1. Country and Sector Background

Background. The Government of Turkey has 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 last several years, which has included extensive analysis of the current system of agricultural supports, and recommendations on how to reform it. These recommendations have been adopted almost en toto in the Government’s Letter of Development Policy (LDP) and agricultural strategy document, which together form the basis for the agricultural component of the Economic Reform Loan approved by the Bank’s Board and made effective in May 2000. Once completed, these reforms will make Turkey a model for other countries’ agricultural support policies.

In discussions of the ERL, the Government indicated that it would be able to move ahead with the agreed ambitious policy agenda only if the Bank supported the implementation of the program with the kind of investments
and TA envisioned in the ARIP. The ARIP takes as given the broad strategic framework outlined above, and will address a number of choices that will need to be made in the course of implementing this strategy.

An important strategic choice affecting the overall project design was to make the project a hybrid. The Government expressed great concern that the amount that can be allocated to the DIS payments in the 2001 and 2002 budgets is insufficient compensation to farmers for subsidies that have already been removed. If it is perceived that farmers are bearing more than their share of economic hardship because the DIS program is underfunded, there would be a serious danger of a backlash that could endanger the reforms. To address this concern, the Bank and Government have made the strategic choice to design ARIP as a hybrid investment/adjustment operation, to provide financing for a $200 million quick-disbursing component against the Bank’s standard negative list and a $400 million investment component.

2. Objectives
Development 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 is designed to mitigate potential short-term adverse impacts of subsidy removal, and facilitate the transition to efficient production patterns. Aside from promoting allocative efficiency, the reforms to be implemented are necessary for fiscal stabilization. The Government’s agriculture policy reform program is described in the March 2000 "Strategy for Reform of Agricultural Support Policies." The agricultural policy reforms are supported in part financially by the Bank under the Economic Reform Loan (BRL).

The Government’s strategic objectives to be supported by this project can be summarized in several elements. First, the Government intends to phase out the unsustainable and distortionary system of subsidies for fertilizer, credit and price supports--which disproportionately benefit large farmers, regressively tax consumers, and together cost over US$6billion a year--and to link prices to world market prices. The ARIP will assist the Government to introduce a unified national program of direct income support (DIS) for all farmers which will be simple, transparent, and will not distort the incentive structure as does the current system. The intention is not to fully compensate every farmer for income lost by removal of the old subsidy system, but rather to cushion the short-term losses and continue to provide adequate support to the agricultural sector, but in an incentive-neutral way. Within the existing legal framework, the DIS payments should be useable as collateral, thereby giving farmers enhanced access to credit. Payments under the DIS system will be recurrent, but these will eventually become more explicitly targeted (and harmonized with the EU system under the Common Agricultural Policy as it exists at the time of accession), or merged with the general social safety net system. The second initiative under the program will encourage farmers to quit producing crops which are currently heavily over-produced by offering one-time payments to cover their cost of switching to alternative activities. The third element of the program
focusing on turning the quasi-governmental sales cooperative unions previously used to administer support prices into organizations dedicated to serving their farmer members through a process of restructuring and privatization. This will reduce government involvement in the marketing and processing of agricultural products. Finally, the project will help the government maintain support for the program by clearly explaining it to the public.

A key objective of the adjustment portion of the loan is to enable the Government to make up some of the anticipated shortfall in funds needed for the critical first round of DIS payments, expected in late 2001 and early 2002. The triggers for the quick-disbursing budgetary support element of ARIP would be the satisfactory introduction of the first DIS payments to the farmers, and satisfactory performance in the macroeconomic and sectoral reform programs, the latter as described in the Letter of Sectoral Strategy. Disbursements under the first and second adjustment tranches also depend on the adoption of a revised 2001 budget that does not introduce new or increase existing direct or indirect agricultural subsidies and submission to Parliament of a 2002 budget that does not include credit or fertilizer subsidies and does not increase existing direct or indirect agricultural subsidies, respectively.

