

December 10, 2009

Answers by Luc Moers, IMF Resident Representative in Tajikistan, to questions from newspaper “Asia Plus”, concerning the government's decision to write off cotton sector debt

1. The IMF is a partner of the RT Government. Did the Government inform you that it prepares to write-off the debts of the cotton farms?

Yes. The government informed the whole donor community in Tajikistan, and the IMF is a part of it.

2. How do you assess this decision?

Positively, but it now needs to be swiftly implemented, and combined with broader agricultural reforms, so that it will really lead to more agricultural growth and diversification. In this respect, two things are crucial. First, real freedom for farmers to choose the crops they want to grow, without interference from the (local and/or national) government. Second, reform of the land code so that land can be traded and pledged as collateral. Without these components, private financing for agriculture will not take off. Since the IMF's mandate is in macroeconomics, other donors, with more expertise in agriculture, are currently working with the government in this direction.

3. How can these measures of the Government influence the investment attractiveness of the country? On the one hand, there were many statements from farmers and experts about unfairness of investors. On the other hand, it turns out that the investors are going to lose at least some money. There is an impression that the situation in our economy is not transparent and hardly predictable. Or is it not so?

The cotton financing scheme of the past was certainly not transparent, and enough has been said about that unfortunate history. The current government agricultural financing scheme, via commercial banks, is an improvement in this respect. However, it may still channel government financing to unprofitable cotton producers, and poses risks to the commercial banking system, as we have seen from the low repayment rates on these loans. Do not get me wrong, I certainly do not deny that there are also profitable cotton producers, but if they are profitable, they should be able to attract private financing. The challenge is to get a gradual switch from government to private financing of agriculture on a fully commercial basis. The debt resolution scheme is a necessary and important step in this regard, as few would lend private money to farmers who are in serious debt, due to which they cannot take proper investment decisions. The scheme should allow farmers to start with a clean slate.

4. The debts incurred as the result of quite doubtful transactions and incompetent management now will be repaid from the budget, i.e. by tax-payers. To what extent is it correct?

An impact on the budget cannot be avoided, which is unfortunate result of the errors of the past. The important points are, first, to minimize this impact, and, second, to take measures that prevent this from ever happening again. A crucial aspect of minimizing the budget impact is maximizing recovery from investors in as far as they essentially used state money for things not related to cotton production. Continued reforms in agriculture along the lines that I already mentioned, as well as continued improvements in NBT governance, should all be seen as measures to make sure that this will be a once-and-for-all affair. The NBT is actively working with the IMF in this respect.

5. Some of the investors already said to our newspaper that they doubt the actual value of the securities that they will receive in exchange for debts. What can you say in this regard?

I am convinced the government will honor its commitments, so I do not think there is reason for doubt in this regard. Note that such securities would “only” be issued for the amount of \$ 113 million of debt that farmers have received directly from investors and commercial banks. Also, I repeat that it will be crucial that investors live up to their part of the commitments made, which implies full repayment of the \$ 154 million received from NBT (via Kredit Invest) that was used for things not related to cotton production, starting from the first quarter of 2010.