The Theory and Practice of Agricultural Policy

Teresa Curran
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The Theory and Practice of Agricultural Policy

Teresa M. Curran

The World Bank
Washington, D.C.
The Economic Development Institute (EDI) was established by the World Bank in 1955 to train officials concerned with development planning, policymaking, investment analysis, and project implementation in member developing countries. At present the substance of the EDI's work emphasizes macroeconomic and sectoral economic policy analysis. Through a variety of courses, seminars, and workshops, most of which are given overseas in cooperation with local institutions, the EDI seeks to sharpen analytical skills used in policy analysis and to broaden understanding of the experience of individual countries with economic development. In addition to furthering the EDI's pedagogical objectives, Policy Seminars provide forums for policymakers, academics, and Bank staff to exchange views on current development issues, proposals, and practices. Although the EDI's publications are designed to support its training activities, many are of interest to a much broader audience. EDI materials, including any findings, interpretations, and conclusions, are entirely those of the authors and should not be attributed in any manner to the World Bank, to its affiliated organizations, or to members of its Board of Executive Directors or the countries they represent. The World Bank does not guarantee the accuracy of the data included in this publication and accepts no responsibility whatsoever for any consequences of their use.

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Contents

Foreword   iii
Preface    vii

1. Introduction
   The World Bank   1
   Why Political Economy Matters   2

2. Politics and Agricultural Policy   4
   Getting on the Policy Agenda   4
   Agricultural Biases: Macroeconomic and Sectoral Policies   5
   Planning, Legislation, and Administrative Decisions   7

3. Political Management   9
   Reforming Land Tenure in the Philippines   9
   New Directions for Agricultural Policies and Institutions   10
   The Role of Power in Policymaking   12
   Managing Economic Policy Reform in Zolandia: A Simulation   13

4. Sectoral Issues   15
   Confronting Poverty: People and Resources   15
   The Price of Food Security   16
   Prospects for Land and Water Ecosystems Management   18

5. Means For Inducing Change   20
   Inducing Change through Budgets   20
   Implementing Market and Trade Policies   21
   Choice of Techniques for Technological Change   24
   Inducing Change through Credit   25

6. Conclusion   28
   Building a Credible Consensus for Economic Reform   28
   Conclusions and Evaluations   30

7. Appendixes
   A. Seminar Schedule   31
   B. List of Participants   33
   C. Recommendations for Policy Reform in Zolandia   35
Foreword

This is one of a series of reports on policy seminars organized by the Economic Development Institute of the World Bank. Policy seminars provide a forum for an informal exchange of ideas and experiences among policymakers from different countries, leading experts in development, and World Bank staff with respect to major issues of development policy.

Policy seminar reports focus on issues raised during seminars that may be of interest to a wider audience. They are not intended to be comprehensive proceedings. They seek, however, to convey the essence of the discussion that took place and to bring out any principal areas of agreement or disagreement that emerged among those participating.

This report will be of particular interest to institutions responsible for training in policy analysis as the process of the seminar, including a simulation exercise, is described in some detail.

Christopher R. Willoughby
Director
Economic Development Institute
of The World Bank
Preface

Since 1985, the Agriculture and Rural Development Division of the Economic Development Institute (EDI) has developed the following framework for the design of seminar curricula on agricultural sector analysis. There are three broad sets of considerations. First are the underlying physical, environmental, and demographic conditions, issues, and alternative technical and management systems. Second are the policy analysis and policy methodologies relevant to the sector. Third is the political, institutional and social context, which sets limitations to the choice of feasible policy options. Of course, all three phases of sectoral analysis are related; however, it has proved useful to focus in turn on each set of issues and methodologies for the analysis and selection of alternative development paths.

Seminars on land and water ecosystems, and agricultural policy analysis have now been organized by EDI in many regions of the world. However, so far only one seminar has been conducted by EDI in which the central focus was on the political and social context. This was held in Washington, D.C., U.S.A., in June of 1988, and is the subject of this report, which is now being published for a wider audience.

This seminar, which was designed and managed by John M. Malone, Jr. and Jacques Kozub, was of particular interest and importance as it integrated the practical and theoretical considerations that determine what really happens.

The process of the seminar itself may also be of interest to others engaged in policy analysis because of the use of a simulation case study through which participants had to pull together the many strands of political and policy management.

J.A.N. Wallis
Agriculture & Rural Development Division
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Introduction

How or why are certain agricultural policies implemented in developing countries? Why do programs in the field differ from their program designs? Why has the past decade of conditional lending not successfully precipitated policy reform in developing agricultural sectors? These were among the questions addressed at the EDI seminar on the Theory and Practice of Agricultural Policy, held in Washington, June 6-17, 1988.

