

PROJECT NAME:	AGRICULTURAL REFORM IMPLEMENTATION PROJECT (ARIP)
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LOAN AMOUNT: US\$ 600 Million

DURATION: June 2001 – December 2008

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BACKGROUND: In 2001, the Government of Turkey embarked on a structural adjustment and stabilization program of historic dimensions. The conceptual foundations of this were laid by the policy dialogue with the Bank over the preceding years, which included extensive analysis of the past system of agricultural support, and recommendations on how to reform it. These recommendations were adopted in the Government's Letter of Sectoral Strategy Policy, and formed the basis for the Agricultural Reform Implementation Project approved by the Bank's Board and made effective in July 2001.

In 2005, the project underwent a partial restructuring to better align project activities with Turkey's EU approximation process, to strengthen the focus on sectoral investment support activities, and to support Turkey's Agricultural Sales Cooperative Unions (ASCU) in adopting the emerging practice of warehouse receipts-based financing.

PROJECT OBJECTIVE: The primary development objective of the Agricultural Reform Implementation Project (ARIP) is to help implement the Government's agricultural reform program, which is aimed at dramatically reducing artificial incentives and government subsidies, and substituting a support system that will give agricultural producers and agro-industry incentives to increase productivity in response to real comparative advantage. At the same time, the project mitigates potential short-term adverse impacts of subsidy removal, and facilitates the transition to efficient production patterns. Aside from promoting allocative efficiency, these reforms were expected to support fiscal stabilization.

Towards this overarching objective, ARIP was designed to support a discontinuation the unsustainable and distortive system of subsidies for fertilizers, credits, and price supports –which disproportionately benefited large farmers, regressively tax consumers, and together cost over US\$6 billion a year– and to better link domestic to world market prices. ARIP aims to support the Government in the introduction of a unified, area-based national program of Direct Income Support (DIS). Payments under the DIS system are recurrent and are intended to continue to be further harmonized with the EU system under the Common Agricultural Policy (CAP).

Through ARIP the Government implements a sector programs that support competitiveness-enhancing investment in areas with development needs, a strengthening of the capacity of farmers' organization to provide improved services to their members, provide incentives for the introduction of environmentally-adapted production techniques, a rationalization of land-use patterns, and a transparent award and registration of rural land property titles. Finally, ARIP was designed to focus on domestic price reforms through commercialization and privatization of parastatals and restructuring quasi-governmental agricultural sales cooperative unions (ASCUs) previously used to administer support prices into

organizations dedicated to serving their farmer members through a process of restructuring and privatization. This reduces government involvement in the marketing and processing of agricultural products.

PROJECT DESCRIPTION: The project has four components:

Component A: Design and implementation of the Direct Income Support system (DIS). This component supports the setting up of a National Registry of Farmers (NRF) capable of identifying farmers who are eligible for payments under the DIS and delivering those payments. The effectiveness of the program is being tracked through the ARIP social and financial monitoring and evaluation systems. The NRF covered over half the potentially eligible farmers in 2001, over three quarters in 2002 and currently covers more than 93 % of all farmers in Turkey. This component finances technical assistance, training, software and equipment to set up the NRF and to accelerate computerization of existing land registry records, the surveying, titling and registration of the remaining unregistered parcels in Turkey.

Component B: Farmer Transition provides support programs that support a competitiveness-enhancing restructuring of farmers and agri-processors. It includes sub-components to support village-based participatory investments in the private and public sector, strengthening or establishment of farmers' associations, promotion of land consolidation activities, and agri-environment measures. All of these sub-components have been designed so to reflect lessons-learned from current European best practice examples.

Component C: Agriculture Sales Cooperatives and Cooperative Unions (ASCs/ASCUs) Restructuring. This component supports the structural reform of the agricultural sales cooperatives (ASCU) sector. As a result of earlier State intervention in the cooperative sector, the State played a dominant role in the sector, but its intervention has proven to be unproductive and fiscally unsustainable. Under the new law on Agricultural Sales Cooperatives and their Unions, adopted in June 2000, the ASCUs no longer receive annual allocations of funds from the budget. Instead, they are required to become, independent, financially autonomous and self-managed organizations dedicated to serving their farmer members by selling and processing crops on their behalf.

