PROJECT INFORMATION DOCUMENT (PID)  
CONCEPT STAGE

<table>
<thead>
<tr>
<th>Project Name</th>
<th>TAJIKISTAN AGRICULTURE COMMERCIALIZATION PROJECT (P132652)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region</td>
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I. Introduction and Context

Country Context

Tajikistan is the poorest of the Central Asian economies, with a population of eight million, of whom 46.7% live below the poverty line (based on a US$2.50/capita poverty head count). Robust growth in the last three years has expedited recovery from the global financial crisis. Real gross domestic product (GDP) grew by 6.5% in 2010, 7.4% in 2011 and 8% in 2012 in response to high remittance income and increased agricultural output due to good growing conditions and high international cotton prices. Per capita GDP increased to US$872 in 2012 as a result, compared to US$709 in 2008.

Sectoral and Institutional Context

With 25% of GDP and 55% of employment, the agriculture sector has a major influence on the
performance of the Tajik economy. The sector accounted for 14% of aggregate economic growth from 2008-2012, measured in constant (2005) US$. Agriculture sector performance also has a major impact on poverty reduction, as 77% of Tajikistan’s poor live in rural areas. Of the country’s four regions, Khatlon Oblast is the most important for agriculture with approximately 45% of gross agricultural output, followed by Sughd Oblast (30%), and the Raions of Republican Subordination – RRS (20%) and Gorno-Badakhshan Autonomous Oblast-GBAO (5%) .

The farm structure in Tajikistan has markedly changed during the last 20 years, with the share of private/individual farming increasing dramatically. Since early 1990-ies, two significant changes have been happening to the farm structure: household plots have been significantly increasing in size by adding land allocations from state and have reached, on average 2.8Ha, and a completely new organizational form “peasant (dekhan) farm” has been emerging (World Bank 2013). The land reform agenda, although unfinished, has achieved remarkable results in Tajikistan. Share of arable land in private (household farms and dekhan – typically, around 25Ha - farms) use has increased from 7% in 1991 to 86% in 2010, and these individual private farms contribute 91% of the Gross Agricultural Output (GAO), up from 36% in 1991. Household farms have increased significantly their share in the GAO, from 36% in 1991 to 60% in 2010, and are also the most productive in Tajikistan: agricultural land in household plots is utilized 10 times more productively than in farms of other types, demonstrating a case for the need to complete the unfinished land reform and farm reorganization agenda (World Bank, 2013).

Agriculture policy reforms have contributed to productivity increases in recent years. In 2007, the Government launched a comprehensive sector reform program to resolve its crippling cotton debt, accelerate land reform, reduce government intervention in farming decisions (“freedom to farm”), improve access to rural finance and increase agricultural diversification. Donors have supported this program with investments in irrigation, rural finance, and improving food security and land and water resource management. The sector has responded well with average annual growth of 5.5% in real terms from 2008-2012 – strong performance despite the global financial crisis. A recent World Bank Rural Investment Climate Assessment (RICA) attributes this growth to an increase in crop yields and livestock numbers, the increased area farmed by the more productive private farms and a shift, albeit gradual, to higher value fruit and vegetable crops.

Despite this growth, agricultural output markets remain underdeveloped and commercialization weak. Both demand and supply side constraints inhibit agricultural commercialization. The RICA study reports that only one-third of crop producers currently sell their output, and of those more than half (52%) sell at the farm gate. Only 32% sell in local markets and 15% in national or export markets. Weak market links, low economies of scale, poor access to credit and barriers to entry and expansion all constrain the demand of market agents (traders and agro-processors) for agricultural commodities. On the supply side, low productivity limits the marketed surplus generated by the farms, and their capacity to market this surplus is constrained by inexperience with market activity and low economies of scale, in particular, given the small size of the relatively more productive household plots). Measures to increase agricultural commercialization will be integral to this new set of priorities.

There is ample scope for the newly emerged generation of private farmers to further increase agricultural output and productivity, and to commercialize agriculture. In 2010, agriculture value added/worker in Tajikistan was $555 (constant US$ 2000), versus $1,020/worker in Kyrgyzstan, $1,272/worker in Azerbaijan and $2,618/worker in Uzbekistan. Similarly, agriculture value added/
ha arable land was $572/ha in Tajikistan versus $735/ha in Azerbaijan and $1649/ha in Uzbekistan. Productivity gains can be realized through improved access to agricultural inputs and better on-farm management techniques. To market their increased output, farmers need support to establish producer and marketing associations in order to acquire the resources and economies of scale required to reduce transaction costs, and to create market linkages. Processing companies and traders require access to reliable supplies of raw materials, investment financing for upgrade and modernization of their equipment, knowledge on improved technologies and food safety, as well as access to markets.

