Осуществление и мониторинг политики реформ в сельском хоз.

ABBREVIATIONS

ADB	–	Asian Development Bank
TA	–	Technical Assistance
MFI	–	Microf nance Institution
GDP	–	Gross Domestic Product
EBRD	–	European Bank for Reconstruction and Development
WB	–	The World Bank
ROSCAS	–	Rotating Savings and Credit Associations
Dehkan Fund	–	Fund for the Support of Peasantry and Farmers
Hakimiyat	–	Local administration
Raion	–	District
OECD	–	Organization for Economic Co-operation and Development
RCGF	–	Romanian Rural Credit Guarantee fund
EU	–	European Union
Uzdonmaksulot	–	Wheat Procurement Agency
Agroprombank	–	Agro industrial Bank
WUA	–	Water User Association

Exchange Rate (June 2008)

$1.00 = 1300 UZS

In this report, "USD" refers to US dollars.

DISCLAIMER

This report has been prepared by the Technical Assistance Team and does not necessarily ref ect the views of ADB or the Government of Uzbekistan.

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PREFACE

This report has been prepared within the framework of the ADB funded TA No. 4820-UZB "Implementation and Monitoring of Policy Reforms in Agriculture Sector".

The primary objective of this report is to promote and facilitate the implementation of agreed agriculture sector reforms through the evaluation of the agricultural credit options.

The overarching tasks for this objective are:

i) Review and describe the current sources and arrangements for the provision of agriculture credit, with particular emphasis on the crediting mechanisms for cotton and wheat production;

ii) Undertake an assessment of the performance of Government sponsored agriculture credit programs, including their impact on, a) Government f nances, b) participating commercial banks, and c) farm f nances;

iii) Assess the availability of commercial sources of farm credit and the terms and conditions which apply to such funds;

iv) Prepare a set of proposals which would allow for a gradual increase in the use of commercial sources of credit for funding agricultural production;

v) Assist the identif cation of priority reforms;

vi) Contribute to an assessment of the resource requirements of proposed reforms;

vii) Assist in consultation processes with national, provincial and district authorities including seminars, workshops and public awareness programs;

viii) Contribute to the establishment of a monitoring and evaluation system that can track selected credit parameters;

The specif c goals for the f rst mission, which took place in November of 2007, were:

i) Assess the current state of agricultural credit within Uzbekistan;

ii) A second mission in April 2008 developed specif c proposals to further promote lending;

EXECUTIVE SUMMARY

Within the framework of the Technical Assistance "Implementation and Monitoring of Policy Reforms in Agriculture Sector", the Credit Expert has undertaken an assessment of the capacity of the financial sector to meet the needs of agricultural enterprises operating in Uzbekistan. The initial input focused specifically on two tasks tied to the initial phase of the project (1) assessing the specific sources and uses of credit for agriculture in Uzbekistan and (2) contributing to the interim report of the project team in the area of credit in collaboration with a local expert. The second mission included in this report expanded on the conclusions of the initial mission to further develop specific interventions in the agricultural credit sector, offering solutions to ease credit to the agricultural sector during the market transformations.

Building on the results from the raion workshops implemented during February and March 2008 by the project, as well as the results of the first mission specific interventions have been developed to overcome the major identified problems of the agricultural sector with regards to credit. Specifically three solutions have been proposed; the development of a guarantee fund to overcome collateral deficiency, a refinance facility to offset high interest rates, and warehouse receipt facility to allow for improved access to working capital in order to smooth cash flow needs.

In the time available it has not been possible to elaborate on these proposals in detail. However, there are working models available in other parts of the world which offer useful experience if the government wishes to pursue any of these proposed interventions. All the proposals mentioned would require further detailed analysis to shape a particular model to the circumstances currently found in Uzbekistan.

I. BACKGROUND

1.1 Agriculture plays a leading role in the economic plans of Uzbekistan, contributing more than 24% to GDP and supporting 40% of the workforce. Agricultural credit schemes, specif cally directed credit programmes, have been implemented to support specif c strategic sectors in the agricultural economy. Since 2004 several reforms have been introduced to improve their effectiveness and the effectiveness of agricultural credit in general. These reforms, relating to credit and associated institutions, have included

i) the continuing privatisation of farming entities, f nancial institutions, and related industries;

ii) the increasing loan size and lowering of the interest rate of targeted loans to wheat and cotton;

iii) the closing of the business fund;

iv) Microf nance laws introduces in 2006;

v) Credit Union Law renewed in 2006;

1.2 Despite the reforms most farming enterprises do not have access to the type of credit options they feel would be most benef cial. In general available credit is either directed credit which has only a small cash component and focused on only targeted uses, or a limited amount of commercial credit which does not meet even a small percentage of the needs. This is slowly changing as Microf nance institutions, Credit Unions and Leasing companies push into rural areas and add to the credit options available to farmers.

1.3 While slowly reforming, Uzbekistan's banking sector is still very much driven by government interventions. The banking sector includes 29 mainly private banks, though many of these have large government ownership stakes. The government controls three large banks, totalling about 60 percent of banking assets, which support the government's economic priorities through subsidized loans offered to specif c sectors and targeted commercial lending. Foreign banks may operate only in a subsidiary status, and all routine banking operations require government permission. Taxes can be collected through the banking system, and suspected tax evaders may have their accounts frozen.

1.4 Since the dissolution of the traditional agricultural crediting institution, Agroprombank, there has been an emergence of several new banks focused on agriculture[1]. Along with the new banks emerging, there has also been a growth in Credit Unions and Micro Finance institutions. Despite this there are still numerous gaps in the agricultural credit market. These gaps mainly relate to access to credit by those farmers who are not involved in the growing of wheat and cotton, as producers of those crops are able to obtain credit through a government programme of directed credit.

[1] Paxta Bank, Galla Bank, and Mevasabzavot Bank, which was subsequently merged with Savdogarbank, were created from the remnants of Agroprombank. Turon Bank, Mikrokredit Bank and Zamin Bank were also established with some or a majority of their focus on Agro-enterprise.

1.5 Agricultural credit in Uzbekistan is dominated by directed credit aimed at cotton and wheat farmers. This is highly subsidised, at three percent, and does not allow the farmer much room for targeting the use of funds. The timing is dictated by national norms, not taking into account regional conditions, and the use is informally directed by the local Hakim. This subsidised rate has distorted the agricultural credit sector, and in areas where commercial credit is available, it cannot compete with the directed credit, even where their terms are more liberal. Commercial credit is mainly used for crops other than wheat and cotton, and through the commercial banking system this is mainly offered to those clients with a concurrent government loan who need funds to grow other crops in addition to cotton or wheat. Other farmers are either unable to access commercial credit, or cannot afford the high interest rates, averaging around 20% for new clients. Due to the diff culties of accessing credit, 67% of Uzbek farmers do not access formal credit.[2]

1.6 Credit is available through commercial banks, credit unions, microf nance institutions, and leasing companies. Informally money lenders also make loans in the agricultural sector. Overall in the agricultural sector there is a gap currently between demand and supply of credit. While slowly alternative credit granting institutions, such as microf nance institutions, credit unions and leasing companies are moving to close this, this is a long term prospect and there is an immediate need to support the current system of commercial banks and their mini-bank system to avoid a collapse of rural credit. Above all farmers are concerned at the lack of long term reasonably priced funding for farm improvement and machinery, which must be addressed.

1.7 The results from the raion workshops generally ref ected many of the observations made in the initial report detailing the agricultural credit mechanisms in Uzbekistan, and brought forth other issues that also need to be dealt with through wider rural credit policies and priorities.

[2] ADB On farm survey, 2007

II. OVERVIEW OF AGRICULTURAL CREDIT IN UZBEKISTAN

A. Challenge to Agricultural Lending

2.1 The development of best practice methodology in agricultural lending has been a source of much debate throughout the past several decades, leading to many changes in the approach taken by most countries. This has been a shift from a top down, interventionist policy towards a more liberalised market oriented approach. The result has been progress in the direction of long-term sustainability in the agricultural sector, rather than the achievement of short-term gains at the expense of market distortions. However, to implement sudden liberalisation without developing a network of f nancial institutions with the capacity to meet the credit needs of the agricultural sector can in fact hamper the development of a vibrant agricultural sector. Uzbekistan faces this crossroads right now, the f nancial system is currently developing a network of banks, mini-banks (regional sub-branches of commercial banks based close to the clients), Microf nance Institutions (MFIs), Credit Unions and leasing companies to meet the needs of the agricultural sector. Yet the mini banks are reliant on delivering directed credit to only specif ed activities in agriculture, rather than offering a suite of products meeting a range of needs. The MFIs and Credit Unions are also constrained by the need to meet their operational cost base to f nance only those activities which offer high prof t with a fast turn around time. MFIs and Credit Unions also do not have as yet a deep penetration into rural areas. This does not yet encourage the market to develop innovative products to meet the wider needs of the sector.

2.2 The challenge moving forward will be to continue the liberalisation of the agriculture and f nancial sectors and encourage the increase in resources made available for credit-worthy agricultural clients. Yet while doing so insuring there is no disruption in the f ow of credit to agriculture and the system to deliver the credit becomes f nancially sustainable, and in fact prof table enough to encourage competitors to enter the market. Throughout this shift the role of the government will have to be carefully thought out in establishing legal policy and a regulator framework to support the transition, as well as codifying the extent of government intervention in the case of market failure.

B. Analysis of Directed Credit

2.3 Cotton and wheat are supported through a directed credit programme of the Uzbek government, operated by the Ministry Of Finance. Cotton and wheat are cornerstones of the Uzbek economy, with cotton making up around 20% of exports, thus creating a perceived need to f nancially support the sector. As farmers are tied into a f xed price purchase and sales contract with government institutions for a majority of their production, prof t margins are minimal creating the need for subsidised credit. Overall this program has been successful in supporting those two industries and Uzbekistan has been able to sustain its position as the second largest cotton exporter and f fth largest producer in the world with a self suff ciency in wheat.

1. Mechanism

2.4 The mechanism for lending the direct credits was established in January 2004 based on the "Regulation of procedure of crediting expenses of farming enterprises for production of grain crops and raw cotton, purchased for state needs by commercial banks"

2.5 In order to access the funds a farming enterprise must sign a purchase contract with government suppliers for inputs, develop a business plan with expected cash f ows and balance sheet accepted by the tax authorities, and submit a report of f nancial condition.