Completing the agriculture reform program is a medium-term objective. The reforms will assist the Government in its aspirations for accession to the EU by increasing the efficiency of the sector and the economy at large, thereby helping it meet one of the most basic pre-conditions set down by the EU: that the applicant states have economies that are efficient enough to be competitive in the unified market. The challenges in carrying out these changes will be huge, and the Government has asked for the Bank’s continued technical assistance in program design and implementation, as well as financial support for certain elements of the program. The financial support is crucial, given the tight budget constraints imposed by the macroeconomic stabilization package agreed with the IMF.

3. Rationale for Bank’s Involvement

Originally, the Bank discussed with the Government a multi-component single loan, which would have the components currently envisioned in the ARIP, plus several others as well. These other components included commodity market development, land management, agricultural services, and preparation for EU accession (harmonization of legislation and institutional improvements). However, it is clear that some of these tasks are more urgent than others to ensure the success of the reform program. Thus, the Government requested that we prepare a project to support these more urgent tasks on a priority basis, leaving some of the others for a later operation. The ARIP focuses only on the tasks that must be started in 2000-2001 to support the transition from a heavily government-influenced to a market-driven agricultural sector.

Another option considered for this project’s design is an adjustment operation. Under this option, the Bank team would work with the Government during project preparation to design an implementation schedule for the reforms, with benchmarks that could be used as tranche release conditions. During supervision, the team would work with the Government
to carry out this program. Necessary expenditures would be financed from the Government's general budget, which would be reimbursed by loan disbursements. The very real advantage of this option, as opposed to the investment project option, is that it might have permitted faster project preparation and disbursement of loan proceeds. The disadvantage of this option is the lack of a mechanism to monitor and evaluate the implementation of the reforms, and to design additional interventions if need be.

The Bank and the Government concluded that a hybrid adjustment/investment loan would be the most appropriate instrument, to allow for rapid implementation of the DIS system, farmer transition component, a pilot agricultural statistics component, and initial work on ASCU restructuring, to be complemented by lending in two tranches of $100 million each, to be released when the initial DIS system is in place and payments have been made and other specific indicators of progress in the macroeconomic and sectoral reform programs are met. This approach will keep the Bank involved in the reform process and follow up in a "hands on" manner, while the adjustment portion will help the Government to fund payments at a level sufficient to meaningfully cushion the adverse effects on farmers of withdrawal of other subsidies.

Alternative institutional arrangements for implementation of the ASCU CDSC were considered during project appraisal. One alternative possibility would have been to attach the local implementation teams (the CSU field officers in the current project design) to the ASCUs, i.e., as cooperative development sections of the unions. This was rejected on the grounds that it would have given the unions the opportunity to unduly influence their affiliates in the sensitive process of restructuring which will involve difficult question of division of assets, functions and powers between the union and the societies. However, the local field officers of CSU will operate in close consultation and collaboration with the unions.

4. Description

Component A: Design and implementation of the Direct Income Support system (DIS). Since the DIS will allow the government to disengage from its current support mechanisms in a politically acceptable and humane way, this component is at the heart of the whole program. The objective of this component is to set up a mechanism for identifying farmers who are eligible for payments under the DIS, and a mechanism for delivering those payments. The effectiveness of the program will be tracked through the ARIP social and financial monitoring and evaluation systems. This component will finance technical assistance, training, software and equipment to set up a farmer registry and to complete computerization of existing land registry records. The budgetary support component would be used by the Government to partially finance the first DIS payments.

Component B: Farmer Transition will help farmers make the transition to alternative activities as the governmental supports are reduced. The current inconsistent and arbitrary pattern of state purchases commissioned to ASCUs or SEEs send very confusing messages to farmers and agricultural processors when they are deciding what to produce and how to produce it. It is leading them to overproduce crops which they can produce only at high cost relative to world markets, and underproduce crops which they can
produce more efficiently. The objective of this component is not to compensate farmers for income lost through removal of input subsidies and price supports (the function of the DIS payments is to provide some compensation for this) but rather to cover the one-time cost of converting from previously highly supported crops. Currently the most serious problems are with hazelnut and tobacco. As a result of high support prices, there has been a large expansion of cropping area in these crops, with significant amounts of surplus production and stock accumulation. It is expected that under the reform program, the artificially high prices of these products will decline significantly--more so than the incomes of growers of other crops--and many of these farmers in areas which have good alternatives will want to stop producing them. This component will provide grants to certain hazelnut and tobacco farmers to cover the average cost of buying inputs for alternatives, and preparing and tending fields in the transition period; and to hazelnut farmers to cover the uprooting costs. It would also include a small sub-component to support strengthening or establishment of farmers’ associations which would help in the transition.