Since most of the ASCUs lack the institutional capacity to restructure themselves and survive in their new business environment, the ASCU law provides for the creation of a Restructuring Board which will provide various types of assistance to the ASCUs and their member ASCs, on a voluntary basis. ARIP provides technical assistance (TA) for the Restructuring Board, as well as TA to the ASCs/ASCUs to assist them in designing and implementing: (i) restructuring measures; and (ii) business development and capacity building programs. As mentioned above, the ASCU law also requires that the budget pay for the cost of severance payments associated with labor retrenchment. This component of the ARIP project provides the government with the resources necessary to implement the provision.

As a result of the restructuring of ARIP in 2005, ASCUs which have successfully completed their restructuring plans and are involved in marketing of crops with good prospects for the issuance of warehouse receipts are supported through ARIP-funded matching grants for storage and information and communications investments targeted on introducing warehouse receipts activities.

Component D--Support Services. This component provides for: a) a Public Information Campaign to provide accurate and timely information about the reforms and describe the support mechanisms available under the project to farming communities through television, radio and newspaper announcements. This subcomponent also provides training for MARA extension services staff to enable them to answer farmer questions about the program and present accurate information about the reforms and assistance programs to their clients, the farmers, and a mechanism to collect feedback from the public; b) advisory services connected with project management, agricultural statistics, laboratory and food testing, crop insurance and other topics relevant for reform program implementation that are not addressed in the other components; c) monitoring and evaluation to gauge the social and financial impact of the agricultural reform program and supporting ARIP components; and d) a Project Coordination Unit (PCU) for project coordination, procurement and financial management support to the implementing agencies, and Component Implementation Units to assist the implementing agencies.

Adjustment Component: This component provides financing for a \$200 million quick-disbursing component (in 2 equal tranches) against the Bank's standard negative list. Conditions for release of the first quick-disbursing tranche, released in June 2002, were: i) satisfactory performance in the macroeconomic program; ii) satisfactory performance in implementing the general sectoral reform program (as described in the Letter of Sectoral Policy); iii) no introduction of new subsidies nor increases in the amounts of existing subsidies; iv) initiation of DIS payments, defined as "25% of farmers registered and of these, 50% paid"; v) satisfactory performance in financial management of the project/loan and DIS disbursements. Conditions for release of the second quick-disbursing tranche, released in June 2004, were: i) satisfactory performance in the macroeconomic program; ii) submission to Parliament of a 2003 budget law which contains no provision for credit subsidies, fertilizer subsidies, wheat support purchases, premia payments for cotton or oilseeds, nor any new subsidies or increases in existing subsidies; iii) satisfactory performance in implementing the general sectoral reform program (as described in the Letter of Sectoral Policy); iv) further progress in the initiation of DIS payments, defined as "50% of farmers registered and of these, 50% paid"; and v) satisfactory performance in financial management of the project/loan and DIS disbursements.

IMPLEMENTATION AND MONITORING: Key indicators by which the project is monitored include reduction of costs and lessening of the distortionary impact of agricultural subsidies; and delivery of financial and technical assistance to farmers, agricultural cooperatives and enterprises affected by the policy reforms. Quantifiable key output/impact performance indicators can be summarized as follows:

Component A: Direct Income Support (DIS) – functioning DIS system covering 25% of eligible territory is in place by the end of the first project year; 75% of farmers registered and receiving payments by 2002 and more than 80 % of the farmers have registered their land in NRF under 2003 DIS program. 95% of farmers are planned to be registered and receiving payments by the end of the project; farmers exercise choice regarding crop selection and input use in response to market conditions. Cadastral works completed on roughly 3.3 million parcels in previously unsurveyed and unregistered villages.

Component B: Farmer Transition – grants paid to about 25% of eligible farmers for conversion to alternative agricultural production in the 24 months following project effectiveness, and to the remaining 75% in the third and fourth project years; development of agricultural producers' organizations; 300 village-based participatory investments; land consolidation on approximately 50,000 hectares..

Component C: Agriculture Sales Cooperatives and Cooperative Unions (ASCs/ASCUs) Restructuring – by 2004, all sustainable ASCUs are restructured to function as effective cooperatives owned by and operating for ASCs, and the ASCs are fully owned by and operating for farmer members; by 2005, poorly performing ASCUs have ceased operations; warehouse receipts investments completed in four ASCUs by end 2008.