2.6 The loan is made based on a maximum of 60% of the value if the production, based on the previous years prices and current years quota. This is split into specif c credit lines and tranches based on the business plan and agricultural charts. This can take the form of

i) Remuneration of wages;
    a. This line item is the only form of the loan lent in cash;
ii) Purchase of inputs from government suppliers;
iii) Machinery rental or leasing payments;
iv) Payment of taxes electricity and water related charges;

These line items are f xed before the loan is disbursed and, regardless of any price changes or unanticipated need, the use of funds cannot be altered.

2.7 The loans are distributed according to standardized technical documents for each crop.[3]

2.8 For cotton the tranches, as a percentage of previous years sales and percentage of loan proceeds are disbursed in the following manner:

i) 10% (or 17% of loan proceeds)by January 1st ;
ii) 25% (or 42% of loan proceeds) by April 1st ;
iii) 50% (or 83% of loan proceeds) by July 1st ;
iv) 60% (or 100% of loan proceeds) by September 1st ;

2.9 For wheat the tranches as a percentage of sales price and total loan proceeds are:

i) 35% (or 58% of loan proceeds) by January 1st ;
ii) 50% (or 83% of loan proceeds) by April 1st ;
iii) 60% (or 100% of loan proceeds) by June 1st ;

[3] The use of technical documents which do not take into account local conditions or farming methods has also been a barrier to the eff cient allocation of monetary resources. Although the Ministry of Agriculture disputes this stating there are regional variations.

2.10 Cotton is lent for a duration of 18 months while wheat is lent for 12 months, without the right of extension.

2.11 Any goods necessary to purchase from non-government suppliers are not able to be included under the terms of the loan, unless specifically designated, and must be purchased from the farmers own resources. In many cases the use of funds on account of the farming enterprise at the bank are directed by the local Hakimiyat rather than the farmer.

2.12 Insurance is no longer required on all loans under the directed credit program.

2. Effect on Banks

2.13 Banks that focus on the subsidised credit often do this at the expense of other banking activities. With central bank refinancing rates at 14% and deposits paying 10-12% it is easier for banks to sell low cost directed credit guaranteed by the state then try to mobilise higher cost resources for commercial lending. Even commercial activity in the agricultural sector in large part revolves around the needs of farmers who have already received directed credit to engage in other activities.

2.14 Banks have in fact reduced their intermediation role to a minimum as a result, although this should be a major role of the financial sector. Banks that do collect deposits appear to do this as a result of governmental pressure rather than any real desire to increase resources. They also have to pay higher than expected interest rates as they have to respond to government pressure to increase deposits in an environment unattractive to depositors.[4] A recent government decree offering a "no questions asked" policy to depositors from April 2008 through April 2009 is aimed at increasing deposits in the banks sector. This though has raised questions about money laundering issues from international regulators as the source of these funds will not be verified. Rather than developing those skills in efficiently and profitably funnelling money from investors to credit worthy clients, banks have rather focused on meeting the governments targeted goals using low cost funds.

2.15 It is also clear in the banking system that directed credits have led banks to lose focus on transaction and administrative costs. This is most clearly seen in the development of mini banks without any clear idea of their cost structure or sustainability. Overall the administrative costs of the directed credit loans, from origination through repayment appears to be very large, due to onerous application and monitoring requirements. As banks follow the procedures set by the government for underwriting and servicing, the ability to innovate has been stifled to the detriment of their clients in need of a variety of products. As privatisation moves forward in both the agricultural and financial sectors, these banks will find themselves without the necessary resources or skills to compete on a commercial basis.

[4] Depositors face both the possibility of their funds being inaccessible as cash due to a tight monetary policy and also the possibility of the funds being frozen for tax purposes.

2.16 In the long term, the removal of the directed credit program and further liberalisation of the f nancial sector will enable f nancial institutions to increase their eff ciency and play a more active role in the intermediation of funds in the country. This will allow a multiplier effect of money in the Uzbek economy, insofar as money not being kept in the banking system is money not being effectively used for investment.

3. Effect on Farmers

2.17 The reason farmers need to acquire the subsidised credit is a result of lack of market forces in the cotton and wheat sectors. Farmers are forced to sell a majority of their crop to the government, often below world prices, while being obliged to purchase inputs from government suppliers at prices often above what is available in the informal marketplace (although other inputs are subsidised below market costs). Without subsidised interest rates, farmers would f nd it impossible to make any prof t on wheat or cotton.

2.18 As it stands most cotton and wheat farmers are making very little if any prof t on those activities. As the farmers are tied to specif c quotas, there is a disincentive to increase production. Farmers are more likely to keep yield low in order to (illegally) divert resources to other more prof table activities, allowing them to increase their cash based activities where they can make a prof t. Insofar as loans are based on previous year sales, farmers also have a disincentive to increase output over the quota, as they will have to use their own resources to make up the difference in inputs. While it is not likely, it is possible that a farmer who continually overproduces compared to the quota will have their quota reassessed. Farmers producing under the quota also face the prospect of having their lease revoked.

2.19 Farmers are unable to eff ciently allocate the loan funds, but rather are beholden to predetermined line items, despite where the current needs may be. In most cases farmers do not even have the ability to allocate where the money is spent, but this is done by regional authorities on their behalf. Only the amount allocated for wages, which is circa 17% of the loan proceeds, is disbursed in cash for the farmer to control. Even this is much less than the farmers need for wages which is closer to 30-35% of their costs.

2.20 Items the government suppliers do not sell, such as spare parts, cannot be purchased with loan proceeds.

2.21 Not having control of the funds creates farmers who are not adept at managing the most effective application of resources. They will use the entire amount dedicated to any one input regardless of need as they do not want to incur a smaller amount in future years if they do not use the entire amount in the current year. If farmers were able to control the funds, they would utilise the inputs to maximise prof t by directing them to the most eff cient uses.

2.22 Farmers have shown themselves willing to pay much higher interest rates to be able to control the use of funds in cash and sell on the open market, again for cash. Many farmers who have acquired the lease of former Shirkats are only involved in growing cotton and wheat in order to access land they may use for other prof t making activities. Further opening up the cotton and wheat markets to competition will allow better use of land as well as encourage funds to flow from the banks to the most effective farmers who prove their ability to manage credit at a commercial rate. With a profit motive, farmers have traditionally been more effective in maximising the yield and managing the land more effectively.

2.23 Allowing more access to cash, both in loan form and from revenues after harvesting would be a great incentive for farmers growing cotton and wheat. Currently only that amount used to pay labour charges can be accessed both from the loan and held back from revenue. Farmers have little ability to access money even if it is in their account as a result of revenue and is needed for improving their farming activities. This can lead to problems even in repaying loans from other institutions despite having money in their account.

2.24 In order to truly revitalise the agricultural sector farming enterprises need to have access to a diverse array of financial products meeting their needs. This will allow enterprises of different sizes, production and needs to access the financial product geared to their needs. Subsidising the agricultural sector through directed credit programs undermines the development of sustainable enterprises.

4. Effect on Government

2.25 Directed credit has been implemented by the government in order to support policy decisions on critical economic sectors. The use of credit as a tool is usually based on, sometimes incorrect, assumptions about the inability of commercial banks to lend to these sectors, the lack of liquidity in the farming sector and the inability of farmers to manage financial tools without government support. In Uzbekistan directed credits are also justified by distortions in the market caused by price controls on inputs and production.

2.26 The amount lent to cotton and wheat in 2007 was 88 billion and 14.8 billion sums respectively. This was an increase of 44% for cotton and 38% for wheat compared to 2006. This amounted to 14% of expenditures in the agricultural sector in 2006. [5]

2.27 While directed credit programs have helped to support the success of cotton and wheat production, ultimately it will be an obstacle in the government's ongoing shift to a free market. Allowing the market to allocate resources rather than the government underpins a successful transition.

C. Commercial Credit

2.28 Agricultural enterprises can obtain commercial credit from five sources:

i) Commercial Banks;
ii) Credit Unions;

[5] Ministry of economy "on budget expenditures for the agricultural sector" 2006;

iii) Micro Finance Institutions;
iv) Leasing companies;
v) Informal lenders;

2.29 The reality is that these sources, with the exception of informal lending from relatives, supplier and local money lenders, meet very little of the demand for credit in the agricultural sector. In order to modernize the increasingly capital intensive agricultural sector, farming enterprises will need to have access to a variety of credit products; including working capital, seasonal loans, and longer term investment loans. Poorer people in rural areas need access to modern and innovative financial services to help climb out of poverty. In many cases only access to credit will allow the small farmer to make to investment necessary in order to develop a profit making enterprise. Improving credit opportunities for farmers will achieve not only an increase in production, but also a reduction in rural poverty.

1. Agricultural Credit Granting Institutions

a. Commercial Banks

2.30 A result of the reforms of the past several years has been a collapse of the traditional institution of credit granting to the agricultural sector, Agroprombank, and the emergence of new commercial, agriculturally focused, financial institutions to take its place. This is a positive move towards the development of a modern agricultural banking system and increasing the role of commercial credit. Despite this devolution of agricultural credit institutions, the financial institutions are still reliant on directed credit programmes of the government for a substantial proportion of their agricultural portfolio.

2.31 Commercial banks offer credit to agricultural enterprises on a commercial basis, in the banking system this accounts for 4% of the total portfolio. This usually entails loans to farmers who have already accessed directed credit to engage in other activities or loans for agro-processing. Depending on the client, banks offer different interest rates, tenor and collateral coverage policies. This can range from 5 year loans at 14% for preferred credit to good clients up to 20% loans for under 1 year for regular clients. Collateral coverage policy ranges from no collateral necessary to 125% coverage necessary. Banks do not have any specified loan terms, but tailor each to the business plans of the farmer, the mean term of the loans is almost 42 months in the agricultural sector[6]. Due to government decree[7] banks are also beginning to offer some micro-lending options to poor families to a maximum of 15 million sums, but this is not on a commercial basis or fully on a cash basis, and the resources are minimal.

2.32 Uzbek banks, using their own resources, are unable to develop the underwriting guidelines of agricultural loans. They are instead obliged to follow the government regulations on loans to farm enterprises. This often results in farmers unable to repay in a timely manner and thus unable to access further commercial credit.

6 2007 On Farm Survey

7 Presidential decree 308

2.33 Banks will need further training and regulatory leeway to begin developing products and procedures which meet the needs of farming enterprises. Specifcally in dealing with smaller farming enterprises banks are not able to react to the needs in a timely manner, which is why the farmers turn to MFIs and Credit Unions despite the higher interest rates and shorter terms. With the outreach provided by the mini-bank system banks have an opportunity to now to focus on reaching new farming enterprises, not just those involved in directed credit programmes.

b. Mini Banks

2.34 Mini Banks have been promoted by the government as a solution for dispersing credit services of the banks to all regions. Currently there are over 1000 mini banks, which act like offces of regional banks branches, offering different levels of service. Mini-banks offer an opportunity for banks to begin offering a larger range of services to their agricultural clients. One of the major risks of lending to the agricultural sector is the lack of client knowledge and inability to monitor the loan use; mini-banks put the bank personnel close to their clients to overcome this obstacle. Through the investment into the mini-banks, banks have lowered the transaction costs of doing business in the regions. By bringing down the costs and risks, banks should be better able to offer products at a reduced price to their clients.