Component C: Agriculture Sales Cooperatives and Cooperative Unions (ASCs/ASCUs) Restructuring. The Government’s Agricultural Sector Reform Program includes the structural reform of the agricultural sales cooperatives. As a result of earlier State intervention in the cooperative sector, the State now plays a dominant role in the sector and its intervention has proven to be unproductive and fiscally unsustainable. This intervention has left the ASCs and their unions alienated from their members, saddled with excessive wage costs, heavily indebted and without proper arrangements for corporate governance. Under the new law on Agricultural Sales Cooperatives and their Unions, adopted in June 2000, the ASCUs will no longer receive annual allocations of funds from the budget. Instead, they will be required to become, once again, independent, financially autonomous and self-managed organizations dedicated to serving their farmer members by selling and processing crops on their behalf. However, as a transitional measure, an amount of TL 250 trillion has been made available from the budget as a credit to the ASCUs to enable them to procure the 2000/2001 crop. In order to obtain this credit, the ASCUs were required to submit detailed business plans including their plans for cost cutting through labor retrenchment. The repayments of these credits will flow to a revolving fund which can be used by the ASCUs in future years or until the time that they are sufficiently self-financing and sufficiently creditworthy to obtain working capital loans from commercial banks.

The agricultural cooperative sector includes 16 ASCUs, 330 ASCs and around 750 thousand farmer members. The ASCUs and ASCs had around 16,500 employees at the end of July, 2000. The larger ASCUs, particularly the three which procure cotton, have large industrial facilities for secondary processing of the crop. Under the project, the role of the ASCUs will be dramatically reduced and they will be transformed into sales agencies for marketing the produce of their member ASCs and providers of business services to the ASCs. Many of the ASCUs and ASCs have already begun to retrench workers in order to eliminate excess labor and achieve wage parity with their private sector competitors. A total of 12,155 workers are subject to retrenchment. Following retrenchment, any replacement workers will be hired at wages equal to those paid by the private sector.
The new law on ASCUs provides that the government's budget should cover the cost of severance payments to all retrenched workers. As the amount of crop procured by the ASCUs is currently constrained by lack of working capital the savings resulting from the retrenchment program will initially be used to strengthen the working capital position of the ASCUs. Once this has been accomplished, future savings can be used for refurbishment investments or be distributed among the ASCUs’ farmer-cooperators.

Some ASCUs will require further restructuring in addition to labor retrenchment if they are to become sustainable. 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. This component would provide TA for establishing 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 will provide the government with the resources necessary to implement the provision. To aid in the effort of all cooperative units which decide to restructure and attempt to become commercially viable, this component would finance severance payments to the affected workers.

The Cooperative Development Sub-Component (CDSC) of the ASCUs Restructuring Component will contribute to the transformation of the ASCs into genuine cooperative organizations which are: i) member-controlled and operate in accordance with needs and priorities identified by their members; ii) efficiently managed and able to provide effective services to their members; and iii) competitive and self-reliant and thereby able to operate in competition with other private sector enterprises without having to depend on government subsidies and supervision. Achievement of this objective will enable farmers to take ownership of their cooperatives and get access to efficient services which improve farm productivity and income.

