processing and marketing associations of producers)
- Technical assistance in seeking nonbank credit for agricultural production — supplier credit, processor credit, and trade credits
- Promotion of quality agroindustrial, food processor, and agricultural association borrowers to banks for seeking financing
- Meeting with banks to learn of their interest in financing the sector
- Learning of banks' capabilities, rates and fee structures, business plan and information requirement
- Assisting borrowers in preparing business plan financial projections, including loan servicing costs in accordance with average bank rates and fees.

Government, donor, and business officials have strongly commented on the limited knowledge of bank management and loan officers on the underlying economics of agroindustrial, food processing, and agricultural production. Because the agricultural sector is a high-volume, low-margin business with substantial internal and external risks, lending to the agricultural sector requires substantial understanding of the business, the people involved, the product cycles of different commodities, and historical markets and market trends.

Agricultural bank training program for loan officers and borrowers can present many opportunities for lender and borrowers to learn about each other and develop the type of long-term bank/borrower relationship critical to quality commercial agricultural production and processing.

Recommendation 4: Kyrgyz Agricultural Finance Corporation (KFC)

The Kyrgyz government should be encouraged to set a date to privatize KFC as soon as possible to end any banking market perception that the government is going to finance agriculture and the rural areas. KFC should be prepared for privatization, inviting local, regional, and international parties to find a strategic investor interested in developing the market that KFC has established as its target market. Strategic investors should be committed to maintaining this target market as the central focus.

KFC is receiving technical assistance for its banking organization, lending and administrative operations from TACIS and perhaps these groups will continue even to assist in the development and implementation of a privatization plan. The World Bank and ADB funding of the KFC loan portfolio has been conditioned on the eventual privatization of KFC, but a definitive date and

plan have not been developed. USAID should consider providing technical assistance for this activity.

It is not clear to the consultants if TACIS or World Bank are planning privatization prior to the termination of the technical assistance but this should occur to avoid KFC from becoming a government financing program. Clear government commitment should be obtained prior to developing terms of reference or task order.

Steps would include: 1) Development of a bank privatization plan and schedule, including the type of tender to interested investors; 2) Conducting a thorough audit and valuation in accordance with IAS; 3) Development of appropriate solicitation notices and information packages regarding privatization; 4) Allowance of serious bidders to examine the institution and portfolio; 5) Negotiation with potential bidders regarding each bidder's proposal on its interest in developing the Kyrgyz market and its commitment regarding investment, management, and advisory expertise; 6) Selection of bidder and closing of privatization transaction.

Recommendation 5: Introduce a USDA-type mediation service

USDA has an established mediation program for providing mediation services, training of mediators, and trainers of trainers to develop a cadre of professionals to serve rural mediation needs. These services cover the complexities of USDA, EPA and other government policies, regulations, permits, licenses, and regulatory control, such as government agricultural loan programs, water user association disputes. For example, USDA mediators have successfully mediated very complex water management issues, such as mediation in Arizona where several parties were in dispute over water management including Indian nations; state, city, county and town governments, federal and state water project authorities, major agricultural users, and industrial users of water.

Recommendation 6: Kyrgyz economic policy—Investors' Secretariat

A function of the Integrated Agribusiness Project czar should be to gather information on needed economic reforms from all project sources in the Osh Initiative and present them to the Investors' Secretariat. The USAID representative or the Osh czar should be a member of the Secretariat to participate in the economic policy reform messages conveyed to the President.

Tasks would include collecting all USAID and other donor project reform information and transmitting the information to the Secretariat. This would demonstrate strong commitment by USAID to needed economic reforms to improve the Kyrgyz business climate. USAID would utilize this existing and valuable data to back up its reform arguments to the government and the Secretariat would provide a forum for these issues to be heard at the highest levels. It is recognized that actual reform adoption and implementation must occur from the Office of the President; however, this type of centralized information support from USAID and other donors provides a more comprehensive view on economic and business reforms.