Component D: Project Support Services – Project Coordination Unit and Component Implementing Units established and functional. Progress under the Social Monitoring and Evaluation Sub-Component has been satisfactory despite getting off to a slow start. A quantitative household survey has been implemented in 2002.

BENEFITS: The Government's reform program has great long-term benefits, but imposes some losses on certain groups in the short run. This project helps implement the reform program in the most efficient way, while providing a safety net for potential short-term losers. The safety-net is targeted to four groups: redundant employees of the ASCUs who receive severance payments financed by the project; cooperatives who benefit from capacity building (and their member farmers); farmers who receive assistance in making a transition to alternative crops when support prices for their traditional crops are eliminated; and farmers who receive DIS payments (virtually all farmers). Less directly, benefits go to taxpayers (in the form of lower public spending and inflation) and to consumers (in the form of lower prices for agricultural goods). An estimate of the fiscal cost of pre-reform policies was around \$ 6 billion in 1999. The reform program reduced this cost to about \$3.2 billion in 2000, and has continued the reduction to about \$2.0 billion in 2001, and \$1.1 billion in 2002. Not all of this has been net fiscal savings, however, since direct income payments amount to \$1.3-1.4 billion annually. The DIS is foreseen to be continuously harmonized with the EU system of direct payments under Pillar 1 of the Common Agricultural Policy.

PROJECT STATUS: All components are under implementation. Reflecting the high expectations the Government has in ARIP and the achievements of the project towards its development objectives, the project closing date was extended to December 2008.

To date, over 3.3 million farmers have been registered for the DIS and the NRF. The titling of parcels in 2,960 villages is on schedule and over-fulfills initial expectations.

The programs under ARIP to finance the uprooting of hazelnuts and replacement of hazelnut and tobacco cultivation with alternative crops under the Farmer Transition component showed very low levels of adoption by farmers, and were eventually discontinued in 2007. As part of the 2005 restructuring, additional activities under the Farmers Transition component had been designed and approved for incorporation into ARIP, with the view to providing additional investment support to farmers in pursuit of growth of agricultural value added. Activities under the Village-Based Investment Program and the Land Consolidation Programs are progressing satisfactorily.

The ASCU Restructuring Board and its Executive Unit are fully operational, and retrenchment plans have been executed by the ASCUs (with severance payments financed by the loan). As of 2007, eight ASCUs had been restructured, one had ceased operations, five were implementing restructuring plans, and two show little activity.

RESULTS ON THE GROUND: As of mid-2007, ARIP had

- supported a fundamental reform of the support provided to the agri-food sector, away from a highly distortive subsidization towards a modern sector support program following European best-practice;
- contributed to assuring an increase in real value added in agriculture (net of subsidies) at 3.11% annually;
- supported the Government of Turkey in further aligning the institutional and operational base for its sector support programs in line with the commitments assumed under its EU candidacy;
- granted 3.3 million farmers with equitable access to the DIS system and providing them a secure and transparent registration of their eligibility titles in the National Registry of Farmers (NRF). The NRF provides the Government with a modern national administration and control system for support payments;
- provided the owners of 1 million rural parcels in 990 villages with secure, transparent, and tradable property titles, and initiated similar cadastral works on a further 2 million parcels in about 2,000 villages;
- supported 240 public and individual investment projects to enhance agricultural competitiveness, market access, and village infrastructure. Farmers report improved income opportunities and mayors report about improvements in family health and quality of life – a detailed impact assessment is being initiated in 2007. A third round of village-based investment project has been opened with sub-projects being initiated in the second half of 2007;
- progressed towards completion of a rationalization of land use-patterns and an improvement of accessibility for rural land users through land consolidation on about 41,000 hectares of agricultural land. Tenders for another 25,000 hectares are underway.
- helped Farmers Organizations (FOs) to more effectively support their members in identifying and implementing income opportunities by initiating a capacity building program for 3,600 participating FOs;
- hindered further environmental degradation in environmentally highly sensitive zones of Turkey (e.g. the Sultan Sazligi wetland area of the Kayseri province) through support of environmentally-adapted production techniques on 2,700 hectares of land;
- enhanced the market orientation of the agri-food marketing sector through fundamental restructuring of the ASCU sector and through provision of sector training programs to 15 Unions, 443 cooperatives and to approximately 5,500 individuals (managers, employees, cooperative members and delegates)
- initiated an investment program supporting the use of warehouse receipts as collateral by the agricultural population.