Component D: Project Support Services. This component will provide for 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 would also provide 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 would be 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) adoption of a 2001 revised budget that: (a) does not provide for any new direct or indirect agricultural subsidies; and (b) does not increase existing direct or indirect agricultural subsidies, in real terms, as compared to subsidies in effect on January 1, 2001; and iv) initiation of DIS payments, defined as "25% of farmers registered and of these, 50% paid". Conditions for release of the second quick-disbursing tranche would be i) satisfactory performance in the macroeconomic program; ii) submission to Parliament of a draft 2002 budget that: (a) does not provide for credit or fertilizer subsidies; and (b) does not increase other existing direct or indirect agricultural subsidies, in real terms, as compared to subsidies in effect on January 1, 2001; 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) by November 1, 2002, or when the other conditions are met, whichever comes first, reduction in TMO wheat purchases to a level satisfactory to the Bank.

5. Financing

Total (US$m)
BORROWER $61.96
IBRD $600.00
IDA
Total Project Cost $661.96

6. Implementation

Implementation of the investment part of this project will extend over four years. Treasury will serve as lead implementing agency, and will establish a Project Coordination Unit (PCU). Policy guidance and interagency coordination will be managed through a Steering Committee chaired by the Undersecretary of Treasury and consists of the Ministry of Agriculture and Rural Affairs (MARA), Ministry of Industry and Trade (MIT), the State Planning Organization (SPO), Ziraat Bank, the Ministry of Finance, the State Title and Cadastre Agency, the State Statistics Institute (SIS), and the Agricultural Chamber of Producers (TZOB). Most of the SC members also serve on the Agricultural Restructuring Board. The Treasury PCU will handle day-to-day coordination and implementation duties, including procurement, disbursement, financial management and project monitoring. MARA will establish Component Implementation Units to manage implementation of Components A (DIS) and B (Farmer Transition). For Component C (ASCs/ASCUs Restructuring), an Executive Unit reporting to the ASCs/ASCU Restructuring Board will be established and will function as the CIU for that component.

The adjustment portion of ARIP would be implemented in accordance with standard Bank procedures and practices for adjustment loans. The ARIP adjustment component will be implemented by the Central Bank of Turkey based on an Implementation Agreement between the Undersecretariat of...
Treasury and the CBT. Implementation arrangements will be fully consistent with Bank practice for adjustment loans. Upon notification to the Bank of the establishment and initial operation of the DIS system, the proceeds of the adjustment portion of the loan will be deposited by the Bank into the designated Deposit Account at the CBT at the request of the Borrower. In accordance with the Operational Directive on the Simplification of Disbursement Rules under Structural Adjustment and Sector Adjustment Loans (February 8, 1996), disbursements will not be linked to specific purchases. Therefore, there will be no procurement requirements for the adjustment portion of ARIP.

7. Sustainability

Any transition period is risky, but once the new DIS system is established, it should be more fiscally sustainable than the current system. It should also be politically sustainable, since DIS should be popular with farmers. Nonetheless, there will be substantial pressure for backsliding.

8. Lessons learned from past operations in the country/sector

The main lesson learned from past experience in Turkey is the gross inefficiency of the current mechanisms of support for agriculture. The alternative mechanism of direct income support has been tested and is now used in a number of countries, including the US for the most important field crops and Mexico (the Procampo program) (See "From prices to incomes: Agricultural subsidization without protection?" DecNote, Research Findings, No. 32, 1997, World Bank, Washington, D.C.)