The rationale for increasing the commercialization of agriculture is also recognized in the comprehensive new Agrarian Reform Program prepared recently by the government and donors as the basis for future reform and investment. Among its priorities, this strategy identifies the need to strengthen agricultural input and output markets and to increase agricultural productivity through improved access to seed, credit and extension services. The RICA study also emphasizes the need to strengthen agricultural input and output markets in order to increase sales on both domestic and export markets. In line with these strategic objectives, the Government of Tajikistan has requested Bank support for a project to increase commercialization of the sector, strengthen the links between producers and processors, and support producer associations.

**Relationship to CAS**

The Country Partnership Strategy (CPS) for 2010–13 was recently revised and extended to 2014, with a shift in focus from crisis mitigation to the structural reforms needed for sustainable growth and development. One of the revised objectives is to “help stimulate private investment through overall private sector development”, including measures to “further increase productivity in agriculture”. These imperatives are fully reflected in the project’s aim to increase the commercialization of agriculture.

Building on the lessons and achievements of past and current projects, the project will seek to extend and scale-up relevant activities consistent with the CPS. Particular emphasis will be given to linking the outcomes and lessons of previous projects to improve agricultural productivity, with measures to support commercialization and market development.

The project will contribute towards achieving of the dual goals of the World Bank to reduce extreme poverty and promote shared prosperity by increasing incomes and generating employment in rural areas.

**II. Proposed Development Objective(s)**

**Proposed Development Objective(s) (From PCN)**

The project development objective is to increase the commercialization of farms and agribusinesses in selected areas of Tajikistan. This will be achieved by improving the performance of selected value chains and providing financial and capacity building services to the project beneficiaries.

The direct beneficiaries of the project would include (i) commercially-oriented producer associations and farmers, agro-processors, agri-business enterprises and agro-input dealers engaged in the value chains supported by the project; (ii) participating financial institutions; and (iii) public and academic institutions.

**Key Results (From PCN)**
(i) Increased marketed surplus volume of selected crop and livestock products by the project beneficiaries.
(ii) Increased sales by the project beneficiaries.
(iii) Number of small farmers newly engaged into commercialization.

III. Preliminary Description

Concept Description

The proposed project will help seize the opportunities and benefits of greater commercialization and tackle the nexus of issues identified above that constrains the ability of farms to become more commercially oriented in response to recent structural reforms. It will also address some of the key issues faced by the processing sector, including providing access to investment financing and to reliable raw materials and markets. These will be achieved through deploying a value chain approach for selected key agricultural products, while other measures (such as facilitating access to investment financing and capacity building measures) will also be accessible for agribusinesses outside of the selected value chains. Very small farmers will have a special assistance window, benefiting from capacity building measures and grant funding for investment in productive assets. Measures to boost private sector activity will be the project focus, but measures to strengthen public capacity will be included where they complement private sector activity. The project will have a budget of US$22 million and will be implemented over a 5 year period.

Project design and implementation will involve active collaboration with IFC, which also views increased production and commercialization of the agricultural sector as a priority. IFC is initiating a regional agri-finance advisory program to support agri-business, under which Tajikistan is expected to receive approx. US$1.5 million. The collaboration will be based on joint support to “aggregator-led” value chains, an approach used successfully in other countries, as well as supporting financial institutions in lending to the agricultural sector. Besides already working with a number of financial institutions in Tajikistan on agri-finance, the IFC has preliminary identified cotton, apricots, potatoes and dairy products as potential commodities for support, and will review the potential for support to agro-input dealers. The two projects, together with the government, will decide on the value chains to support, based on further market analysis to be implemented by the World Bank during project preparation.

Collaboration with IFC will be based on complementary project activities. IFC will identify lead aggregators in the selected value chains, link all key players in the chain together, and introduce necessary technological upgrades, thus improving their “bankability” with financial institutions (FIs). On the other hand, IFC project will provide tools and train FIs to implement agri supply chain financing schemes. The rationale for this approach is two-fold: (a) larger enterprises have the scope and capacity to catalyze growth of the value chain, and (b) FIs’ understanding of the dynamics of and relationships within the supply chain boost financing, as well as loan quality. IFC has identified a small number of bank and non-bank financial institutions as suitable partners for collaboration. The World Bank project will: (i) provide a credit line to boost access to medium-term loans for investment; (ii) through training and matching grants, strengthen the capacity and resource base of smaller and medium scaled agri-business enterprises and commercially oriented farmers involved in the production and marketing of the relevant commodities, (this will broaden and strengthen the base for value chain development); (iii) strengthen access to market information; and (iv) review and improve the policy and regulatory environment for farm input acquisition and use. The IFC project is scheduled to begin in November 2013 and the proposed Bank project in the second half of
The project locations will be chosen jointly by the World Bank, IFC and the government during further preparation work, based on the value chains to be supported and the location and activities of aggregators and producers in the value chain. The location and activities of agri-business projects by the Bank and other donors will also influence project location, in order to avoid duplication and develop synergies with other projects.