2.35 The capacity of the mini-banks must be increased to make use of these advantages and reach sustainability. The mini-banks need to increase their human and technical capacity to allow more functions, such as loan approval to a certain level, happen at the mini-bank level. This would entail having products aimed at a lower level of the market which the mini-banks would be able to reach directly, the same clients Credit Unions and MFIs are targeting. Currently the regulations under which mini banks operate are unclear, this along with the cost structure have left many barely operational.

c. Credit Unions

2.36 Credit Unions are a relatively new development in Uzbekistan, operating since 2002, but have been growing at a rapid pace. Currently there are 45 registered with 29 fully operational, with an average asset base of $800,000 for each institution. Agriculture represents a small proportion of the portfolio, but it is a growing percentage and considered to be a strategic sector. Further expansion of the Credit Unions will be focused mainly on rural areas. Currently about 15% of the total portfolio is directed for agricultural purposes. Credit Unions, as opposed to the banking sector, are fully vested in developing an intermediation function, with 98% of their resources derived from deposits, paying 3-5% per month. It is necessary to pay the high rates to compete with banks who are compelled to pay high rates to attract deposits due to government pressure to do so, despite the disincentive for clients to utilize deposit accounts.

2.37 Despite the growth, which is anticipated to reach 90 Credit Unions by 2010, Credit Unions still do not have the resources, both in asset terms and delivery systems, to reach the large number of small farmers seeking credit. As the loans must meet the proft needs of the Credit Unions, which is around 2% margin per month resulting in interest rates of 5% per month, they must be geared towards those enterprises that can provide high prof t activities with a short turn around time. This includes construction of greenhouses, harvesting activities, and grape production, but precludes seasonal loans. This need for achieving high margins also rules out working with government credits which do not offer high enough margins to cover the transaction costs. Credit unions that operate in on territory of Uzbekistan also do not have a right to make operations using foreign currency, which precludes cooperation with many donor agencies.

2.38 Credit Unions have been able to position themselves to meet the needs of agricultural enterprises that banks have been unable to credit. Although the interest rate is much higher than banks Credit Unions have found they are only able to meet a small percentage of the demand for their services to the agricultural sector. Clients point to two major advantages of the credit Unions:

i) Access to cash based loans;
ii) Better and more timely service;

2.39 The Credit Union movement is supported by a Credit Union Association, which aside from technical assistance, also runs a stabilisation fund valued at $400,000 to insure deposits and offer some liquidity support. Beginning in 2008, four pilot Credit Unions will begin leasing programmes.

2.40 Despite the advantages Credit Unions offer their clients they are limited in expanding agricultural lending by:

i) Lack of resources;
ii) Lack of knowledge in agricultural lending;
iii) High cost of funds;
iv) Inability to work with hard currency, and;
v) Diff culty in accessing good collateral from farmers;

d. Microf nance

2.41 Before 2006 Microf nance Institutions (MFIs) operating in Uzbekistan were not working under a strong legal basis, only a Cabinet of Ministers Decree from 2002. In mid-2006, two new specialized laws — "On Microf nance" and "On Microcredit Organizations" - were adopted in order to f nally provide a legal basis for the operation of non-bank lending institutions. This created a sound environment to work but also obliged some international organizations to close their MFI, rather than register as local entities as required by the new regulations. In Uzbekistan MFIs still have a low penetration rate in rural areas, and focus mainly on urban small entrepreneurs. The sector is growing again in 2007, with several new institutions recently registered.

2.42 In addition to those MFIs operating under the new laws, the Uzbekistan government has also worked to downscale several banks, and in May 2006 the state run Tadbirkor Bank was reorganised as the Mikrokredit Bank, offering a range of subsidised and commercial credit, with rates from 5-14% to clients seeking small loans. Currently 60% of their portfolio is in the agricultural sector.
Many MFIs and the Mikrokredit Bank offer micro-leasing programmes for agricultural machinery.

e. Leasing Companies

2.43 Leasing in Uzbekistan was established in 1993 and strengthened with Presidential Decree #3122 "On Measures for the Future Development of Leasing," enacted August 28, 2002, and supported with more than 40 legislative amendments to the Civil Code, Tax Code, Civil Litigations Code, and the Laws on Leasing and Customs Tariffs between 2002 and 2003. Further tax advantages were implemented with April 2004 and April 2006 Government resolutions which provided even more momentum to accelerate the activity in the sector. Uzbekistan has moved forward with the privatization of leasing companies which, along with the lifting of associated restrictions for entering the market, has opened the door for competition amongst the f nancial institutions for a portion of the leasing business. Many banks and credit unions have either begun, or are implementing, a leasing programme, and in many cases this is expected to become a large part of their business strategy. As equipment purchase is one of the major needs of the agricultural sector leasing will continue to play an important role in meeting the needs of the sector. Currently leasing of agricultural machinery makes up 57% of the leasing market (end 2006), with a total of 61.3 million dollars in leased machinery during the year. This is a strong indicator that when a portion of the f nancial sector is open to competition the benef ts to the client are positive. Currently there are benef cial tax privileges for leasing which will continue to make it a popular method for f nancing equipment, both from the f nancial sector and enterprise point of view. This includes, as of April 2006, an exemption from income tax on leasing transactions until 2009. As the general risks associated with agricultural lending are increased over a long term loan, leasing will continue to be an important tool to mitigate these risks for the f nancial institutions, as the f nancial institution maintains a strong legal position for seizure and sale in case of default throughout the life of the lease.

2.44 The legal regulations in place in Uzbekistan are some of the most progressive in the region and provide an enabling environment for the growth of this sector. As of the end of 2006 there were 33 institutions involved in leasing, eighteen of these are banks, 14 are leasing companies, and 3 are microf nance institutions. This is expected to continue to grow as Credit Unions and other f nancial institutions add leasing to their suite of products.

f. Informal Credit

2.45 Evidence indicates that there is a large informal credit sector in Uzbekistan, from moneylenders charging annual rates of up to 120% to loans from relatives and suppliers. These offer fast alternatives for immediate funds compared to the banks. There have also been some informal rotating savings and credit associations (ROSCAS) whose members lend and save amongst themselves. Several of these Roscas were in fact transformed into Credit Unions. Supplier and processor credit is also available in many instances in Uzbekistan. For those producing for the export market, some intermediaries have even developed a form of a futures contract for advance payment to farmers to guarantee purchase of their goods for delivery.

2.46 Farmers turn to these informal means due to a lack of alternatives. If similar services were offered on a formal, and presumably more competitive basis, the farmers would benefit tremendously.

2. Other Credit Funds

2.47 Both the government and several donors, including the EBRD, World Bank and ADB, have developed support funds and credit lines which include agricultural enterprises as part of their target clientele.

2.48 The government has developed the Fund for the Support of Peasantry and Farmers (Dekhan Fund) from the revenue of the unified land tax. The funds lends mainly to small farmers through the commercial banking sector with highly subsidised interest rates equivalent to 1/3 of the central banks refinance rate. The average loan size is $10,000 with a maximum three year term. The fund has been steadily growing since its inception in 1998, allocating a total of 1.3 billion soums in 2006 and supporting around 500 farms, out of an estimated demand of 214,000 possible clients. The Dekhan Fund is not a guarantee and the financial institution incurs all repayment risk.

2.49 The ADB and EBRD have provided credit lines directly to the commercial banks at commercial interest rates. The ADB has also implemented a project in the Ak Altin Rayon to rehabilitate the cotton sector through market based principles.

2.50 The World Bank has undertaken a pilot project involving the provision of credit in five rayons, which will soon expand to 90. This has entailed the loosening of credit criteria in order to meet the needs of the farmers in the pilot regions.

D. Weaknesses of Agricultural Crediting

2.51 While support for directed credit has waned in other parts of the world, in Uzbekistan it is considered a primary means to ensure the continued production of goods considered strategic to the Uzbek economy, specifically wheat and cotton. While this may achieve some goals, it weakens the intermediation function of the financial system; specifically efficiently transferring money from investors to those creditworthy borrowers in need. Uzbek banks who are relying on directed credit for a large part of their portfolio are not as focused on mobilisation of their own internal funds. Due to governmental pressure they do capture some deposits, but without much enthusiasm because using external funds is less costly. The role of banks in tax collection and the "Cash Forecasting system" put in place by the government also proves a disincentive for clients to hold deposit accounts[8]. Thus their intermediation function is almost nonexistent.

[8] The government is able to collect taxes directly from deposit accounts held at commercial banks. The profits an enterprise might deposit at banks could become frozen if the enterprise did not forecast the cash needs properly, or not convertible to cash due to government liquidity

2.52 Due to the preferential interest rates and the governments' requirements for the banks to implement the directed credit, the development of a vibrant commercial credit sector for agricultural f nance has been undermined. Add to this a weak land tenure system, stringent collateral requirement and regulatory intervention in the devising of products, commercial agricultural credit has been slow to develop, although it is growing on a year to year basis. Currently, despite the importance of agriculture in the Uzbek economy, only 4% of commercial credits are geared to agricultural enterprises.

2.53 The recent banking regulations enacted in July 2007 should compel the banking system to begin increasing their capitalization as well as diversify their portfolio. Although this is not geared specif cally towards agriculture, insofar as agriculture is considered a priority sector by the government is should benef t.

2.54 In order to develop a f nancial services sector catering to agricultural enterprises it will be necessary for the government and foreign donors to create an environment in which f nancial institutions feel secure offering products. In order to accomplish this several weaknesses must be overcome. The current directed credit scheme implemented by the Uzbek Government has been successful in mobilizing large amounts of credit for use by the agricultural sector, yet only for those involved in wheat and cotton production. Other f nancial instruments have reached only a small proportion of farming enterprise that need credit. In order to improve access to f nancing for all agricultural activities it will be important to not only develop mechanisms allowing banks to safely and prof tably lend to this sector, but also to diversify the sources of f nancing opportunities for farmers.