Regional Issues

The consultants recommend that USAID consider the potential benefits of developing a Ferghana Valley approach that further integrates Kyrgyz (Osh), Uzbek (Ferghana), and Tajik (Khujand/Isfara) activities.

The EDP offices in Osh, Ferghana, and Khujand offer a unique opportunity to advocate enhanced regional trade. EDP has already implemented joint tri-country trade workshops focused on increased trade amongst the three countries. These initiatives should be enhanced with participation with other donor projects to create desired synergies. The proposed Ferghana Valley seal of quality is an example of the type of regional initiative that could facilitate regional trade and further market integration.

TAJIKISTAN - EXECUTIVE SUMMARY

Tajikistan, one of the poorest countries in the world, is ranked 103rd out of 162 countries by the 2001 Human Development Index (HDI). The United Nations Food and Agriculture Organization (FAO) 2002 special report on Tajikistan states that 83 percent of the population cannot afford the minimum consumption basket and that 33 percent of the population lives in extreme poverty.

Agriculture provides about 27 percent of the country's GDP, 40 percent of the country's exports and more than 50 percent of employment. Only 7 percent of the land is suitable for agricultural and 90 percent of that depends upon irrigation. Cotton is the primary export crop, but requires use of appropriate fertilizers, protective chemicals, and crop rotation to replenish soils. Tajik farmers lack finances and access to quality inputs and have not been practicing effective crop rotation. The result has been lower cotton yields and quality.

High value alternative crops would be fruits and vegetables for which the region has a historic reputation. Movement into these higher value crops beyond household plot production will take time and much agricultural training. Trends are moving slowly in this direction; household plots of about 0.1 hectare are heavily planted with onions, tomatoes, carrots, potatoes, strawberries and other berries. Larger production, however, requires improved processing capacity. Tajikistan now depends upon old factories with Soviet equipment and inefficient communications, transport, and storage systems.

The Government of Tajikistan (GOT), hampered by a six-year civil war, has limited capacity and resources. Revenues from its primary exports, cotton and aluminum have fallen over the past few years. The Government of Tajikistan's 2001-2005 policy strategy's primary goal is to increase productivity to pre-independence levels. The process will involve privatizing all state or collective farms by the end of 2005.

The privatization approach is intended to provide each worker on former collective farms a portion of land depending on the size of the former collective and the number of workers. However, obtaining the certificate of land rights has been both difficult and expensive because of excessive bureaucracy, an archaic registry system, and rent-seeking officials. What actually happens is that the farm manager of the collective convinces the workers to continue to operate the farm as in the past. Because farm workers rarely understand their rights, they are easily manipulated into assigning or subleasing his/her land lease rights to the newly formed entity. The worker may be given a small dividend from the annual production and a small piece of land to grow crops for his family. In many cases, the local farm manager and the deputy *hukumat* (who assigns legal rights in the devolution of farms) collude and jointly establish a joint stock company or other enterprise form to which the farm workers assign their legal land rights. In most cases, little operational change of the old farm operations occurs.

Tajikistan law does not currently provide a clear mortgage mechanism for enabling creditors to lend against these land rights and foreclosing to obtain loan repayment if the farmer defaults. Without this, commercial banks will refrain from financing most farmers, who will

be left to obtain expensive financing from microfinance institutions or informal moneylenders.

The Ministry of Agriculture declared that the first government priority is for food security and thereafter to improving the quality, quantity, and markets for Tajik food products. Needed are strong technical assistance in agronomic and farm management practices, concentrated assistance and coordination of existing donor programs. The Ministry is also committed to improving the quality of agro-processing and the markets for processed food products by encouraging the provision of: workshops on the latest trends in the industry, particularly in containers, packaging and market presentation; and improved transportation, storage, and market development infrastructure.

Tajikistan's economy depends on irrigated agriculture. The Water Code adopted in 2000 provides a basis for the formation of water users' associations. These government-mandated entities will be responsible for operations and management of the tertiary systems and contribute to the cost of maintaining the secondary and primary systems through water charges payable to the local water entities. However, the entire process calls for guidance by the Ministry of Land Reclamation and Water Resource and a gradual transformation of the relationship between the water user associations and water management entities.