Component A (DIS): One of the key lessons of well functioning DIS programs is the importance of an adequate registry of farmers. The registry of farmers has to be accurate, reliable and transparent, so as to avoid manipulation and misuse for other purposes. As experience in Mexico’s Procampo and other similar programs shows, the registry of farmers has to be assembled before the program enters into operation, so as to have the program run smoothly without practical complications and complaints. The registry also has to be simple, containing only a few variables needed to implement the program efficiently and in particular, facilitate payment. Another key element is the clear definition of the criteria on which the payment amount will be determined. Experience says that the simplest way is to pay according to the number of hectares owned or farmed by the beneficiary rather than in relation to agricultural production or cultivated area in certain crops. International experience on developing a registry of farmers provides a basis for comparing the cost, speed and transparency of various methods. For instance, in Romania 4.5 million farmers were registered following local cadastre records. The process was completed in about 3 months nationwide. The cost of the registry per farmer was about two dollars, including taking the information from the cadastre books and processing. Another example was Procampo in Mexico where the registry of farmers was made initially on declaration by farmers of area planted in the last three years with verification by the Ministry of Agriculture (MOA). The registry took a longer time than in Romania because of the implications and problems with self declarations of farmers. At the beginning of the Procampo program,
the criterion was to give the payment according the number of hectares cultivated with certain crops in the three years before the program started. Once the program was announced the farmers increased the cultivated area of the eligible commodities. Gradually the data base has been cleaned over the years, and disputes over the accuracy of farmers declaration of area planted are usually resolved by a bipartite committee composed of farmer representatives and local MOA officials. There are other examples in Latin America of registries of beneficiaries for social programs. Those registries have been more expensive (8-10 US dollars per family) than the registry of farmers because those registries have been based on censuses of poor areas and ask a great number of questions (over 65 questions) to establish poverty levels. Adequate measures have been taken to prevent these potential problems in the design of the DIS at national level.

Component B (Farmer Transition): One major lesson learned from the successful implementation of the Eastern Anatolia Watershed Rehabilitation Project (EAWRP), which is being implemented in 11 provinces of Turkey, is the importance of giving farmers a wide range of options, rather than pre-selecting an alternative crop for them. This project includes the participation of the villagers in rehabilitating micro-catchment (MC) areas. The interactive approach of the Project depends on the ability of the villagers first to identify problems for which the Project can supply a solution and then respond positively to the options. Communities choose from a "menu" of options, which comprise various treatments, some of which are conditional on, and must be adopted in, association with another. To encourage the adoption of the treatments which have only long-term benefit or short-term costs, the Project finances the initial investment and establishment phase of the supporting activities. Once the participatory plans are prepared for the MCs, members of the community also participate in project implementation, and contribute to the costs. In the Project, even though the MC villages are very poor, the villagers are willing to share the cost e.g., providing the cement for the water collecting ponds, providing transportation for the construction material, or providing labor. For the ARIP, it will be critical that farmers be given options, as in the EAWRP. Such a selection from the menu would encourage the adoption of and participation in both long-term and short-term measures. The long term benefits would be more sustainable cropping patterns, better price formation in the market, more stable income; the less immediate benefits would be explained and supported by a public awareness campaign. The more direct and short-term benefits to the farmers would be provision of funds needed for inputs such as seed, seedling, diesel, fertilizer, equipment services, chemical supply and demand driven extension service, and training as matching grants from the project.

Component C (ASCs/ASCUs Restructuring): The performance of rural cooperatives in most developing and transition countries is mixed at best. Usually, the main reason for this poor performance is excessive government involvement. Government often mandates cooperatives to carry out specific policies and programs (e.g. in Turkey, ASCs and ASCUs had to implement intervention purchases on behalf of government). In addition, through cooperative departments and sector ministries, governments heavily controlled cooperatives and intervenes in their operations, with the rationale that "ill-informed and illiterate cooperative members must be
guided and protected from the harsh reality of the markets”. As a result of mandated tasks and dominating management, government turns many cooperatives into state organizations similar to SEEs.

Since the beginning of the nineties, more and more governments are undertaking efforts aiming at redefining their role in cooperative development in order to make it consistent with their role as a facilitator of private sector development. In addition, cooperatives seek support in their transition from government dependency to viable private sector enterprises.

The design of the whole ASCU component, including the CDSC, is based on contemporary trends and experiences in the development of cooperatives and other farmer organizations. There is evidence from many countries in different regions of the world that cooperatives financed and controlled by government have degenerated into inefficient organizations, ultimately losing the support and participation of their members. Ownership, member participation and relevance of services in relation to members’ needs are key concepts in the new cooperative development strategy which has emerged after failure of the government-controlled cooperative systems.

