

Proposal for Belgian Trust Fund for Poverty and Social Impact Analysis (Joint UNDP-World Bank Project)

Name of Proposal: Pricing of Strategic Crops in Syria

Government Unit Responsible for Project: State Planning Commission

Liaison Person at UNDP Country Office: Amin El Sharkawi

Total Amount Requested: 120,000 US \$

A. Description of the policies on which the PSIA will focus and the rationale for selecting these policies (e.g., the probable size of the policy impact, the level of national debate on the policies, the interest of the government in assessing these policies, the links to the national poverty reduction strategy).

The PSIA will focus its analysis on the subsidies and pricing policies for selected strategic crops, including food-crops as wheat, sugar beet, lentils and chickpeas, as well as a cash-crop like cotton¹.

The existing pricing policies and marketing systems for these commodities differ from one another (though sharing some common distinctive characters), and are summarized as follows.

Wheat is mainly marketed by the public enterprise General Establishment for Cereals Processing and Trade (GECPT), which absorbs around 70 percent of farmers' production, paying it at a very high official price². Wheat is then processed by the state-owned General Company for Mills (GCM) and by several private mills, to produce "standard" and "high quality" flour, which in turn are used respectively to bake "standard" and "high quality" bread. While prices for "high quality" flour and bread are controlled but not explicitly subsidized, the official prices for "standard" flour and bread are heavily subsidized, a situation that imposes on the GCM and on government budget losses for over 3 percent of GDP³. It is worth saying that the combination of producer and consumer subsidies results in a net subsidization on bread relatively small compared with free market price, since the principal effect of consumer subsidies is to offset the higher price paid to wheat farmers.

Lentils and chickpeas can be sold by farmers either to private sector, at prevailing market prices, or to the GECPT at an official price, which has long been fixed below international market level⁴. Since private trading of lentils and chickpeas is allowed both domestically and for export, unlike for wheat, this situation has encouraged the private sector participation in

¹ Officially, barley and tobacco are also considered strategic agricultural products and thus their production is supported by government intervention. However, we prioritized the commodities mentioned above due to their greater relevance for the welfare of the poor, as well as for budgetary purposes from the government point of view.

² FAO estimates that in the year 2000 import-parity producer price for soft wheat was at 6,504 SP/ton, while official government prices reached 10,800 SP/ton. See: AAVV; "Syrian Agriculture at the crossroads"; FAO; 2003. The remaining 30 percent of the production is directly sold to private mills, a practice that although technically illegal is widely tolerated.

³ Estimates show that retail standard bread in 2000 costed officially 8.50 SP/kg, while its import parity price was 10.51 SP/kg, causing the state-owned GCM to lose 26.29 billion of SP in 1999. Ibid.

⁴ According to FAO estimates, in the year 2000 import-parity producer prices for lentils and chickpeas were respectively 18,799 SP/ton and 28,852, while official government prices are fixed since 1996 at 16,000 SP/ton and 17,800 SP/ton. See: AAVV; "Syrian Agriculture at the crossroads"; FAO; 2003

trade. At the same time, the price gap created an incentive for farmers to sell to private actors, thus building on the existing comparative advantage (see AAVV; "Syrian Agricultural Trade 2004"; National Agricultural Policy Center; 2005).

Sugar beet domestic production (covering some 20 percent of demand for sugar) can only be sold to the Ministry of Industry's General Organization for Sugar, which is also the solely processor. GOS then sells its refined sugar to the General Establishment for Consumption at a mark-up price, and such product is then supplied to the retail market through a subsidized ration programme. While the ration scheme utilized all domestically produced sugar plus additional import, the rest of the domestic demand is covered entirely by import. The subsidization mechanisms results in an official producer price for sugar beet that is three times as high as the parity producer price, while the official price for refined sugar was set at 60 percent of the corresponding import parity price. Likewise in the case of wheat, such a distortion affected the intermediate producer, the state-owned GEC, causing losses as large as 0.46 percent of GDP⁵.

Cotton produced by farmers is to be sold to the Cotton Market Organization (from the Ministry of Economy and Trade), which is the sole buyer and ginner, but also the sole exporter allowed to trade cotton fiber. Prices paid to farmers for seed cotton are set at twice their parity producer price, for cotton cultivated in respect of the agricultural plan, while the CMO pays the world price for cotton originating outside the planned land allocation⁶. As regards instead cotton fibre for domestic sales, CMO charges a monopoly price far higher than the import parity ex-ginnery, with an implicit taxation for the textile industry of 28,470 SP/ton. Despite the above form of notional taxation, the CMO reported in 1999 losses for about 0.79 percent of GDP, mainly attributable at the losses in the export of cotton fibre.