Project design and implementation will also build on the experience of previous Bank-funded projects in the agriculture sector.

The project will address gender and social inclusion issues through the active use of participatory processes in both design and implementation. Efforts will be made to ensure participation of all community members, including women, in the commercialization and productivity enhancement activities through extensive awareness campaigns. Appropriate selection criteria will be established during project preparation. The project will contribute to poverty reduction in the country, although at this time it is difficult to quantify this achievement. It will be ensured through increased farm incomes and employment generation directly during the project implementation period, as well as by setting up systems (such as the improved technological capacity in the agro-processing sector, market information system, new financial products in the financial sector, etc.), which are expected to bring benefits to new beneficiaries after the project closes.

Project design will be based on the components outlined below.

Component I: TA Support to Commercialization (US$ 4.35 million, all IDA)

This component will support the following activities:

a. Training to value chain participants. For farmers, the project will support three main types of training: (i) extension services and technological advice, on as needed basis, to farmers on specific subjects of agricultural production and processing; (ii) training activities to all value chain participants, on the benefits of participation in a value chain, and duties and responsibilities of the various participants; and (iii) to very small farmers, to increase their commercialization potential, on the benefits, duties and responsibilities of establishment and participation in productive partnerships. This training is expected to strengthen the partnerships by building economies of scale to market their products and to purchase farm inputs on more favorable terms, through group buying and selling. The training will also cover strategies for increasing marketed surplus, the identification and evaluation of sales opportunities, business management, transport, storage, grading and quality control. The training will be gender-sensitive.

For agro-processors and agri-business enterprises the potential (demand-based) training activities will include: strategies for improving links with producers and producer organizations; strengthening aggregation activities; business management, marketing and quality control; improvements to product quality along the value chain; sources and use of market information; market studies and test marketing, roundtables, attendance at trade fairs and mentoring services to help participants understand market requirements. Agro-input dealers will receive training on business practices, where and how to source farm inputs, how to facilitate and benefit from discounted (group) sales to producer associations, and awareness and application of quality and
safety regulations.

All training activities will be implemented by local and/or international consulting and training companies to be hired under the project, which have demonstrated experience in the relevant training domain. Cooperation will also be sought with other projects involved in building the capacity for extension, including projects seeking to build a viable private sector extension service.

b. Provision of support to agro-processors, agri-business enterprises, agro-input dealers and commercially oriented farmers and producer associations to develop business plans and investment proposals for productive linkages, and guidance on how to finance the necessary investment.

c. Capacity building in the country’s consulting sector, through transfer of global knowledge and good practices, on how to support agribusiness sector development and value chain/productive linkage development activities, to ensure that such capacity remains in the country after the project closes. The project will work with (an) committed consulting company (-ies), improving their capacity to work with interested value chain participants and build optimized value chains and productive linkages.

Component II: Access to Finance for Commercial Farms and Agribusinesses ($US20.0 million, including US$13.9 million IDA)

Potential investments include: improved on-farm technology, storage, processing, new products, marketing, quality enhancement and food safety. Activities under this component will be consistent with OP10.00 Investment Project Financing

a. Credit Line for medium-term loans and leases (US$15 million, including US$10 million IDA). To address the current market failure to provide medium-term credit for investment, a credit line will be provided to government to support medium-term lending and leasing for investment activities by agro-processors and other agri-businesses involved both in the selected value chains, but also to other credit-worthy agri-businesses. This credit line will be for loans or leases of up to 7 years, with the exposure per beneficiary of up to US$400,000, for investment in modern technological plant and equipment. Ministry of Finance will channel the funds through qualified commercial banks and non-bank financial institutions (Participating Financial Institutions – PFIs) selected jointly by the Government, World Bank and IFC. These PFIs will carry out full appraisal of loans, set interest rates and repayment terms to final beneficiaries based on prevailing market conditions and the type of investment financed, and bear the full risk of loan repayment. Participating PFIs will be required to contribute at least 25% of the total lending or leasing requirement from their own resources. Detailed operational guidelines for the credit line, setting forth the types of investments financed, as well as financial and operational requirements to borrowers and PFIs will be developed before the implementation will start. Borrowers will be expected to contribute around 20% of the total project cost from their own resources. To ensure that the benefits of this credit line are widely distributed, the maximum support for any single value chain, all borrowers included, will be $US1 million.