Experience from cooperative reform projects in other countries--e.g. the Agricultural Development Project in Poland and the Intensive Cooperative Management Improvement Project in Kenya--illustrate the difficulties involved in moving from a system of government control and dependency to cooperative autonomy. Cooperatives find it difficult to graduate to autonomous, member-controlled enterprises able to compete effectively in an open market. In order to make the transition successful, cooperatives need a comprehensive range of support services over a comparatively long period of time. Such services need to be tailored to the needs of individual cooperatives through a participatory process, involving members in the identification, design and implementation of the support. This is why the CDSC assistance to ASCs is based on a rather elaborate process of member mobilization, business planning and plan implementation, and why CDSC includes a full package of support services ranging from member information and board member training to business management consultancy and management systems development.

Adjustment portion:

In developing the ARIP, and the reform program which it supports, staff have drawn on the experience of past adjustment lending to Turkey in the 1980s, as well as on the recent experience with adjustment lending across the Bank. The core lessons learned from this experience include:

Successful implementation of adjustment loans requires intensive dialogue with the Government and key local stakeholders. Critical aspects of the agriculture reform program have been the subject of intensive dialogue over several years, including national seminars in 1998 and 1999 in conjunction with preparation of the ERL;

Conditionality must be clear and straightforward with strong Government ownership. The ARIP design and component contents were discussed in detail with the Government on at least three occasions prior to appraisal, and the dialogue intensified during four weeks of continuous discussions through appraisal, and has continued in the period before and during
Close cooperation with the IMF is essential. Cooperation with the IMF on Turkey is very close. The Bank participated in all key discussions on the Standby program. The Fund has a particular interest in agricultural policies because of their fiscal implications and the Fund program incorporates key agricultural policy reforms supported by the ARIP.

Adequate funding for the program is critical and has been promised for the economic program into 2003.

9. Environment Aspects (including any public consultation)

Issues: Major: None

Other: ARIP supports the implementation of agricultural policy reforms, financing fundamental changes in Turkish agriculture by introducing a program of direct income support, diminishing State control of agricultural commodity prices, and by drastically reducing price supports for of a number of crops that, till now, received considerable State support. The project will likely have social consequences; these are discussed in Section E.6. below. The minor environmental risks are related to the potential improper removal of hazelnut trees from areas not targeted for transition to other crops (e.g., hilly terrain along Black Sea coast that is well suited to hazelnut), and compliance with environmental regulations governing closure of agroindustrial enterprises.

Erosion is an important problem along the Black Sea Coast. The effects of erosion are usually exacerbated by incorrect agricultural techniques and illegal forest clearing. Coupled with heavy rainfall, especially in the Eastern part of the region, soils containing nutrients are washed into the sea. Erosion is especially severe in the Trabzon and Samsun provinces where forests are cleared for corn production. Hazelnut plantations on areas which were gained through forest clearing also caused land slides and soil losses.

The three most important rivers forming in the Turkish Black Sea region are Kizilirmak, Yesilirmak and Sakarya which originate from the central Anatolian plains. The watersheds of thee rivers are 78,000km2, 38,000 km2 and 58,000 km2, respectively. As elsewhere in Turkey, the use of pesticides and fertilizers is intense in these watersheds and large concentrations of nutrients flow into the rivers by way of soil erosion and groundwater to be discharged into the Black Sea.

The applicability of OP 7.50, Projects in International Waterways, for ARIP was considered by the project team. Given that the project has been found to present only very minor environmental risks, that monitoring and mitigation measures for these are to be implemented under the project, and that the project is designed to have no negative impact on international waterways, it has been determined that OP 7.50 would not apply.

The Government’s ambitious agricultural policy reform program, supported by ARIP, should benefit the environment by gradually phasing out of fertilizer (and, potentially, pesticides) subsidies. The Farmer Transition component of ARIP provides an opportunity for the introduction of environmentally friendly agricultural practices. Such practices would
also have the effect of reducing nutrient flows into the groundwater and rivers, ultimately reaching the Black Sea, Agean and Mediterranean. A Global Environmental Facility project aimed at reducing agricultural non-point source pollution in the Black Sea region of Turkey is also being prepared, and would complement the Farmer Transition component of ARIP.