2.55 There are few mechanisms outside the directed credit fund guaranteeing the safety of bank lending to the agricultural sector. Financial institutions rightly view agricultural lending as inherently risky due to vagaries in the market, weather and disease which can adversely affect the crop or livestock, as well as unclear collateral. With more assurances of repayment banks should be able to free up more resources, currently targeted to other areas, to f nance agriculture. Despite moves toward liberalisation the banking system still has a large amount of government intervention, and the government has large stakes in most of the large commercial banks, and bank lending policies often mirror government policy. This will continue to restrain the banking system from moving towards an eff cient market based system.

2.56 The current environment does not allow many farming enterprises to offer the 120% collateral coverage required by the banking sector due to lack of liquid instruments. The main reason is a lack of liquidity in the land market and the lack of any secure manner to use the production as collateral. Currently farmers can only lease land from the government, but this lease is not liquid and can be revoked by the local Hakimayit if production quotas or cropping targets are not met. Although as of 2004 there has been legislative guidelines on the manner of valuing the leasehold, without any market for the lease banks are reluctant to use these as collateral. As the farmer must fulf ll contractual obligations with regards to use of land and production, or risk

plans which would limit clients ability to utilize their resources in the most prof table manner, specif cally taking advantage of cash opportunities.

forfeiture of their right to use the land, their tenure rights are unclear making it even more risky for banks to take this as collateral. Until the right to use is passed to the leasee without restrictions and the market for the lease instruments is opened up to provide a real valuation, the utilization of the 'Right to Use" of the land will not be an effective collateral device.

2.57 Aside from small inroads by Credit Unions, Microf nance Institutions and leasing companies, there is a lack of diversity in credit opportunities for farmers. One of the main indicators of a healthy agricultural crediting sector is the variety of options available for farmers, whose needs are also diverse. By fostering these alternative credit resources, the agricultural sector will also be strengthened.

2.58 Uzbekistan banks work under a tight monetary policy which limits the amount of their resources that can be lent in cash, the preferable medium of credit for agriculture. This has forced banks to utilize their resources carefully and aim towards the more prof table and secure areas of the economy.

E. Recommendations

2.59 From the point of view of the development of an eff cient agricultural credit sector there are several policy strategies that can be taken as well as some specif c interventions into the marketplace that can help support the reforms.

2.60 The rights of the leasehold farmers must be insured allowing banks to have conf dence the leaseholder will not have their right to use the land revoked. This would include abolishing the contractual obligations of the farming enterprise with regards to quotas and cropping patterns to bolster the underlying value of the lease as well as maximising the prof t of the enterprise. This will also be necessary to begin to develop a market for the leases in order for f nancial institutions to assess a tangible value of the collateral, as the value will be dampened if rights are not secure and use of land is encumbered.

2.61 There needs to be a reduction on lending limitations faced by the banks. If banks are unable to set their own lending criteria they will be unable to fully control the risks of lending to this sector. The current World Bank project supporting agricultural credit in f ve raions offers a framework on how to liberalise the agricultural crediting sector successfully. Banks working with this credit line point to these areas as the only raions they are able to offer a full range of products to the farmers.

2.62 Some specif c actions that would support the reforms are:

i) Allow commercial banks more freedom in developing products geared to their clients needs, rather than based on specif c technical guidelines:

  a. Allow banks to develop products for all types of agricultural activities with a variety of terms;

ii) Allow clients to direct the use of credit as deemed appropriate, within the scope of the f nanced activity, allowing the farmer to maximize prof t and thus repay in a timely manner;

iii) Support the growth of leasing companies, micro-f nance institutions and Credit Unions in the rural areas:

   a. Intervention should take the form of supporting the access to credit resources for those institutions, including those which are unable to access foreign currencies:

      1. As a stabilisation fund already exists for Credit Unions, it would be possible to use this amount, currently $400,000 as a guarantee for a credit line from outside sources;

iv) Support the development of insurances or guarantees against loss for agricultural loans;

v) Free up liquidity in the banking system, allowing banks to increase cash based loans to farming enterprises;

2.63 Any intervention in the f nancial sector should have as the f nal objective the development of sustainable institutions able to attract commercial funds on their own merit.

2.64 The directed credit program should be transformed and eventually discontinued in order to foster a modern agricultural credit sector. It will be important to do this in a prudent manner in order to insure that by doing this a void is not created making it even more diff cult to farmers to compete and access credit. The withdrawal of the directed credit must be accompanied by further liberalisation in the agricultural sector allowing farming enterprises to increase their prof t making capability. This includes allowing farmers to direct their cropping patterns and choose when and where to sell their output, increasing their prof tability and ability to repay commercial credit. There must also be viable alternative credit sources in place to avoid any disruption in the ongoing operation of the enterprises. This will entail supporting all sources of credit, such as mini banks, Credit Union, and MFIs to ensure their prof table involvement in the sector. In addition there needs to be during the period of adjustment to market rates some subsidised agricultural credit available, to avoid any withdrawal of credit available to the sector. Such interventions are specif ed in section II.

III. PROPOSED INTERVENTIONS

A. Priority Concerns

3.1 Discussion with stakeholders, surveys of farmers and raion level workshops have identif ed four major areas where the agricultural credit sector faces immediate issues that need to be addressed in order to make it more accessible for the farming community.

- i) High interest rates for commercial credit;
- ii) Lack of effective collateral available for banks;
- iii) Inability of farmers to control use of funds;
- iv) Lack of long term credit;

3.2 Under these overarching categories, specif c issues were also identif ed affecting the agricultural f nance sector. Results of workshops held at the rain level prioritised the following issues in table 1, fairly consistently throughout the country, as their major concerns relating to agricultural credit.

Table 3.1: Priority Issues and Interventions.

Priority	Problem	Interventions needed to solve
1	Current directed credit does not cover the real needs for credit.	TA (technical assistance) in developing cash f ow lending skills and product development
2	Lack of ability to withdraw funds to use for urgent needs	Liquid loan proceeds and income
3	Fixed dates of dispersion not in line with need[9]	Farmer needs to have more discretion, loans cash based and disbursed on cash f ow needs
4	Constricted use of funds	TA for product development to widen the credit options in market.
5	Credit availability is very limited for other agricultural activities outside of cotton and wheat.	Development of ref nance facility and TA for product development.
6	Collateral is insuff cient or not liquid	Development of guarantee fund and support land market and tenure reforms
7	No long term credit for land improvement, irrigation, new technologies	Ref nance facility with long term funding available.
8	Commercial credit high interest rates	Ref nance window for agricultural credit at lower than Central Bank rates
9	Need agro-processing loans	Longer term loans through commercial banks using ref nance window. TA for product development and improved lending technology.

[9] Ministry of Agriculture disputes this and states that all regions have technical maps specif c to their needs.

Priority	Problem	Interventions needed to solve
10	Mechanism for using the leasehold as collateral not working	Improve tenure rights and create liquid market for leases. Enforcement of legislative directives.
11	Lack of knowledge and inefficiency of bank officers and lending methodology	TA and opening financial sector to competition
12	Lack of working capital	Develop warehouse receipts
13	Poor leasing terms and high collateral requirement	Extend guarantee fund to leasing.
14	Lack of commercial or directed credit to farms under 20 hectares	Encourage alternative financial institutions in the raions, specifically Credit Unions and Microfinance Institutions
15	Need to open 7-8 bank accounts to manage current credit programme [10]	Increase efficiency and run loan proceeds through only one account
16	Highly bureaucratic and expensive to gather needed document to access credit [11]	TA in lending methodology
17	If money is not accessed and used within 5 days it will be returned to the bank	Enforce freedom to dispose of loan proceeds as needed
18	Need to have cash available at local branch	TA to banks for cash management and asset and liability committees (ALCO) to manage cash needs
19	Leasing quite expensive when all costs included	Open competition through other financial institutions
20	Administrative fees drive effective interest rate of even directed credit to very high levels	Support competition and implement TA to develop efficient and transparent procedures
21	Communication with farmers	TA in origination techniques.
22	No common appraisal techniques for livestock	TA for appraisal techniques

3.3 *Most of these problems can be mitigated through some specific interventions, with* government, donor and financial institution involvement. While it is often considered good practice to deregulate and let the market solve the problems, it is important to recognise the reality on the ground in Uzbekistan. A sudden move to a market priced financial services sector would be an imprudent first step, as this would lead to a severe curtailing of affordable credit available in the sector. There is a need to initially focus on sustainability and viability of financial institutions and farming enterprises through interventions that would expand access to credit and knowledge of agricultural lending technologies while decreasing the distortions a highly subsidised programme causes. Any strategy must provide for solutions to these issues that will be temporary measures slowly curtailed until the sector is prepared to operate in a market based environment.

[10] Government states this has been taken care of two years ago with "one specialised account"

[11] Ministry of Agriculture and Ministry of Finance working to simplify application procedure for directed credit programme.

3.4 Any transformation should aim for the long term goals of:

i) free pricing of f nancial products;
ii) a shift away from targeting;
iii) recognizing the variety of agricultural enterprise needs and dispose of rules permitting only limited credit uses;
iv) encouraging domestic savings mobilization and a focus on intermediation;
v) emphasizing the soundness of f nancial intermediaries participating in credit programs; and
vi) encouraging competition among intermediaries[12] ;

B. Resolution

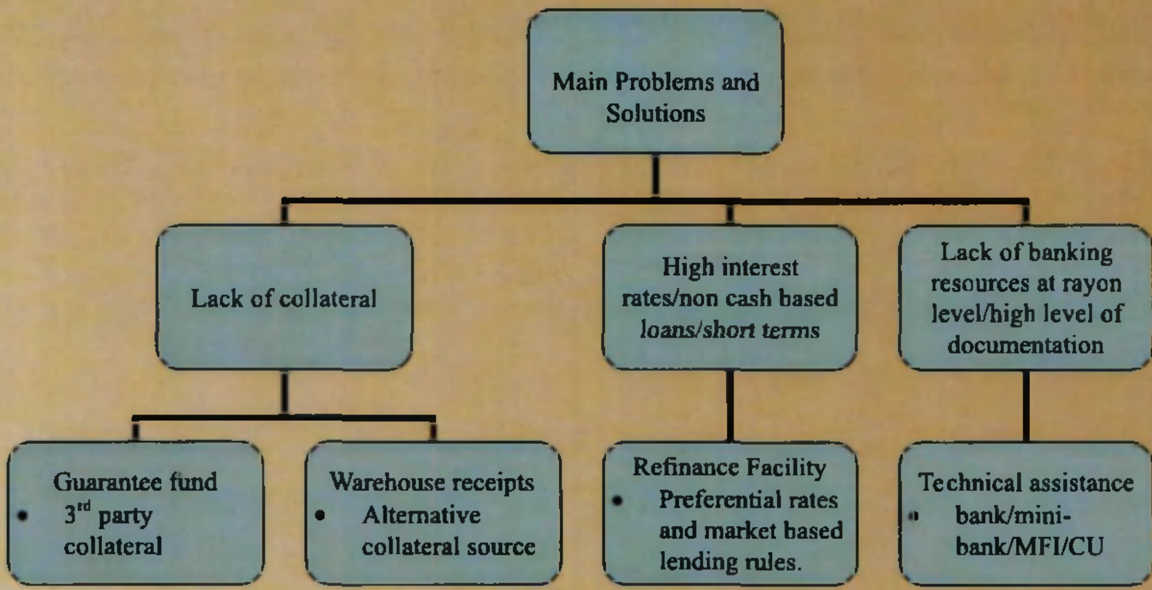
3.5 These solutions to these concerns must also be a part of the greater strategy of reform which will continue to move the entire economy towards a more open, liberal and market oriented path, an avenue the government has already been pursuing. During this process a sudden shock to the f nancial sector, such as an immediate liberalisation, would be to the detriment of the agricultural f nance sector, as the distortions in the rest of the production chain will make the sector to risky to lend to under standard prudential norms for banks.