Recommendations for Tajikistan

Recommendation 1: Northern Tajikistan – Sughd Region (Khujand/Isfara) Integrated agriculture and water resource development activity

The Enterprise Development Project (EDP) report dated February 2003 noted that the Sughd Region of Northern Tajikistan has an extraordinary abundance of fruit and vegetables. Moreover, the fruit and vegetable processing sector includes more than 20 plants and glass jar production facilities that are important to the producers. This region also contains a growing number of edible oil production processors—a profitable business that should be considered part of the targeted Agroindustry cluster. Implementing the integrated approach in Sughd *Oblast* should be a high priority for USAID because of the direct benefits to Tajikistan as well as benefits for regional initiatives in the Fergana Valley.

Recommendation 2: Southern Tajikistan – Khatlon Region Integrated agriculture and water resource development activity

The May 2003 EDP report on Khatlon *Oblast* noted considerable opportunity for supporting agricultural development. Diversified agricultural products and significant numbers of processors provide the foundation for an integrated development approach. The consultants recommend the EDP project develop a Khatlon regional office focused on agribusinesses advisory services to serve as the hub for integrated development activity. Implementing the integrated approach in Khatlon Oblast should also be considered by USAID because of the direct benefits to one of the poorest and most highly populated regions in Tajikistan.

Recommendation 3: Collaboration with the IFC farmer ownership model project

The consultants were impressed with the IFC Farmer Ownership Model's attempts to resolve constraints on agricultural production, processing, and marketing for its membership. Utilizing an organization for the provision of technical assistance to improve production efficiency, resolve linkages with processors, and support marketing initiatives for its members is a fine example of an integrated approach to agricultural development. We note that although the organization currently focuses on cotton production, processing and marketing, it is also involved in the fruit and vegetable industry. Recommended collaboration would include technical assistance for the development of a model ginnery and bonded warehouse. Model ginnery. USAID should support IFC efforts to identify a U.S. ginning equipment supplier interested in promoting its equipment in Central Asia. The IFC intends to request assistance from the US TDA for feasibility analysis and equipment export funds. USAID could provide technical assistance for training model ginnery staff in maintenance and management of the equipment. USAID could also support periodic demonstration days by co-supporting ginnery managers from throughout Tajikistan, Uzbekistan, Kyrgyzstan, and Kazakhstan.

Bonded warehouse. The issue of proving grading services to international standards is currently under discussion with the Ministry of Agriculture, the ADB and World Bank (IFC). The ADB and IFC would like to have the GOT adopt international standards such as the USDA standards and grading system for cotton. The Ministry of Agriculture is ready to adopt Tajik standards that may or may not be compatible with international standards.

The consultants recommend: 1) that USAID join the pending ADB and past IFC initiatives to advocate for the adoption of USDA cotton standards and grading system. The ADB will finance a TA to conduct an assessment of the costs and benefits of a Tajik program versus adopting international standards, whereas USAID should facilitate institutional dialogue between Ministry of Agriculture decision makers, ADB/IFC project managers, and cotton grades and standards technical experts provided by USAID; 2) USAID provide short-term technical assistance to the IFC member organization activity if the GOT adopts or plans to adopt international cotton standards and grading system.

Recommendation 4: Implementation of legal advisory centers

The consultants believe that the legal advisory services project implemented in Kyrgyzstan by Helvetas, with USAID support, provides desperately needed legal advice to rural farmers. This successful model should be expanded or applied in Tajikistan (targeted North and South areas) to include land and water user rights education as well. These advisory centers would offer an effective complement to the business advisory centers already supported by USAID.

Expand or apply the Kyrgyzstan LARC program model to Tajikistan to: 1) facilitate the provision of legal advisory services to local farmers regarding land and water rights, state order, inputs contracts, freedom of production decision, right to market produce, grower delivery contracts with processors or associations, etc., 2) provide explanation and publicity of land rights of all newly privatized farms, 3) provide mediation services to local farmers regarding national

and local government, and 4) facilitate preparation of grower and deliver contracts for promoting private vertical integration of production and processing.