b. Matching Grant Support for Investment Proposals (US$4.6 million, including US$3.5 million IDA). Matching grants will be provided in the following two types of support: (i) to complement the commercial credit line described above, not exceeding 30% of the total financing received through the PFIs. These matching grants will be appraised by the PFIs, as part of the total
financing package towards partial coverage of the sub-project costs (a portion of this, in the amount of 20% of the project costs will be covered by the borrower). To ensure repayment discipline, the matching grant will be the last 30% of the financing, i.e., the borrowers will have to repay the first 70% of the financing received on time and in full, in order to benefit from the matching grant. (ii) to provide the start-up capital of the productive partnerships created under Component 1, which target the smaller and poorer farmers, the partnerships will be eligible to receive a matching grant for investment purposes (procurement of small-scale equipment, building of storages, etc.) in the amount not exceeding US$20,000 per partnership. The partnerships will have to meet a set of criteria, including, but not limited to: (i) the extent to which the grant proposal will improve market access and add value; (ii) the expected impact on market demand for farmer produce; (iii) potential replicability by other small rural businesses; (iv) the technical financial and environmental viability of the proposed grant project; and (v) likely sustainability. The program will be subject to a rigorous, transparent selection process. Beneficiaries will be monitored to ensure that implementation takes place as agreed, and once in operation, each investment will be evaluated to assess its costs and benefits. Applicants will be required to contribute at least 30 percent of the total cost of the investment (in addition to any matching grant and/or loan support), and will be required to engage in activities to develop and strengthen linkages along the value chain. The matching grants to productive partnerships will be implemented by the Project Implementation Group (PIG), on the basis of the agreed criteria and in close collaboration with the World Bank team. Detailed operational guidelines for the matching grant program will be developed during the further preparation work.

c. Capacity building for PFIs (US$400,000, all IDA). Given the novelty of the medium-term investment lending and value chain financing concepts, the Project will implement a capacity building program for the financial institutions involved in the Project. The PFIs will receive training in two subjects: (i) Appraisal of agricultural investment loans and leases, (ii) Financial Products for financing of value chains. Management and minimizations of the risks associated with these new products will be part of the training program. The PFI training activities will be done in a close collaboration with IFC.

Component III: Institutional Capacity Building and Project Management (US$3.75 million, all IDA)

This component will strengthen the capacity of public institutions responsible for relevant services and policies; and the capacity of the Ministry of Agriculture to manage this and other donor projects.

a. Market Information for farmers and agribusinesses (US$700,000, all IDA). FAO is currently developing, in collaboration with the National Statistics Agency (Goscomstat), a market information database containing price data collected weekly in all major markets. At project end in mid-2014, they will have built the data set and created a publicly accessible internet site for potential users. The project will extend this work by initiating collection of three other price indices which are vital for the agribusiness sector yet not being collected in the country: farm-gate prices, wholesale market prices and wholesalers’ prices. The project will also make this information more accessible to farmers and agri-business enterprises. Guidance on how best to use this information will also be incorporated into the training programs to be implemented under component I. above. The project will also finance a wholesale market feasibility study, which will, among other things, look at cross-border markets.
b. Upgrading of the technological skills in the agro-processing sector (US$800,000, all IDA). The project will work with the Technological University of Tajikistan to improve its capacity to ensure better prepared food technology graduates which enter the country’s food processing sector. The project will provide technical assistance on the curriculum, teaching equipment upgrades, as well as strengthen the linkages between the university and the private processing sector.

c. Support to the policy and regulatory reform for input use and marketing (US$250,000, all IDA). This sub-component will strengthen the public sector capacity for regulation and quality control of farm input use and marketing. The current regulatory environment for fertilizer and agricultural chemicals will be reviewed and draft amendments will be prepared to align with international best practice, public sector staff will be trained to apply and monitor these regulations, quality control and safety standards will be strengthened, and administrative procedures will be developed to license and monitor private sector importers, distributors and retailers of these inputs. The impact of current tax policy on farm input use, farm input markets and farm output will also be reviewed and recommendations will be developed for tax policy reform.

d. Project Management (US$2 million, all IDA). Given the project’s emphasis on increasing agricultural commercialization and productivity, the Ministry of Agriculture will serve as the project’s implementing agency. A Project Implementation Group (PIG) within the Ministry of Agriculture, comprising existing ministry staff and consultants will be responsible for project management and coordination. This arrangement will strengthen the Ministry’s capacity to move away from implementing projects through stand-alone PMUs, to a more integrated implementation structure. Training and supervision during the course of project design and implementation will further strengthen this capacity. The component will also finance Monitoring and Evaluation activities, including the baseline study, mid-term and final impact surveys.

IV. Safeguard Policies that might apply

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VI. Contact point

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