3.6 The goal then is to implement transitional structural change that will guide the f nancial sector towards more market oriented, and therefore eff cient, operations; allowing them to ultimately lend to this sector prof tably at market rates.

3.7 Figure 3.1 details the most pressing problems identif ed and the most effective solutions identif ed to overcome the problems.

[12] MacDonald et al., 1989

Figure 3.1: Problem Tree.



3.8 Instituting these proposals would allow for the transition towards a market oriented agricultural f nance sector. They would provide for the development of skills within the f nancial institutions to lend to this sector successfully, spread the risk amongst the stakeholders, and keep the credit affordable to the farming enterprises. Once linkages are made between the agricultural enterprises and the f nancial institutions, and the loans are being managed securely and prof tably, these support facilities can slowly begin withdrawing and allow the market to function without intervention.

1. Guarantee Fund

3.9 A guarantee fund is a tool to overcome collateral def ciencies in a sector with perceived risks higher than banks would generally take. In Uzbekistan most farmers do not have suff cient collateral to satisfy bank requirements, usually up to 120% of credit required. This mainly ref ects the lack of real liquidity in the leasehold market. Although in reality there is a mechanism for valuing leaseholds, effectively there is no market for them making them unusable as collateral. Banks point this out as a major impediment for them to begin any large scale lending in the sector. Even if offered credit lines, the risk is considered too great to enter the market on any scale. A guarantee fund is designed to overcome this problem, it would provide a repayment guarantee, for a percentage of the outstanding loan amount, to a bank in the case of default, thus providing to a bank the security the farmer is unable to provide. A Guarantee fund should encourage banks to lend to clients that have a good prospect for success, but do not necessarily have the collateral or business record needed to meet the banks general risk tolerance.

a. Overview

3.10 Guarantee funds, when correctly designed, can be used as a robust tool to encourage commercial lending to agriculture, a sector banks in Uzbekistan view as high risk. While there have been many successful examples of guarantee funds deepening the f nancial sectors knowledge of, and participation in, the rural and agricultural sectors, there are as many instances of failures and ultimately irrelevant funds. More than half of all countries and almost all OECD countries operate some type of credit guarantee scheme to target priority areas underserved by the commercial f nance sector; with different levels of success in overcoming the weaknesses identif ed which initially lead to the development of the fund. The design, underlying economic conditions, sources of capitalization, fund management, and stakeholder support all contribute to the success or failure of guarantee funds.

3.11 There are many pros and cons to the development of guarantee funds, which make them very susceptible to poor design. The main reasons for the support of their development in Uzbekistan are:

i) guarantees can overcome current collateral constraints:

   a. offsetting the risks of lending to the agricultural sector, and;

   b. overcome the lack of liquidity in the land market;

ii) compensating for low prof t margins:

   a. Through grouping several f nancial institutions offering similar loans, the guarantee facility can spread the cost of development of lending methodology and development of baseline data for the target group:

      i. gathered data can be used as an informal credit bureau, further lowering the cost of client assessment;

   b. In many cases TA from the fund may help bring product development and administration costs down;

iii) forcing f nancial institutions to develop skills in agricultural lending:

   a. This will lead to a higher level of comfort in providing credit to the sector and eventually further expansion;

iv) produce additionality:

   a. Allows a target group unable to access credit otherwise to be granted a loan;

3.12 A well designed programme will ensure these issues are taken into account, in particular additionality; meaning that if guarantees only provides for credit to those enterprises who were already able to access the credit markets, it is not effectively developing a more robust credit market. This is particularly important in Uzbekistan where only a small percentage of farming enterprises are actually able to access credit.

The pitfalls to avoid in design are:

i) The supply of credit available is not enough to effectively leverage the fund, and in fact no additional loans are made;

ii) The cost structure overburdens the fund:

   a) If the administration cost is too high the fund will be diminished rapidly;

   b) If the fund inaccurately prices the risk, it will also run at a loss;

iii) Guarantee fund takes over the assessment of credit from the banks:

   a) Banks should be more adept at assessing their clients and shoulder the risk;

iv) Banks will only use the guarantee fund for their risky loans:

   a) Bank given the chance will display opportunistic behaviour and only guarantee their risky assets rather than blanket coverage for all agricultural loans:

      1. This will increase the risk to the fund;

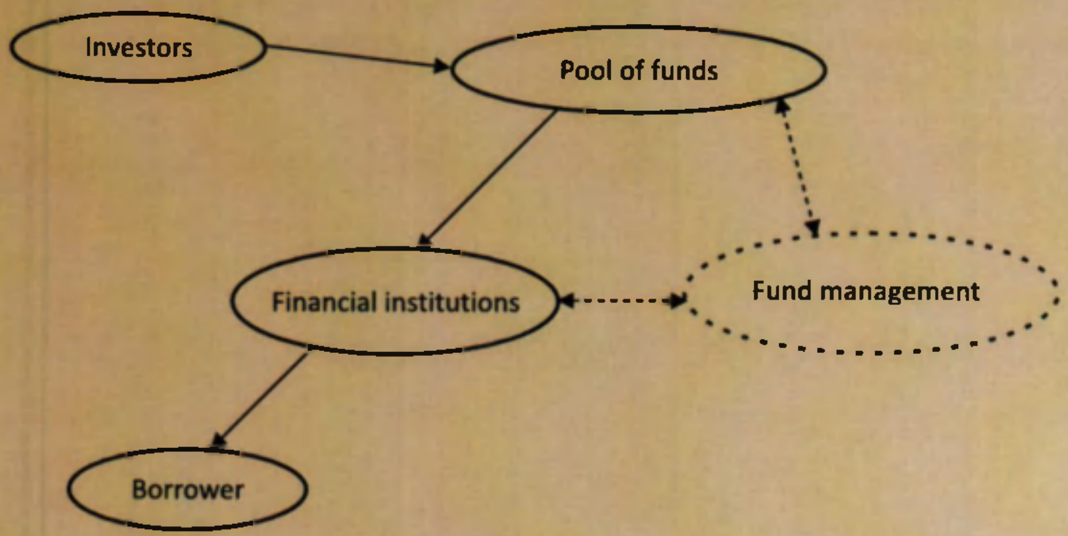
3.13 The government of Uzbekistan has many compelling reasons to develop a guarantee scheme. Several of those issues identif ed during the workshops with stakeholders can be overcome using guarantee funds, specif cally lack of collateral and the employment of associated technical assistance to increase banking competitiveness and knowledge of agricultural lending. In addition guarantees can help to motivate lending to enterprises which currently do not have access to appropriate credit, and increase the social goal of supporting the agricultural sector.

3.14 In order to ensure the success of a guarantee scheme in Uzbekistan it will be imperative to def ne clear and precise goals, against which performance is regularly monitored, apply realistic pricing verif ed by consistent and transparent accounting, and pay close attention to the market forces that effect the intermediaries as well as the benef ciaries of the fund. To do this an independent entity must be created to manage the fund, although with representatives of stakeholders on the board.

b. Fund Design

3.15 The overall concept of a guarantee fund involves an independent institution shepherding investor funds, usually a mixture of a loan for capital and a grant for initial operating costs, to promote lending to specif c sectors through the f nancial sector (f gure 3.2).

Figure 3.2: Guarantee Mechanism.



3.16 Ideally this pool of funds remains safe, and in some cases providing a small income to the investors. Investors can be donors, government, f nancial institutions, pension funds etc... These funds are then able to the returned to the investors upon termination of the fund. This entity should have members of the f nancial sector, government, agricultural enterprises and the donor community on the board, depending on the ownership of the fund, to set the strategy of the fund.

3.17 The effective design of the fund from the initial stages will determine whether or not it meets its sustainability and social goals. Table 3.2 indicates the major design factors of a guarantee fund, and what is suggested for the Uzbek environment.

Table 3.2: Suggested Fund Parameters.

Sample of fund parameters			
Factor	**Sample Range**	**Suggestion for Uzbekistan**	**Comment**
Leverage (max)	2.5-10	4	Many funds remain underleveraged due to the lack of loan capital available in the market.
Coverage (percent of loan covered by the fund)	50-80%	75%	This is maximum allowable, the average will be lower
Cost (premium)	• 1-2% per annum depending on bank performance. • 3% for small loans • 2.5% of loan value	1.5% /annum of outstanding amount guaranteed	Administrative costs must be kept low, if the cost to the bank and borrower is too high the fund will be ineffective.

Sample of fund parameters			
Factor	**Sample Range**	**Suggestion for Uzbekistan**	**Comment**
	• at inception and 1% annual on outstanding • 1.5% per annum guarantee value • 3%/annum amount guaranteed		
Default	1.2-3%	Anticipate 2%	Higher for failed funds
Other collateral	Most often bank decision	Bank decision	
Funding	Soft loan, trust fund	Soft loan	Must closely manage the investor base.
Provisions	4-27%	5%	Will adjust based upon actual payout
Payout	15 days - 2 year lockout (cannot claim during this time) then after 30 days only 75% of payout with rest after all recoveries finished	30 days 75% paid out with rest paid after all recoveries	Timely payout will reinforce use of fund. Fund failure is often tied lack of trust in the fund to promptly pay on claims.
Underwriting	Banks review all - Fund reviews all	Banks responsible for all underwriting	Fund must set underwriting parameters and audit portfolio.
Working capital vs. investment	20-100% working capital	60% working capital	Serve a planned mix of institutions and beneficiaries
Number of employees	11-179	25	Keeping administration costs to a minimum will be essential

In the development of any guarantee scheme there are two important concerns to keep in mind:

i) Farmers and banks must not perceive the coverage of their loans as automatic and without any consequences in the case of default. Financial Institutions must uphold the quality of underwriting of all guaranteed loans;

ii) Transaction costs must not be out of reach to farmers and agricultural enterprises, but still allow sustainability of the fund;

c. Leverage

3.18 From a governmental standpoint guarantee funds are a popular tool, as a relatively small sum of money can leverage a large number of loans benef tting a specif c target group. It is this leverage that also gives guarantee funds a market oriented viewpoint, which can help during a transitional process such as Uzbekistan is experiencing; as the funds are designed to stimulate market based lending. In addition to the loans directly guaranteed by the fund, the larger goal is that it will also leverage further unguaranteed loans from the f nancial sector as they become comfortable lending to agriculture.

