

Project Name Turkmenistan-Farm Restructuring Support Project

Region ECA

Sector Agriculture

Project ID TMPA49720

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A. Country and Sector Background

1. Importance of Agriculture. Turkmenistan has a population of about 4.5 million people, of which over 55 percent reside in the rural areas. It is a desert country in which availability of water constrains agricultural production. Of the country's 49.4 million hectares of land area, 40.7 million hectares are classified as agricultural. Much of this land is desert pasture, and only 1.74 million hectares are irrigated arable lands used in intensive cultivation.

Agriculture employ 44 percent of the labor force and accounts for about 30 percent of GDP. Turkmenistan is a net exporter of cotton fiber and net importer of food. Cotton, grain, and livestock are the principal products.

In 1997, production of grain and cotton recovered from the very low yields of 1996. However, the output results still have not reached the Government's targets due to lack of agricultural inputs and adequate farmgate prices and other incentives to produce these crops.

2. Farm Privatization and Restructuring. In December 1996, Turkmenistan launched a major new stage of its land reform and farm restructuring program. During this stage land within the farmers' association (former state farm) was being assigned to individual leaseholders under medium-term (10-15 year) leaseholds, and with annual production contracts. If producers perform well under the terms of the contract for two years, they will receive land in private ownership.

The new program is a natural extension of the family-lease contracts that were practiced in virtually all large farms in Turkmenistan since 1991-1992 (and in some cases even since 1986-1987). In most instances the new contracts were written for the plots of land actually cultivated by farmers' association members in 1996. Continuity with the past helped accelerate implementation of this new program, and enabled the establishment of new leaseholds to be

virtually completed by March 1, 1997. The present leaseholds differ from those in the past because producers are assured continued tenure on the same land, and leaseholders have direct relations with marketing organizations and at least one financial institution -- the Daykhan Bank. As a result of these direct contractual relations, each leaseholder is now allowed (or in fact obliged) to have a bank account and automatically receives advance payments from marketing agencies for financing the farmers' working capital.

Leaseholders pay 20% of the gross value of production to the association to cover administrative costs, services provided in common to all village residents, and to cover land, water, and income taxes. The remaining 80% covers production costs and returns to labor. This is in contrast with the past when leaseholders paid 50% of gross output to the association. Earnings under the current system are reported to be higher, and enthusiasm for the new program appears strong in rural areas.

3. The Support Envisaged for Farm Restructuring. Implementation of the Government's land reform program, providing leaseholds to farmers, is a significant step towards restructuring collective farms in Turkmenistan and will help establish new, privatized supply and post-harvest agri-businesses. It is envisaged that the restructuring process will be supported by the project through three interrelated components which aim to establish:

- an efficient land registration system to provide a basis for establishing new farms and for a future land market;
- mechanisms to provide funding for farming operations and for agri-business investments;
- sources of information and advice about the restructuring process, better technologies, and to assist newly restructured farms and businesses achieve viability.

B. Objectives

The key objectives of the proposed project are to provide support (in the form of market access, cropping and business advice, credit, documentation of tenure rights) to private producers (owners and leaseholders); increase income generation and rural employment. The activities supported by the project may include:

- i documentation of land rights through land registration, land survey, cartography, and titling.
- ii information and advisory services for agronomy, livestock, and financial management for leaseholders and private farmers; increased access of individual producers to supply of inputs and marketing of output; and
- iii access to financial services (credit and leasing) to leaseholders, private farmers, and other rural entrepreneurs, especially those wishing to establish input supply and/or crop marketing businesses.

C. Description

The project would consist of the following components which will be

implemented over a period of five years:

(a) The land registration system component will be implemented in two phases: Phase I will consist of three components: defining interests in land; establishing the cadastral plan and records management system, and training. It will be implemented over a two year period, commencing with a pilot scheme to cover a select number of etraps. Phase II. The system design would essentially remain the same as in Phase I but would be implemented on a countrywide basis.

(b) The rural advisory services component will support the development of services attuned to the needs of individual producers and rural entrepreneurs in management, accounting, financial operations, technical fields and participatory management of water resources.

(c) The rural credit component will make available resources to be used by leaseholders, private farmers and other rural entrepreneurs to meet the following types of needs: medium term investment credit to households which are agricultural producers, investment credit to rural small and medium-sized private businesses, and a revolving fund for loans for working capital and/or for essential agricultural inputs.

D. Financing

The project is expected to be financed by primarily the Government and the IBRD loan. Participants would also provide some financing from their own sources. The IBRD loan of US \$40 million equivalent will be financed 100 percent of the foreign exchange costs and a portion of the local costs which will be determined during the process of project preparation.

E. Implementation

At this stage design of project will be undertaken by a working group under the guidance of the Cabinet of Ministers. It is expected that the Ministry of Agriculture, State Committee of Turkmenistan for Land Use, Land Tenure and Land Reform and Daykhan Bank at the national and local levels will take primary responsibility for implementing components of the project.

F. Sustainability

(a) Land registration: substantive training and guaranteed introduction of cost recovery for services of registration and titling.

(b) Training and advisory services: include sustainability as design criterion during project preparation.

(c) Credit: institutional strengthening for participating banks, training and advice for borrowers and lenders, maintain vigilance regarding subsidies for agricultural credit.

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

(a) The Government's commitment and participation: The Government has set up a working group. The working group will participate in the design, preparation

and implementation of the project. Also, the working group, together with World Bank staff, will invite private farmers to participate in the design of the project. Considerable experience in other countries indicates such preparatory participation is essential for beneficiary ownership and eventual project/program success.

(b) Macroeconomic stability and agricultural reform:

i The macroeconomic situation has improved relative to 1996, the Central Bank now plays a greater role in management of macroeconomic policy than in the past. The project should be a vehicle to advance policy reform in the country. However, much remains dependent on attainment of triggers for the CAS "medium case."

ii Prices and marketing: at present wheat and cotton are fully subject to state orders. Adoption of a schedule for phasing out state orders on wheat and cotton will be one element of the program of agricultural reforms that must be agreed upon and under implementation prior to Board presentation.

iii Improved access to competitively provided agricultural inputs and services: problems remain in quality, quantity, and timeliness of delivery of inputs and machinery and other services. These services are at present highly monopolized due to institutional structures inherited from the past. Under the project, measures will be taken to privatize input supply and post-harvest services and facilitate new entry.

H. Poverty Category

Supporting newly privatized farms, and non-farm businesses could result in the efficient use of labor and land, and could improve the yield and income. The extent of this impact and the poverty category will be assessed during the preparation mission.

I. Environmental Aspects

The suggested environmental category is B/C. Justification/Rationale for category rating: The project is expected to have positive impact on the environment by supporting on-farm improvements. It is expected to encourage more sensible use of land, improved water management, and these will have positive impacts on environment

J. Program Objective Categories

The principal program objective category is private sector development by providing an enabling environment and carry out the privatization of farms and non-farm businesses.

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Note: This is information on an evolving project. Certain activities and/or

components may not be included in the final project.

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