While the above paragraph represents an extremely concise presentation of the pricing and marketing mechanisms for strategic crops, it is clear that the PSIA will necessarily select some of these commodities for investigation. The precise identification of the commodities will be done in consultation with other stakeholders, and according to three criteria: the relevance of the intervention for the welfare of the poor (both as a producer and as consumer), the impact on the government budget, and the role played in term of redistribution (both with reference to regional imbalances and urban-rural gap).

The rationale for selecting strategic agricultural policies relies on the critical importance of the sector for Syrian economy as well as for Syrian people. Given the crucial significance of agricultural employment and farmers' income to reduce poverty, as well as the importance of food-crops in the dietary intake of Syrian poor⁷, any decision on agricultural policies should pay great attention to the socio-economic impacts of such measures. Since Syrian authorities

⁵ FAO estimates that import-parity producer prices for sugar beet were 746 SP/ton in 1999, while official government prices reached 2,150 SP/ton. For refined sugar, instead, official prices were set at 7,000 SP/ton whereas import-parity producer prices reached 12,718 SP/ton. Such a distortion led the General Establishment for Consumption to lose for 3.72 billions of SP in 1999. Ibid.

⁶ For 1998/1999, estimates set the parity producer prices for seed cotton at 19,128 SP/ton, while official prices were set at 29,200 SP/ton. Ibid.

⁷ At national level, it is estimated that 38 percent of the poor were engaged in agriculture in 2003-2004.

As regards instead the importance of cereals and sugar in the diet, estimates show that these two categories account for over 60% of the caloric intake of the reference food bundle for the poor. See H. Laithy, K. Abu Ismail; "Poverty in Syria"; UNDP 2005

have committed to move towards a social market economy, pursue economic growth and poverty reduction, it is vital to support the adoption of evidence-based reforms, fostering agricultural production without hindering pro-poor policies. In fact, while government intervention in strategic crops' market reflects the strategic aims of achieving food self-sufficiency, supporting universal access to food (MDG 1) and reducing urban-rural income disparities, these objectives have been reached at a very high cost for government budget. This contradiction is confirmed by few figures for the year 1999: subsidies to farmers for wheat cotton and sugar amounted to 2.52 percent of GDP, subsidies to consumers amounted to 0.66 percent of GDP, implicit taxation on domestic industry to 0.28 percent of GDP, but government losses to an astonishing 4.49 percent of GDP.

At a political level, the Tenth National Five-Year Plan for 2006-2010 reaffirmed the intention to carry on intervention in pricing and marketing policies for strategic crops; nevertheless, it is recognized the need to fine-tune pricing and marketing conditions to market trends (this demand is particularly strong in the case of wheat, whose official prices have been fixed since 1996⁸). The rationale for reforms emerges clearly in light of the fact, that while existing policies certainly ensure a broad access to food and basically redistribute resources in favor of rural areas (which are net-producer), they may be replaced /improved by better targeted measures guaranteeing a more cost-effective support to the poor.

A sound and deep analysis of the reforms selected would thus be particularly relevant, since changes in the price structures may affect negatively rural poverty (by decreasing the income of the farmers) and provoke complex intertwined changes in terms of cost of the basic food bundle, and hence in the poverty line.

B. Ongoing programmes and activities to which PSIA would be linked

The reforms that will be analyzed through the PSIA constitute the pillars of Syrian economic policy for strategic agricultural crops and food-security, and as such, they are closely linked with pro-poor policies and the achievement of MDG 1. In light of this, the PSIA will represent the follow up of UNDP's programmes, which developed a baseline to investigate poverty-related issues in Syria:

- "Macroeconomic policies for poverty reduction: the case of Syria", and
- "Poverty in Syria".

In addition, given that the reforms considered are envisaged in the Tenth National Five-Year Plan and respond to the political agenda proposed by the State Planning Commission, the conduction of the PSIA will directly support to two ongoing UNDP projects:

- "Capacity Development for the State Planning commission and Assistance in the Formulation of the Tenth Five-Year Plan", and
- "Technical & Logistical Support to the Implementation of the 10th Five-Year Plan of Syria".