Conversion from hazelnut and tobacco to other crops is not anticipated to have any significant negative environmental impact. Conversion from tobacco to other crops is considered environmentally neutral. The possible environmentally negative effects of conversion from hazelnut to other crops have been addressed by the careful targeting of areas of current hazelnut production that will be eligible for support under the Farmer Transition component of ARIP. The only potential problem is with hazelnut, and this has been anticipated in project designs. Based on the surplus production, it is calculated that 100,000 ha of hazelnut area needs to be uprooted. This will cover the three type of areas: i) counties where hazelnut planting has been extended without permission (58,868 ha), consisting mostly of flat land, ii) flat/low lands in both permitted and non-permitted areas where hazelnut is produced, and on slopes less than 6% (estimated as 28,588 ha), and iii) high elevations/forestry areas where most of the production is carried out on illegally cleared forest land, irrespective of the official permission categorization (estimated as 17,544 ha). Switching from hazelnut to other crops in flat lands and on slopes less than 6% does not present environmental risks. The illegally cleared forest land will be replanted with trees appropriate to the ecosystem, such as alder (Alnus sp.), chestnut and walnut. Hazelnut areas on hills and slopes, where the ecology generally does not allow economic production of other crops, will not be included in the Farmer Transition Program.

The other environmental issue of moderate concern in the project is the closure of agroindustrial enterprises (e.g., cotton ginning plants, packing houses, warehouses, etc.) that may occur in connection with the restructuring of ASCUs. The number and type of facilities that could be closed cannot be known until the ASCUs begin to carry out their restructuring plans. While Turkish law does not specify environmental liability for facility closures, responsibility for sound environmental management and compliance with applicable regulations rests with the owner of the property, and transfers with the property to the new owner. In consideration of the limited capacity of regional Ministry of Environment (MOE) offices to monitor compliance by the previous or new owners of a facility, the PCU will retain a qualified environmental specialist as needed to assess the requirements and assist the MOE with compliance oversight.

A brief environmental management plan will be developed by the Borrower to address:

(i) the potential minor environmental risks of project interventions, including the hazelnut-tree uprooting, and the environmental risks created by possible factory closings or changes in ownership. Mitigating actions will be listed for interventions where such risks are identified;

(ii) the current legislation and procedures to monitor and mitigate the effects of possible outcomes such as uprooting and factory closings;
(iii) the local institutional set-up and capacity to monitor these interventions and their impact;

(iv) the methods, and agencies that will provide environmental oversight.

Given the fact that the project poses no major environmental risks, an EMP is considered sufficient instead of a full EA. The draft EMP (dated April 13, 2001) was reviewed prior to negotiations and found generally satisfactory. The final EMP satisfactory to the Bank will be adopted by the Government not later than July 15, 2001.

Several environmental NGOs based in Ankara and the Black Sea region, where hazelnut growing is prevalent, are to be consulted by Government regarding the environmental issues associated with the project prior to negotiations. Inputs from the consultation will be taken into account by Government in preparation of the final EMP.

Treasury as lead agency for the project is responsible for monitoring and evaluating all aspects of the project. The Treasury PCU will coordinate oversight for environmental monitoring with MARA and Ministry of Forestry (should forest lands be at issue) regarding hazelnut uprooting, and with the ASCU Restructuring Board in connection with possible plant closures. Monitoring will be conducted according to the methods and schedule described in the EMP.

As noted in the following section a background study is being carried out in order to identify ‘hot spot’ areas where the DIS might encourage deforestation and where the DIS registration process should be speeded up. If necessary a pilot project will be launched to address specific difficulties faced by farmers of forest lands. Also, data collected in social monitoring and evaluation exercise will be used by a research institute in MARA to track changes in cropping patterns and their impact in forest areas.

10. Contact Point:

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11. For information on other project related documents contact:

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Note: This is information on an evolving project. Certain components may not be necessarily included in the final project.