3.19 For many funds the main problem has not been over-leveraging, but in fact under-leveraging. This is due to many factors, but in Uzbekistan two major issues must be faced to avoid this problem. The f rst is to ensure that there is available liquidity in the market that can be used to generate the loans, and also keep the cost structure to a minimum allowing the borrower to afford to access the guarantee. The development of a ref nance facility for the f nancial sector, discussed in the next section, is a solution to the liquidity problem, and is also effective in keeping the overall costs down. The fund design will also have to keep costs at the forefront of the strategy on order to avoid pricing themselves out of the market.

3.20 An initial maximum allowable leverage of 4:1, thus allowing the fund to guarantee credit worth four times the funds capital base, would be appropriate until the real risk characteristics of the fund are determined. As the real default rate is determined, the allowable leverage can be raised or lowered.

d. Cost and Pricing

3.21 Sustainability is one of the most diff cult goals to realize while still achieving the social objectives of the fund. The design phase must make great effort to keep down the administration costs to a point the income can cover these as well as any claims the fund may incur. In box 3.1 it makes clear the large burden the costs of managing the fund can have on the sustainability.

Box 3.1: Cost Example.

Romanian Rural Credit Guarantee fund (RCGF)

The RCGF was set up in 1994 with involvement of the Romanian Government, The European Union and local commercial banks. The fund received euro 9 million from the EU to guarantee the fund commitments, and euro 40 million from the Romanian state budget to seed the fund. The fund takes an active approach towards the risk analysis of individual loans, thus increasing the overhead costs. Overall the cost to provide a guarantee of $100 costs the fund $19.84 in administration costs and loan provisions; this supports a loan of $166. Premiums and fees only cover 15.7%, or $2.66, the rest must be derived from investment income, which must be carefully managed to avoid eating into the capital.

3.22 If the investment income is below expectations the fund will quickly f nd itself unsustainable, which unless a further grant of operating capital is injected into the fund will mean a diminishment of the funds capital and eventually the inability to continue operations, or meet payout obligations.

3.23 Farmers have pointed out that the administrative and indirect costs of accessing credit is as much a burden as the interest rate. Transparency and eff ciency needs to be built into the system, both on the banks operations as well as the operations of the fund to minimise these costs.

e. Product Design

3.24 Product innovation and a customer focus must be part of the culture of any guarantee fund. The initial design must take into account both the needs of the farming enterprises as well as the f nancial institutions. This should include the guarantee of several types of products, allowing both short and long term credit. While the fund must set basic underwriting guidelines, they should be f exible enough to allow the f nancial institutions to modify the basic terms to meet their client needs. The fund should set maximum and minimum limits in which the f nancial institutions can operate. This will include maximum loan values, minimum borrower contribution, minimum qualifying income ratios, use of fund restrictions and other standard underwriting techniques.

3.25 In order to promote the expansion of agricultural credit options, any fund should not focus on only the banking sector, but also develop products useful for Credit Unions and Microf nance institutions.

2. Ref nance Facility

3.26 A *ref nance facility is a tool of the government to direct credit to strategic sectors* of the economy in as an eff cient mode as possible. It uses the same system as the market, i.e. setting a discount rate through the central bank, but sets a lower rate for the portion of a f nancial institutions portfolio directed towards specif c sectors. This allows f nancial institutions to access central banks funds at preferential rates to lend to these sectors, and by ref nancing their portfolios does not in fact reduce their capital. As the surveys completed of Uzbekistan farm enterprises have shown that the current commercial rate of 20-60% is too high for farmers to manage, this is tool to offer realistic rates of interest for farmers and agro-processors to access. The funds currently used to support the directed credit programme could eventually be used to seed a ref nance facility, as both are funded through the central bank.

a. Overview

3.27 Ref nance schemes are products of central banks, using the discount window as a tool to fund the agricultural portfolio of participating f nancial institutions. This instrument has the option to offer different products (long short-term) to different types of institutions depending on the target which may include commercial banks Credit Unions, MFIs and leasing companies. Any agriculture ref nance scheme should be developed with a targeted share of short, medium and long term funding. Short term for working capital, medium term for equipment and development purposes and long term, i.e. f ve years and more, for project f nancing.

b. Management

3.27 While the scope of the lending should be limited, agricultural enterprises in this instance, introducing a ref nance facility with severe restrictions will continue to limit the autonomy of the banks. There must be a compromise between enforcing underwriting and servicing guidelines and allowing the bank to develop independent internal policies. Part of the transformation process is the need to allow banks in Uzbekistan to become comfortable lending to the agricultural sector without relying on third parties to impart all lending characteristics and mechanism on them. Currently Uzbek banks have not developed skills in agricultural lending for this reason, they follow only the government regulations and have not developed their own skills.

3.28 There should be quite strict governance criteria to ensure that any ref nance facility does not become a new method of state intervention in the sector which will continue to distort the sector. The following list is based on the governance criteria The World Bank enforces for similar types of institutions, which offers a good guideline:

i) Fully autonomous management that is held accountable for the facilities f nancial performance;

ii) Exemption from civil service pay scales to attract and reward quality staff on the basis of the institution's f nancial performance;

iii) Insulation from staff ng pressures by local authorities, for example through autonomous organizational charts with professional qualif cations criteria;

iv) Freedom to set lending rates to provide an adequate spread to cover costs;

v) Application of international best practice prudential regulatory, accounting, and disclosure practices, and therefore the development of a strong management information system by the institutions, and both off-site supervision and on-site examinations by the same agency that supervises private banks;

vi) A hard budget constraint;

vii) A clear time-bound strategy to develop rural f nancial markets that are supported only with initial, nonexclusive, transparent budgeted subsidies;

3.29 Alongside the lending scheme, capacity building, human resource development and product development assistance needs to be offered to the f nancial institutions availing themselves of the ref nance scheme. Uzbekistan is specif cally in need of support for the development of innovative products, such as those based upon cash f ow lending, more closely matching the needs of the farming enterprises.

c. Pricing

3.30 As ref nancing schemes are by def nition aimed at specif c targeted sector, there is a built in cost involved with monitoring the use and impact of funds. In addition there needs to be a comprehensive technical assistance component, specif cally needed in Uzbekistan, to support the f nancial sector to eff ciently and securely lend to the agricultural sector. The rates charged to intermediary institutions should be set at levels that do not undermine their deposit mobilization activity, as the post transition goal is to allow the f nancial sector to self f nance agriculture through mobilisation of funds. Despite the general consensus among farmers in Uzbekistan that they need very low interest rates experience has shown that borrowers, specif cally small-scale borrowers are more sensitive to the non-f nancial costs of transactions (processing fees, travel costs, and income lost due to delays in approval and disbursement) than to the f nancial costs(interest payments).

3.31 Feedback from farmers in Uzbekistan indicates that the administrative costs, burdensome requirements and lack of cash proceeds are almost or equally as important as the interest rate, as these other costs can increase the effective interest rates of even subsidised loans to 14-15%. This is underpinned by the fact they will take loans at up to 60% from alternative sources if the administrative requirements are low, approval is fast and credit is in cash. Thus it is as important, or more important, to keep these costs down in addition to lowering the interest rate; this includes not only direct cost but the indirect costs associated with the many days spent accessing the funds which results in income lost as well as costs of travel.

3.32 As sensitivity analysis on an average sized cotton farm of around 16 hectares shows, based upon current lending schedules, there would be a difference of $597 USD in the interest costs between a loan of 7% and a loan of 20%, this would drop to $300 for a typical 12.6 hectare wheat farm (see table 3). While this may be signif cant, much of this could be offset through more eff cient and timely lending techniques, as anecdotal evidence indicates that the costs, direct and indirect, resulting from the current directed lending regime, may not be much different from this amount. This will entail a need to increase income by 7 and 10% respectively to offset the higher rates. Famers have indicated that more eff cient crediting methodology which would allow them to direct the use of funds would increase their income, this may eventually be enough to meet the higher income targets needed to manage the higher rates. An ongoing World Bank project indicated that yields increased between 20 and 50% due to improved use of inputs, partly attributed to more liberal credit terms

3.33 Activities undertaken by the World Bank has shown that a sudden increase to market rates of around 20% cannot be accomplished effectively, specif cally if subsidised rates are still available. There needs to be a period of transition towards the market rates through a period of subsidised rates in conjunction with an increase in technical assistance needed to eliminate the indirect costs through more transparent operations and enhanced eff ciency. The preponderance of farmers who had access to credit at market rates through the World Bank sponsored project returned to the directed credit programme in order to access credit at 3%.

3.34 Compared to a loan at 3% a farmer would have to pay $780 more in interest payments on cotton and $393 more interest on wheat over the course of a year for a commercial loan at 20%. In all cases though the revenue derived from the farming activity is not enough to provide standard debt coverage, in the case of both cotton and wheat, approximately 75% of revenue would need to go to debt service, where anything over 60% is considered dangerous. In fact unsubsidised credit at 20% would return only a slight net income of $289 on cotton farming, while wheat would show a small loss of $88.[13] Table 2 shows the actual difference between a subsidised rate of 7% and market rates of 20%, and the impact for the farmer.