Moreover, since pricing and marketing systems for wheat have a considerable influence on transformation industries (mainly mills and bakeries), the promotion of evidence-based economic policy will be linked also to the ongoing project:

- "Support to the development of a 20-year vision: Syria 2020".

⁸ Ibid.

C. Description of the proposed analytical work:

a. Methodological approach, such as data analysis and assessment tools

Firstly, a sub group of the PSIA task force will undertake the stakeholders and institutional analysis, to identify the conflicting interests and social groups affected by policy reforms on strategic agricultural crops.

As concerns the economic analysis, the first step will be to study all research done by the different institutional stakeholders (see below) on the above commodities, a richness of data that will certainly be of great help. Such information will be elaborated in the development of a multi-market model, to grasp the impact of different alternative reforms on the production of strategic food crops. Furthermore, this analysis will be combined with a household model relying on household-level data elaborated in the UNDP study "Poverty in Syria", so as to investigate changes in rural poverty and potential deterioration of the environment should the behavioral response increase pressure on specific areas.

b. Consultations with national stakeholders

After the training modules and at the beginning of the analysis, the task force will hold extensive consultations with institutional stakeholders such as the Ministry of Agriculture and Agrarian Reform, the National Agricultural Policy Center, ICARDA and the Central Bureau of Statistics. The purpose of these technical consultations will be to check the availability of data and relevant research undertaken, and verify the accuracy of the framework for analysis.

From that phase on, the same technical institutions will be regularly updated on the preliminary results, and involved in the interpretation and discussion of the findings.

As concerns less other stakeholders (notably the Syrian Farmers Union), they will be involved in three stages: validating the framework for analysis, debating the preliminary results and finally in the dissemination phase. Their involvement will be pursued by mean of specific sessions for non-technical public, in which contents will be presented and debated in a policy-oriented manner.

c. Timeframe

The timeframe will be set as follows:

- Training modules → three months
- Review of the literature and consultation with technical stakeholders → two months
- Development of the models → four months
- Fine tuning of the model and discussion of preliminary findings → one month
- Presentation of the final report and dissemination → two months

D. Statement on how the analytical results will be fed into national policy decision-making

The PSIA proposed fits certainly in the Government transition agenda towards a social market economy, and responds to the explicit interest of the State Planning Commission, whose objective for the coming years is to stimulate economic growth, without hindering the traditional attention to poverty reduction and equality in income distribution. In light of its importance in Syrian economic and social structure, the agricultural sector represents surely a crucial aspect in the transition process.

Furthermore, as stated above, the Tenth National Five-Year Plan foresees the fine-tuning and continuation of existing pricing and marketing policies concerning the strategic crops. Hence, the PSIA should constitute the basis for political decisions, which are expected in the medium future, in the framework of the implementation of the Tenth Five-Year Plan. The timing of the PSIA initiative could not be more appropriate to build the national capacity to analyze the social impact of reforms, and the current proposal could constitute a pilot initiative to be extended to other aspects of reform envisaged in the Tenth Five-Year Plan.

The close partnership between UNDP Syria and the State Planning Commission, especially concerning the implementation and formulation of the Tenth Five Year Plan, constitute a comparative advantage at this regard, and seem a promising condition to embark in this new area of collaboration, with the additional support of World Bank.

E. Statement on how the World Bank and the Belgian Government (if both have local representatives) will support the project (note: the World Bank will need to approve the project and the local Belgian representative should be notified of the project and invited to meetings)

Despite World Bank does not have offices in Syria but only in Beirut, the PSIA proposal has been discussed with and approved by the Washington-based Lead Economist in charge of Syria: Dr. Radwan Ali Shaban.

The discussions also clarified that WB will support the PSIA focusing on its comparative advantages in terms of expertise; hence it will ensure a constant support to the technical analysis and a coherent adherence to the appropriate methodologies. Furthermore, WB will facilitate the training process through sharing relevant material and experience; finally, WB will assist in the recruitment of highly qualified experts to carry out selected consultancies and studies.

The discussion with Dr. Shaban also pointed out to strong synergy that can be created between the proposed intervention and other ongoing activities from WB: currently WB-Beirut undertakes a PSIA on energy subsidies in Syria with the collaboration of the State Planning Commission; moreover, it intends to carry out a comprehensive Public Expenditure Survey for the coming fiscal year. Clearly both these interventions could benefit from the proposed PSIA, ensuring a wider coverage of reforms analyzed, and a deeper training for the core team of State Planning Commission.

