



COTTON DEBT RESOLUTION SCHEME

**Dushanbe
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Cotton Debt Resolution Scheme: *current situation*

- About 70% of the population resides in rural areas
- 45% of irrigated arable land is used for cotton production
- Within the agricultural sector cotton accounts for 60% of agricultural output
- Excessive debt of cotton growing farms



Cotton Debt Resolution Scheme: *causes of debt accumulation*

- Low productivity
- Inadequate system of rural finance/lending
- Weak farm capacity
- Inefficient management of agricultural production
- Policy/institutional constraints (inadequate grading and quality control system; lack of competition among ginneries and transparency of their operations; inadequate pricing system, over complicated export sales procedures)
- Falling global prices for cotton fiber and rising prices for energy and fertilizers



Cotton Debt Resolution Scheme: *required actions*

1. To “decouple” farmers from their historic creditors.
2. To assess debt
3. To spread the burden of debt repayments
4. To implement actions set forth in “A Road Map for the Farm Debt Resolution Strategy”



Cotton Debt Resolution Scheme : *decoupling of farms from creditors*

Establishing a Debt Resolution Agency (DRA) to discharge indebted farms from obligations to their historical creditors. This DRA will:

- be an independent agency without conflicts of interest;*
- determine the amount of outstanding farm debt on the basis of claims submitted by investors;*
- undertake settlement of farm debt obligations;*
- make payments to investors through a Special Purpose Vehicle (SPV)*



Cotton Debt Resolution Scheme: *assessment of debt amounts*

- Debt assessment on the basis of information provided by investors;
- Consider other alternatives to meet legitimate claims of investors and farms' capacity to make debt repayments in a fair and transparent manner;
- Investors are entitled to have an alternative to seek recovery of any outstanding debt (through the DRA when a specified debt owed to the investor should be discounted by an appropriate discount factor, or through the courts);
- Investors' claims will be reviewed equally and based on clear and transparent rules;
- Decisions made by DRA will be final



Cotton Debt Resolution Scheme: *spreading debt repayments burden*

- investors
- farms
- Government



Cotton Debt Resolution Scheme: *spreading debt repayments burden*

Investors will be expected to discount an initial percentage of their debt – this discount will be determined by the DRA.

Investors will need to cover a portion of expenses to support the DRA and SPV.



Cotton Debt Resolution Scheme: *spreading debt repayments burden*

Farms will make an efficient contribution to this process by making affordable repayments to the SPV each year calculated on a debt per hectare basis.

The final debt to be repaid will be consistent with the debtors' capacity to make the payments.



Cotton Debt Resolution Scheme: *spreading debt repayments burden*

The Government with donor support will stand ready to assist farmers to make payments to the SPV to reduce the burden of debt they have to bear.

To meet this objective the donors will provide assistance to the Government in the form of budgetary support during a certain period of time.



Cotton Debt Resolution Scheme: *methods and terms of debt repayment*

Three possible approaches:

First- Farmers will be offered to repay their debt in full on the basis of the DRA decision over any time period required for this purpose. In this situation investors will have to wait for recovery of their monies during an extended period of time.

Second- the amount of debt identified by the DRA will be paid at once and in full. On the basis of the DRA's decision the total amount of outstanding debt which should be reimbursed to investors will have to be repaid in the initial phase of the process. In case of cash shortfall capital contributions could be made available by international donors to the Government; payments made by farmers to the SPV would be used to compensate the expenses incurred by the Government.



Cotton Debt Resolution Scheme: *methods and terms of debt repayment*

Third- Given the extended re-payment period that will be available to farms and the shorter periods for re-payment of the investors, capital injections will be necessary to ensure that the SPV has sufficient funds available to meet its obligations. It is foreseen that this capital will be made available by international donors through interim funding. The DRA will ensure annual payments to investors.

The ability to implement this schedule of payments will depend on donors' willingness to consider the possibility to provide financing.



Cotton Debt Resolution Scheme: *Implementing a Road Map for the Farm Debt Resolution Strategy*

- . To terminate unwarranted intervention in farm operations;
- to increase land tenure security;
- to improve tax system to give an impetus to efficient cotton production;
- to carry out institutional reforms with the aim to change regulatory practices in the cotton sector;
- to improve farmers' access to rural finance;
- to attract investments into cotton sector infrastructure;
- to develop seed industry;
- to improve skills of cotton farmers and specialists;



Cotton Debt Resolution Scheme: *comprehensive approach*

Cotton Debt Resolution Scheme not only involves debt restructuring, it is an integral part of a comprehensive package including:

- (i) Full and complete implementation of a Road Map, approved by the Government, by all levels of government authorities;
- (ii) Immediate execution of provisions to grant farmers freedom to make their own decisions on how to use their land;
- (iii) Improve capacity and provide assistance to farm managers, accountants, shareholders to ensure efficient farm operations;
- (iv) Implement measures to ensure proper financial management of farms.



Cotton Debt Resolution Scheme: *donor support*

The Government of Tajik Republic will continue its cooperation with the donors who participate in the Cotton Debt Resolution Scheme and provide financial support for establishing a Special Purpose Vehicle to address the debt problem in a manner which yields sustainable solutions and improves the welfare of farmers and rural people.