Table 3.3: Interest Rate Sensitivity Analysis (US dollar)

Sensitivity Analysis of Interest Rate Impact[14]

Average revenue and cost for Uzbek farming activity	Cotton		Wheat	
	per ha	per farm	per ha	per farm
Total Revenue	$716	11647	305	3,852
Total cost	$642	10438	275	3,478
Net income	$74	1208	30	374
Credit need (80% of costs)	$514	8351	220	2,782

Without Subsidized Credit	Loan Amount	Interest	total repayment	minimum revenue needed	Increase in interest payments	increase in income to qualify
Cotton	$8,351	20.00%	$9,269.76	13,905	$597.11	6.88%
Wheat	$2,782	20.00%	$3,244.90	4,867	$300.80	10.22%

With subsidized Credit	Loan amount	Interest	total repayment	minimum revenue needed
Cotton	$8,351	7%	8,673	13,009
Wheat	$2,782	7%	2,944	4,416

3.35 Pricing will thus have to be at a level attractive to farmers, but still moving in the direction of market rates. Feedback from the workshops has suggested that rates between 7 and 9% would be appropriate. As farmers and the f nancial sector becomes more eff cient at accessing these funds, and the overall administrative and indirect costs decrease, agricultural

[13] Farm income information is a result of on farm surveys and data collection completed in 2007/2008 in the course of the ADB Monitoring and Implementation of Policy Reforms in the Agricultural Sector Project.
[14] Ibid

enterprises should be able to accept a slow move toward the market rate. Thus any long term refinance product would need to be priced at 2-4% allowing the financial institutions to include a mark-up to meet their margin needs and absorb the costs of any associated guarantee fund. In addition the banks would need to be sure the fund terms matched the longer term loans they would be providing for investment and land improvement.

3.36 For smaller scale loans through microfinance institutions as well as Credit Unions the pricing would be less important as their high cost structure currently requires a margin of 2% per month, or around 24% yearly rate, and yet they are still unable to meet demand despite interest rates of 5% per month. Thus access to funds is of primary importance to this sector that would focus on short term loans, as well as introducing technology to lower the transaction costs of these institutions in order to bring down rates. In addition to increasing credit access, of importance would be developing new products and systems meeting a wide variety of needs, from seasonal loans to agro-processing credit. Mikrokredit Bank has already begun delivering some subsidised credit to the agricultural sector at 5-14% with a resulting strong demand.

3. Warehouse Receipt

3.37 The development of a suite of financial instrument to support the financial sector is an important step in the creation of an efficient agricultural sector. Warehouse receipts are one such instrument that has proven to be particularly successful in transitional economies in the provision of credit during crucial post harvest period in order to finance the marketing of the product as well as continued harvesting activities. In Uzbekistan this will be important for those farmers who currently hold back product and store at their house for future sale, and allow them to store their goods properly while availing themselves of the liquidity they offer. This would be immediately applicable to the grain sector where farmers are able to sell 30-50% of their production, depending on their ability to produce over quota, on the open market. This will allow the farmers access to working capital while storing their crops until higher prices in the future instead of being forced to sell immediately for a lower price in order to receive funds.

3.38 It has been shown that in countries undergoing similar reforms, the establishment of credit flows in the short term will be critical to the overall success. Warehouse receipt offer a tool to provide these credit flows in a manner appropriate to the financial sector as well as the agricultural sector.

a. Design

3.39 Warehouse receipts deliver to the farmer proof of ownership of the product which they have stored at a certified warehouse, this can then be used as collateral for a loan from financial institutions as shown in Figure 3.3. The financial institution is able to convert this collateral into cash in a very short time in the case of default, thus limiting their risk. The advantage of this system is:

i) Fast access to liquidity for the farmer;

ii) Source of income for the warehouse;

iii) Source of almost risk free income for the f nancial institution, and;

iv) Eff cient system to assess product quality and quantity for buyer and seller;

3.40 In order for a warehouse-receipt system to be viable, the economy within which it operates must meet certain conditions:

i) There must be an appropriate legal environment;

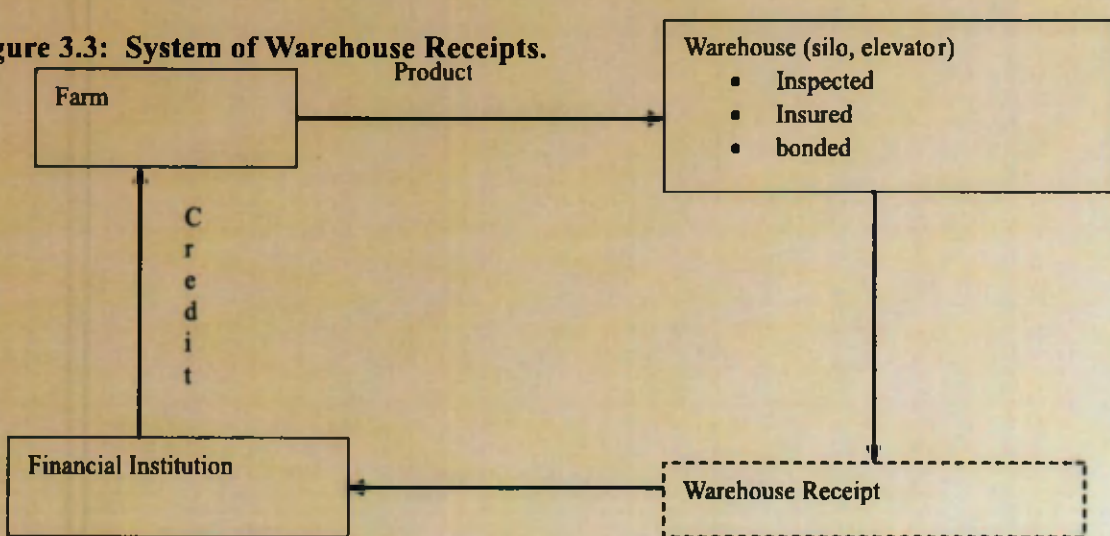
ii) There must exist a dependable independent verif cation and certif cation system guaranteeing the quality and f nancial viability of warehouses as well as the quality and quantity of stored goods;

iii) There must be the availability of a reliable insurance carrier to insure the goods under storage;

3.41 Where these prerequisites do not exist in other systems such as bank owned warehouses have also been introduced to occupy this f nancial niche.

3.42 In order to determine the capacity of a warehouse receipt system to work in Uzbekistan a pilot project involving a handful of grain elevators could be implemented to def ne the certif cation and verif cation procedures needed to secure the integrity of the system and concurrently assess the legal basis for the system.

Figure 3.3: System of Warehouse Receipts.



3.43 Currently in the wheat sector, the most viable crop to begin developing this system, all storage facilities are government owned through Uzdonmaksolut. This organisation currently has excess capacity and would be very willing to support any attempts to initiate warehouse receipts. This would provide them another source of income, which would currently run between US$1and $4 per tonne per month in storage fees depending on the elevator used. Farmers have a choice to store in any elevator in the Uzbek Republic. These fees compare to an international standard of about $1.20-$1.50 per tonne per month.

b. Certif cation and Insurance

3.44 A reliable certif cation and guarantee mechanism must be in place to backstop the system. This must insure that the physical infrastructure is appropriate for storage, the f nancial health of the warehouse facility is strong and that the quantity and quality of stored goods are as stated upon the receipt. In Uzbekistan there is a State body, Texnizavod, currently providing *these certif cations; the quality of the inspections is considered appropriate* by the State insurance company and Uzdonmaksolut. The insurance company would be able to rely on these assurances to provide property and casualty insurance on the goods at .5 to 2% of the value. Currently only the state insurance company UzAgroSigorta is operating in this sector, but feel if the demand is large enough to provide a prof t they would be very interested in providing this underlying insurance. Aside from the state there is at least one private certif cation company assessing cotton warehouses and one private company certifying grain quality operating in Uzbekistan.

c. Legal Basis

3.45 The legal system must support pledge instruments, such as warehouse receipts, as secure collateral. The lack of an appropriate legal environment is probably the single most important constraint to develop a system in Uzbekistan, as all other parties are ready to move forward if this system is in place.

3.46 The pertinent legislation must meet several conditions:

i) Warehouse receipts must be functionally equivalent to stored commodities;

ii) The rights, liabilities, and duties of each party to a warehouse receipt (for example a farmer, a bank, or a warehouseman) must be clearly def ned;

iii) Warehouse receipts must be freely transferable by delivery and endorsement;

iv) The holder of a warehouse receipt must be f rst in line to receive the stored goods or their fungible equivalent on liquidation or default of the warehouse; and

v) The prospective recipient of a warehouse receipt should be able to determine, before acceptance, if there is a competing claim on the collateral underlying the receipt [15];

3.47 The current legislation is supportive to the development of a warehouse receipt scheme,

[15] Richard Lacroix and Panos Varangis, 1996

although will it need some minor revisions to ensure it is specifc to this transaction. The key lesson learned from other transitional countries establishing similar schemes, is that the warehouse receipts must be specifcally recognised in the legal system so that the ownership of the underlying goods are not challenged. The specifc articles that may need to be adjusted under the Law of the Republic of Uzbekistan on Collateral, issued on 9/12/1992 and updated in 01/05/1998 are:

i) Article 9

a. The timing of the right for the right of pledge to be used for collateral on goods held by a third party must arise at the moment the goods are delivered to the third party and agreement concluded for storage;

ii) Article 12

a. The subject of any pledge under control of a third party must be insured by the third party according to storage agreement;

iii) Article 14

a. In the case a pledged property is stored under agreement with a third party, the risk of accidental loss or damage of the pledged property shall be taken by the third party;

iv) Article 36-1; Collateral kept with third parties:

a. The subject of the pledge kept with third parties may be agricultural production as defned in article 5 of the current law;

b. The mechanism for designing the pledge for agricultural production should be defned in the legislation;

3.48 In addition to these specifc legislative issues, it must be assured that the owner of the receipt has priority over the tax department for the goods if the farmer or warehouse owner is delinquent on taxes.

4. Technical Assistance

3.49 Within the banking and farming sectors there is a great need for education and training; focusing on fnancial literacy for the farmers and agricultural lending techniques for the banks. Banks need to more fully understand the cost of loans to the agricultural sector and how to lower them by improving lending practices. Farmers need to more comprehensively understand their obligations with regards to credit, and what form is most benef cial for their needs. The World Bank Rural Enterprise Support Project has shown the effectiveness in the provision of training to all sides in the development of proper loan decisions initially and an increase in repayment rates throughout the term of the loan.

3.50 In order to increase the success of both a guarantee fund and ref nance facility the needs to be an integrated technical assistance program associated with the activities. Many of the issues raised by attendees in the workshops relate to the lack of capacity within the f nancial sector to eff ciently manage agricultural credit and provide the services needed. To lower the administrative costs, increase the service level to the borrower and help safeguard the funds a high degree of knowledge transfer to the f nancial institutions partnering on any programme will have to take place before lending can begin.

3.51 Agricultural lending requires a unique set of skills, in designing the products, originating the loans and instituting ongoing servicing. Specif c farming activities are often only one source of a farmers income, thus to develop skills in cash f ow lending techniques encompassing different income sources can allow a more accurate assessment of repayment capacity. As f nancial institutions enhance their ability to securely and prof tably lend to this sector, the need to external guarantees and subsidised credit will diminish.