As concerns Belgian representatives, the first Secretary of the Belgian Embassy in Syria Mr. Andy Detaille has been notified of the current proposal. He expressed his interest and support

to this PSIA initiative, also in light of existing partnership that the Belgian Government has with one key stakeholder: ICARDA.

F. Statement identifying the Government unit that will lead the PSIA, how it will coordinate with the unit leading the Poverty Reduction Strategy (if the former is different) and how UNDP will support the process, especially with technical assistance

The leader of the whole PSIA process, the State Planning Commission, is also in charge of the Poverty Reduction Strategy, as well as of achieving the MGDs. This circumstance will hence ensure the PSIA to be incorporated in government's effort to reduce poverty, while, at the same time, it will provide a good opportunity to benefit from specific training received.

The State Planning Commission will ensure a close coordination with the relevant ministries, especially with the Ministry of Agriculture and Agrarian Reform (whose mandate includes the eradication of rural poverty, apart from agriculture), and the Ministry of Social Affairs and Labor. Moreover, it will ensure a continuous support from the Central Bureau of Statistics, NAPC and ICARDA, to make available all existing relevant data.

UNDP's role will instead be focused on: (I) providing technical assistance to enhance the participation of civil society in the discussion of the reforms, while guaranteeing that the PSIA will be closely linked to the poverty reduction strategies of the Tenth Five Year Plan and the recommendations from previous studies on poverty in Syria; (II) supporting the recruitment of qualified consultants to undertake the trainings and the PSIA; (III) ensuring a close coordination with World Bank (since no WB representatives are currently settled in Syria); and (IV) supporting the overall management of the project. Furthermore, through its projects related to the National Five Year Plan, UNDP will guarantee that the analytical study will be reflected in actual decision-making.

G. Plans for training components of the project (how training will be provided and for whom)

SPC will appoint a core team of 10-15 experts (with economic, social, and statistical background, preferably with fair English knowledge), coming from the three departments of the SPC: Investment, Development and Regional Planning, and Economic Planning. To benefit as much as possible from training opportunities, this core team should include the same people working with WB on energy subsidies.

The core team will receive training modules in Arabic, from qualified consultants on:

- PSIA (all task force);
- PSIA Tools and methods for SOCIAL ANALYSIS (members of the task force with social background + selected social scientist from technical departments);
- PSIA Tools and methods for ECONOMIC ANALYSIS (members with statistical/economic background + selected social scientist from technical departments);
- Risk Assessment, Monitoring and Evaluation (all members of the task force).

The modules on Tools and Methods will be based on "hands-on training", involving the analysis of relevant case studies (for example from similar PSIA already conducted).

Members of the task force are intended to be resource persons for future PSIA to be undertaken.

H. Deliverables of the PSIA by the end of the project

- Production of a Technical Paper/Report on "Strategic food crops: the impact of alternative reform scenarios"
- 10 - 15 people trained on PSIA, risk assessment and Monitoring and evaluation
- 5 people trained on Tools and methods for Economic Analysis
- 5 people trained on Tools and methods for Social Analysis

I. Plans for dissemination of the results and policy dialogue

The dissemination of the findings will be ensured by intervening at two levels:

- Institutional level: technical committees involving all stakeholders (Ministry of Agriculture, NAPC, ICARDA, Syrian Farmers Union, Ministry of Economy and Trade) will discuss preliminary findings, and participate to dissemination to the public.
- Grassroots level: three workshops will be conducted for the public in key areas of the country, considering Syrian agricultural structure (Damascus – major area in deficit of cereals-, Hassake – major area of cereals production - and Aleppo – commercial center).

J. Detailed Budget Table for PSIA

Activity	Inputs, (Atlas Budget Category) ⁹	Cost (USD)	Matching Funds (if any)
Training on PSIA methodology and analytical tools carried out for SPC task force.	TRAV	16,000	
	PERLOC	2,500	
	PERINT	20,000	10,000 (UNDP)
	MISC	1,500	
Analytical study on reform in pricing and marketing of strategic food crops conducted.	TRAV	17,500	
	PERLOC	6,000	
	PERINT	40,000	10,000 (UNDP)
	MISC	2,000	
Results of simulations and economic analysis disseminated.	TRAV	2,000	
	PERLOC	1,500	
	PERINT	1,000	
	MISC	10,000	
Grand Total		120,000	20,000

⁹ Atlas Budget Categories: TRAV (travel), PERLOC (local consultant), PERINT (international consultant) and MISC (miscellaneous).