Recommendation 5: Support for cotton industry reform

Tajikistan governmental bodies are institutionally weak with low capacity at virtually all levels to understand and foster appropriate governmental facilitation of a free market economy. Focused activities that encourage the government to establish an appropriate legal and regulatory framework for a segment of the economy and then to observe the economic growth in that sector that the governmental support facilitates would be the best use of technical assistance funds.

In this regard, an opportunity exists for establishing a commercial cotton grading system in accordance with international standards under the umbrella of a government regulatory framework. This approach would likely result in cotton buyers having more confidence in the quality and consistency of Tajik cotton and therefore pay for the quality that Tajik cotton represents. Tajik cotton producers would receive higher value for their cotton and be able to reinvest money in better inputs, machinery and infrastructure for cotton production. They would be able to afford reasonable rates for water user association for water delivery to support rehabilitation and maintenance of irrigation systems. Although textile firms will be paying more for Tajik cotton, they would know that Tajik cotton bales were graded consistently, lowering resorting and grading costs at the textile firms.

Targeted technical assistance in this area would not be very expensive, be relatively easy to implement—particularly if the government simply put the current government testing facilities up for leasing tender to international testing firms as SGS or Wakefield & Company—and generate industrial effect and revenue growth almost immediately. Because the Tajik economy is so agriculturally focused and cotton representing a high percentage of the sector’s revenue, a successful cotton grading system program would have immediate and dramatic growth effect on the economy.

Regional Issues

The consultants recommend that USAID considers the potential benefits of developing a Ferghana Valley approach that further integrates Kyrgyz (Osh), Uzbek (Ferghana), and Tajik (Khujand/Isfara) activities.

The EDP offices in Osh, Ferghana, and Khujand offer a unique opportunity to advocate enhanced regional trade. Pragma has already implemented joint tri-country trade workshops focused on increased trade among the three countries. These initiatives should be enhanced with participation with other donor projects to create desired synergies. The proposed Fergana Valley seal of quality is an example of the type of regional initiative that could facilitate regional trade and further market integration.

UZBEKISTAN - EXECUTIVE SUMMARY

The agricultural potential of Uzbekistan has not been realized because of the Government of Uzbekistan's (GOU) economic strategy of strong centralized control of resources and detailed planning of production, trade, and investment in agriculture, energy, and industry. Taxing agriculture finances development of the industrial and energy sectors and directing the production and sale of cotton and wheat enables the government to control most of the country's foreign exchange.

A centerpiece of state control of cotton and wheat production is control of inputs and markets. Cotton revenues to the state are controlled through state procurement system and value added taxes (VAT). Wheat is controlled through the export ban. Fertilizers, agricultural chemicals, and seed are provided to the farmers at low state-determined prices.

Meaningful reform may be on its way. The March 2003 Presidential decree focuses on boosting lease ownership and contract-based management systems and encouraging farmer units as the main driving force in agricultural production. Beginning in 2004, all *shirkat* and farmer units are to be transferred to a "leased-based utilization of croplands."

The World Bank and Asian Development Bank (ADB) have established programs with conditions that farmers be released from state orders, given lower state orders, or given more flexibility in state order pricing to give them higher incomes. Their ultimate effect is likely to be modest given that the government, for cotton at least, is the only ultimate buyer and controls all exports. These modest pilots do help solve social and economic problems in some districts at little cost to the government.

The government rhetoric presents opportunities for carefully targeted interventions designed to help the government live up to the spirit and letter of its announcements. More important, through properly executed programs, donors may help the government develop policy approaches that implement the decree and promote the development of an open market. A broader base private enterprise system is needed to increase leverage against the government to enable even greater reform.