2.52 The immediate areas that need to be addressed are:

i) Develop new documentation allowing farmers to more simply access credit while providing the f nancial institution the necessary information to make an informed credit decision;

ii) Training of asset and liability committees to develop skills enabling the availability of money at the locations, and during the season, it is needed. Clients need to rely on funds being available as they become needed. The committee can also manage the matching of funds to increase the level of long term credits to the sector;

iii) Training of credit off cers in cash f ow lending techniques to ensure the client has access to the funds needed at the time they are needed. Lending too little is as dangerous as lending too much, and it is the credit off cers who need to determine the optimum amount, which may differ from client to client;

iv) Develop realistic collateral appraisal techniques to protect the banks as well as allow client to fully leverage their assets;

v) Support the development of new products and service lines to fully address the needs of the sector;

vi) Provision of technical assistance with particular emphasis on deposit mobilization; f nancial and project management and use of information technology;

3.53 Longer term capacity needs to be provided to research and academic institutions to conduct studies and convene policy level discussions that will promote awareness of agricultural f nance as an integral part of economic policy and promote it as a sound commercial investment.

3.54 Overall the f nancial sector, commercial banks especially, needs to increase their ability to handle risk, as currently theirs is a very risk adverse culture which views the agricultural sector as a risky area outside of their comfort zone. They need to begin lending to this sector as a strategic business decision, rather than as a result of government directives. This will mean supporting their understanding and management of the risks involved.

3.55 Different types of assistance will also need to be delineated for banks, credit unions, MFIs and leasing companies, depending on their target clients. Short term loans, seasonal loans, equipment loans, livestock loans are all examples of products which rely on specif c skills to manage successfully.

3.56 Lessons learned from other international examples of support funds has shown a direct relationship between the amount and quality of technical assistance and the overall success of the programmes.

C. Partnerships

1. Financial Institutions

3.57 Financial institutions that work with any of these schemes will need to prove their capacity to lend to this sector, and as well their commitment to serving these clients long term, beyond the scope of these types of support mechanisms. Uzbek banks, which do not always have the best technology to lend to the agricultural sector must also be able to accurately work within the underwriting guidelines of the ref nance facility, and any associated guarantee fund. MFIs and Credit Unions often have a more thorough understanding of how to lend to their sector, but must also be given support on how to adapt this to specif c agricultural needs. For example, a combined household and business model of credit analysis (in which all business and personal income and expenditure f ows are considered in calculating repayment capacity), is more appropriate to this market segment, and makes specif c restrictions on end use of credit impractical and undesirable. This would improve upon the current system of basing credit decisions on previous years prices and quotas

3.58 The creation of sustainable f nancial intermediaries working with the facility will require identifying organizations with strong leadership; a clear mission to assist the rural sector; an eff cient approach; a proven lending technology, or a willingness to adjust current methodology to address institutional weaknesses. The process of selecting institutions will be crucial to success; consideration of all alternative f nancial institutions and rigorous analysis of their actual and potential performance will be essential.

3.59 Initial activities of any entity managing this facility must f rst develop a rigorous approach to the identif cation of partners. To ignore or limit focus this crucial aspect in order to concentrate only on the development of the facilities methodology is likely to lead to problems with the implementation in the long term.

3.60 Currently several banks are very interested in working with these types of projects, either on a pilot basis or on a wider scale.

2. Government

3.61 Without government involvement in the funding and strategic orientation of these schemes they will unlikely become reality. The Central Bank will need to be a direct partner in any ref nance facility and policy decisions from the Ministries of Finance and Agriculture as well as the Cabinet of Ministers, will determine how supportive the environment will be for the development of these interventions. For funding, sources such as insurance and pension funds may become investors.

3.62 As much of the agricultural and f nancial sector is still state run or controlled, they will continue to play a leading role during the transformation process, and these schemes must serve to support their reforms.

3. Other Donors

3.63 Other donors are already active in the agriculture and f nancial sectors. Specif cally the World Bank is expanding their pilot work in 90 new Raions which will include a large credit component. This project will explore the use of warehouse receipts as well as alternative collateral alternatives to support new credit lines. Working in conjunction with this project will be a very benef cial way to leverage activities in the agricultural credit sector.

3.64 Along with the World Bank, USAID is implementing a large agricultural project with a complimentary credit component. Disseminating lessons learned from these projects will help to guide implementation of any new interventions in the sector.

D. Policy

3.65 In order for rural f nancial markets to function effectively, complementary reforms are needed in titling, securitisation, judicial process, and disclosure that would improve the environment for f nancial services. There must be a strategic policy shift allowing the reforms to take hold and f ourish. Government interventions in rural f nance should be based on the principle of removing the causes of market failure in a cost-effective way. The long term goal is to support the implementation of market forces on the sector. An eff cient rural f nance sector is identif ed by a range of f nancial institutions and products available within reach of the borrowers, thus policies must be put into place to support this.

3.66 The agricultural credit market must not be seen as a stand alone sector, or the domain of any one stakeholder, but in fact as the conf uence of an eff cient rural/agricultural sector, and an enabling f nancial sector. For this reason it needs the support of both the Ministries of Finance and Agriculture who set policies for these sectors and support of other stakeholders such as the central bank, regional authorities and farming unions to implement reforms. During the course of the work it has become clear that even where legislation has been put in place to support more eff cient agricultural credit operations, the implementation has often been slow to take place. There must thus be a strong follow up and enforcement of any policy reforms that are developed.

3.67 Farm surveys and regional workshops have helped to identify the major ineff ciencies in the market. This information will allow us to begin to develop policies to overcome these problems.

3.68 The areas that need continued focus are:

i) Improved policy environment:
   a. promote f nancial sector reforms;
   b. promote agricultural market eff ciency;
ii) Strengthen legal and regulatory framework:
   a. Improve leaseholder registration and liquidity;
   b. Reform law on securitization and secured transaction;
   c. Promote lending from non bank f nancial institutions;
iii) Identify market failures:
   a. Incentivise innovation;
   b. Dissemination of transparent information;
   c. Social intermediation;

3.69 Uzbekistan needs to implement an inter-ministerial task force, including the participation of the stakeholders in order to truly begin to develop policy guidelines to overcome the def ciencies in the current legislation and identify those who can take the lead in implementing the latest policies. The Ministry of Agriculture has some relationship with the Ministry of Finance in the development of the directed credit scheme, but this should be deepened to encompass a wider policy dialogue.

Specif c areas identif ed for policy coordination are:

i) Ministry of Finance:

   a. Fiscal incentives such as tax credit for investment in capacity building;

   b. Transformation of directed credit programme into market based interventions;

ii) Government of Uzbekistan:

a. Should begin to transform its role from intervening in the agricultural credit markets to investing in projects like water courses, irrigation, dams and providing essential inputs like electricity, technical training, disaster certif cation and other support services of agriculture;

iii) Ministry of Justice:

a. The required changes needed to expand access to credit in rural areas include:

1. Titling and registering leaseholds;

2. Reforming the law of secured transactions, such as legally acceptable forms of collateral;

3. Enforcing the implementation of current legislation;

IV. CONCLUSION

4.1 Worldwide the transition from directed credit programmes has been a slow, and as of yet incomplete, process. This is due to strong interest groups who can more easily point to the visible role of directed credit in supporting policy decisions, as opposed to those who espouse the more eff cient capacity of the invisible hand of the market to solve many of the same issues. Yet to establish long term sustainability in all activities of the agricultural sector, rather than a short term f x for specif c activities, the market must be relied on to accomplish this.

4.2 While there have been substantive steps towards deregulating the farming and f nancial sectors, there is still much work to do in order to fully realise their potential. Much of the goals of the transition must be to allow farmers to more effectively control the use of credit and allow the f nancial sector to take responsibility for the eff cient disbursement of scarce monetary resources. While the f nancial sector is year on year increasing the amount of commercial credit available for the agricultural sector, it meets only a fraction of the demand. During the period of the f nancial and agricultural sector reforms the provision of guarantee funds, ref nance facilities, and warehouse receipts will help to ensure the continual f ow of credit while the transformation takes place and avoid any disruption to the sector.

4.3 Providing an enabling policy environment, increasing the knowledge base for agricultural lending as well as decreasing the risk of lending to this sector will be an important initial step to improving access to credit by farming enterprises.

ANNEX I: PERSONS MET

Person	Position	Agency/Firm
Rustam Agzamov	Executive Director	Uzbekistan Credit Union Association
Mirsaid Mirpulatov	Executive Director	Azer Trast Credit Union
Ilkham Sharipov	Deputy Chairman of the Board	Paxta Bank
Shukrullo Umurov	Deputy Chairman of the Board	Mikrokreditbank
Sultanov Ruzimurot	Director	Dekhkan Fund
Alisher Ibragimov	Deputy Director, Branch Network	National Bank of Uzbekistan
Rustam Halikov	Head of Department Investment Projects and Foreign Credit Lines	G'allabank
Abdunosir Raxmonov	First Deputy Chairman of the Board	G'allabank
Abdualaemov	Sayhunabad Regional Manager	Paxta Bank Sayhunabad Branch
Abdulla Turdibaev	Hakhim	Sayhunabad Regional Authority
Turan	Farmer	Sayhunabad Region
	Farmer	Sayhunabad Region
Alijon Ravshanov	Accountant (former)	Finca International (MFI)
Dilshod Khidirov		World Bank
Hugo Minderhoud:	Director	AKTE LLC
Don Nicholson:		SEAF-SME
Jaost Heinlich		Agro-storage
Nuriddin	Head of Department	UzAgroSugurta
Hamarzaev and other representatives	Economic department	Ozpaxtasanoat
Mirzaev Tulkin:	Deputy Head Chief Department for Financial Regulation of Agroindustrial complex.	Ministry of Finance
Ilkhomjan Tuychiev:	Head Department of Financing Agricultural Complex	Ministry of Finance
Fayzullaev	Head, Reform Department	Ministry of Agriculture
Zakhid Salikhov	Deputy Director, Foreign Investment Department	Ministry of Agriculture
Rasul	Development Infrastructure	Ministry of Agriculture
Mubarakov	Cotton department	Ministry of Agriculture
Tom Bryant	General Director	Central Asia Seed Co.
Akhmedov Azizkhan	Head of Finance	Central Asia Seed Co.
Akzanov Moktar	Head of Finance	Uzdonmakhsulot
Sultan Kamilov	Head storage department	Uzdonmakhsulot

Note:
Meetings with the department of the Ministry of Finance responsible for management of the directed credit was not able to be arranged. A meeting with the Central Bank in order to discuss a ref nance facility was not able to be arranged.

Information about the real effect on the directed credit programme on the state budget was not made available.