Private enterprise activity is strongest in the fruit and vegetable and livestock sub-sectors, which should be the primary areas of focus for technical assistance. Assisting the government to give full leasehold rights to land enabling the lease to be mortgaged, for example, can provide valuable collateral for lenders. Helping the government fully privatize the remaining state ownership in the food-processing sector could develop a strong industry with good export producing potential.

Organizing private producers and processors

The government provides directives for industry and agriculture through associations that coordinate and facilitate enterprise and farm activities. Small farmers and SMEs may be members of industry and farmer associations but also operate in the cash economy outside the government control.

The “companies law” provides for organization and registration of private associations as joint stock companies or as nongovernmental organizations (NGOs). Association incorporators must carefully determine what functions they expect the association to fulfill before determining which organizational form to use. It remains to be seen if an NGO can convert to a profit oriented joint stock company if the membership later decides that it wants to expand into some commercial activities.

Banking, microfinance institutions, and credit unions

The GOU dominates commercial banking. The National Bank for Foreign Economic Relations of the Republic of Uzbekistan (NBU), a wholly owned government bank, operates as a commercial bank and is one of the largest banks in the region. The NBU operates as the government’s fiscal agent in international markets and conducts savings, project finance, investment, export-import and commercial banking function for the government.

In the near term, agricultural producers are more likely to receive financing from the current government program—State Fund for Agricultural Purchases—credit unions, microfinance institutions, export financed production, family and friends, and other informal sources. Even the small loans they provide will enable farmers to substantially increase their household plot or private farm production with good profit margins, and eventually access commercial bank financing.

Targeted donor resources can facilitate farmer use of all available financing resources and methods, teach them how to present their farming operations in the best light for a financial institution, actively market to interested financial institutions the most promising farm customers, and provide farmers with valuable farm enterprise management training that educates them on developing appropriate financial records on their operations.

Most Uzbek banks and the major leasing companies are government owned, controlled, or directed. The IFC reports that in 2002 new leases of Uzbek leasing companies grew by 48 percent and new leases of banks grew by 30 percent. Assessment of these trends requires some caution. Uzbek Leasing, a government-owned company, holds more than 80 percent of all leases, primarily financing Uzbek manufactured equipment. The government provides substantial subsidies to other leasing companies to lease Uzbek manufactured equipment.

Land and water reform

Reform and restructuring of *sovholzes* and *kolkholzes* into *shirkats* and *dekhan* farms did not substantively change government control of cotton production or revenues. The reforms gave farmers modest flexibility in meeting state cotton and wheat orders allowing them small land and production opportunities for production for themselves that they could freely sell. Farmers continue to work on *shirkat* farms for state orders of cotton and wheat because the farms provide access to inputs, and the farmers fear that the government will take away the private and *dekhan* farms if cotton and wheat production falls.

Fruit, vegetable, eggs, and small livestock production has largely been a private sector production. In fact, more than 65 percent of the output of the entire Uzbekistan agricultural sector was produced on *dehkan* farms and household plots. Reports are common that farmers lose money on both cotton and wheat production, but manage to eke out a profit from their household plot.

Uzbekistan agriculture depends on irrigated production of four million hectares of cotton, grain, or fodder. Due primarily to the deterioration of irrigation and drainage infrastructure, water delivery is wasteful—on the average at least 50 percent of water is lost between the water source and the fields. The cost of delivering water accounts for almost all the state budget for agriculture—some \$200 million per year. Some cost recovery is included in the land tax.

Thirty-five percent of local officials interviewed stated that water problems are the most urgent ones facing their districts. The over-use of irrigated water is damaging the environment and reducing crop yields. A new Water Code is expected in the first quarter of 2004 that will likely create a structure for basin water management and introduce prices for water services delivery, maybe gradually applied. Now, as result of farm restructuring and proposed changes for water management, the farmers are encouraged to form Water Users' Associations (WUAs).

Recommendations for Uzbekistan:

Recommendation 1: Fergana/Andegon - Integrated agriculture and water resource development activity

Implementing the integrated approach described above in Fergana/Andegon should be a high priority for USAID because of the direct benefits to Uzbekistan as well as benefits for any regional initiatives in the Fergana Valley.

Recommendation 2: Application of the IFC farmer ownership model

The consultants were impressed with the IFC Farmer Ownership Model's attempts to resolve constraints on agricultural production, processing, and marketing for its membership. Utilizing an organization for the provision of technical assistance to improve production efficiency, resolve linkages with processors, and support marketing initiatives for its members is a fine example of an integrated approach to agricultural development. We note that although the organization currently focuses on cotton production, processing, and marketing, it is also involved in the fruit and vegetable industry.

Recommendation 3: Establish legal advisory centers

The consultants believe that the legal advisory services project implemented in Kyrgyzstan by Helvetas, with USAID support, provides desperately needed legal advice to rural farmers. This successful model should be expanded or applied in Uzbekistan to include land and water user rights education as well. These advisory centers would offer an effective complement to the business advisory centers already supported by USAID.

Expand or apply the Kyrgyzstan LARC program to Uzbekistan to: 1) facilitate the provision of legal advisory services to local farmers regarding land and water rights, state order, inputs contracts, freedom of production decision, right to market produce, grower delivery contracts with processors or associations, etc., 2) provide explanation and publicity of land rights of all newly privatized farms, 3) provide mediation services to local farmers regarding national and local government, and 4) facilitate preparation of grower and deliver contracts for promoting private vertical integration of production and processing.

Recommendation 4: Provide training/skill development in agricultural finance

Banker training is primarily intended in Uzbekistan for credit union and MFI loan officers having a substantial agricultural customer base. Banker training should be offered to all Uzbek banks, particularly the smaller banks, to enhance their skills for making agricultural loans as these banks complete the transformation to more commercial enterprises occurs. Borrower training is suggested for private farmers, small and medium agribusinesses, and other entrepreneurs active in the agricultural sector.

- Agricultural production credit and agroindustrial and food processing cash flow and credit analysis training for commercial bank officers of banks interested in learning how to finance the sector or improving their performance
- Borrower training of promising agroindustrial businesses (food processors, wholesalers, processing and marketing associations of producers)
- Technical assistance in seeking nonbank credit for agricultural production — supplier credit, processor credit, and trade credits
- Work with bankers and processors to develop a working capital financing formula that gives processors needed financing and bankers secure comfort of repayment or collection upon default.

Recommendation 5: Provide independent policy review support for credit unions and microfinance institutions

If USAID adopts the integrated model recommended above and places a full-time “czar” to coordinate implementation, then one of the most important policy review tasks of this person relates to monitoring Uzbek finance policies to prevent a likely attempt to take over or control the credit union and MFI market created by donors.

There are several reasons for this recommendation: 1) credit unions have developed rapidly and generated strong public confidence in placing some savings in credit unions and taking loans that are agricultural and SME oriented, 2) government has liquidity problems and may seek to seek deposits aggressively, 3) credit unions must clear liquidity through an Uzbek commercial bank, and 4) Uzbek government is interested in developing state-owned and controlled MFI capability as an alternative.

Recommendation 6: Application of USDA-type mediation services

USDA has an established mediation program for providing mediation services, training of mediators, and trainers of trainers to develop a cadre of professionals to serve rural mediation needs. These services cover the complexities of USDA, EPA and other government policies, regulations, permits, licenses, and regulatory control, such as government agricultural loan programs, water user association disputes. For example, USDA mediators have successfully mediated very complex water management issues, such as mediation in Arizona where several parties were in dispute over water management including Indian nations; state, city, county and town governments, federal and state water project authorities, major agricultural users, and industrial users of water.

Regional issues

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The Enterprise Development Project (EDP) offices in Osh, Ferghana, and Khujand offer a unique opportunity to advocate enhanced regional trade. EDP has already implemented joint tri-country trade workshops focused on increased trade amongst the three countries. These initiatives should be enhanced with participation with other donor projects to create desired synergies. The proposed Fergana Valley seal of quality is an example of the type of regional initiative that could facilitate regional trade and further market integration.