The issue of policy implementation was first raised in the context of the general failure of developing countries to implement and sustain structural adjustment programs. Most international lending institutions contend that developing countries must initiate fundamental policy and institutional reforms to achieve sustained economic growth. This doctrine assumes that macroeconomic policies significantly influence economic development, and that governments can stimulate growth and enhance market efficiency by eliminating constraints on economic behavior.

Lenders have used their leverage to encourage economic reforms. With few exceptions, the World Bank has designed structural adjustment loans to include conditions that encourage decision makers in developing countries to initiate new economic policies. Typical reforms include positive real interest rates, privatization, reductions in the civil service, and the elimination of trade restrictions.

However, while lenders retain faith in this theory, officials in recipient countries are more skeptical. As Grindle and Thomas note,

"Despite leverage, policy dialogue, conditionality and structural adjustment lending, donor efforts to encourage significant macroeconomic, sectoral and institutional changes are not necessarily persuasive to the policymakers who decide the direction and scope of public activities in developing countries."1

The World Bank

Much of the World Bank's research, writing and teaching on development policy analysis overlooks the ways in which policies are made and implemented. For instance, most of EDI’s training activities stress project analysis, planning and management, and macroeconomic and sectoral policies. However, there has been increasing attention given both within and outside the Bank to non-economic factors in policy reform, particularly in the important area of agriculture. The seminar was designed to focus attention on the practical economic and political dimensions of agricultural sector analysis and policies. To that end, it supported one of EDI’s fundamental objectives, which is “to enhance the capacity of developing countries to analyze policy alternatives and to design and implement well conceived development programs.” The agenda was organized around several main themes (see Appendix I). In summary, they were as follows:

Politics and Agricultural Policy
A. Agriculture Policies: The Agenda
B. Macroeconomic Policies
C. Planning, Legislation and Administrative Decisions

Political Management
A. A Case Study: Reforming Land Tenure Systems
B. New Directions for Agricultural Policies and Institutions
C. The Role of Power in Policymaking
D. Putting it all Together: A Policy Simulation

Sectoral Issues
A. Confronting Poverty: People and Resources
B. The Price of Food Security
C. Prospects for Land and Water Ecosystems Management

Managing the Process of Change
A. Managing the Budget
B. Implementing Market and Trade Policies
C. Choice of Techniques for Technological Change
D. Inducing Change through Credit

Conclusion
A. Building a Credible Consensus for Economic Reform
B. Closing Thoughts and Evaluations

Attended by 21 senior men and women from ministries of agriculture, planning and finance from eight developing countries (Appendix II), the seminar provided a forum to discuss the formulation, implementation and sustainability of agricultural policies and programs. The seminar's agenda was organized to allow the participants the opportunity to discuss a variety of concepts and theories beyond economic policy analysis; to help them understand how these concepts can influence the formulation and implementation of policies under realistic conditions; and to share with each other their experiences.

Finally, the seminar was designed to provide the World Bank staff an opportunity to gain from the participants a fuller understanding of how best to integrate issues of political economy within agricultural sector analyses.

Why Political Economy Matters

The seminar participants first addressed general issues of political economy and its relevance to agricultural policy. As explained by Guy de Lusignan, the Deputy Director of EDI, the past decade of structural adjustment programs suggests that there is a need to incorporate political considerations into economic decisions. Too often, World Bank and IMF financed programs have been undermined by political forces, unrealistic expectations and conditions ill-suited to countries' specific problems. To the extent that international agencies and national governments believe that adjustment and policy reform programs are necessary to stimulate economic growth in developing countries, it is incumbent upon them to integrate non-economic factors into their policy equation.

One speaker noted the shortcomings of focusing solely on immediate crises that seem to require broad macroeconomic adjustment. While this approach highlights policies that respond to rational expectations, more sector-specific policies and their implementation are based on historical and long-term expectations that can defy economic rationality. The problem with the structural adjustment programs currently in vogue is that they are too broad; policies cut from the same cloth cannot be expected to fit all wearers. Consequently, although there may be a uniform agenda for macroeconomic adjustment with common goals, members of the seminar were encouraged to expand on the agenda to respond to the realities of their countries.
Discussion

In discussing the political implications of agricultural policy, participants stressed the need to produce immediate and visible benefits so that the population will accept the reforms. They also noted that by including a broad representation of people in the design and implementation of adjustment policies, and by informing the country of the rationale and character of the program, governments are better able to establish and maintain political credibility and support for reforms.
Politics and Agricultural Policy

The group initiated a discussion about politics and agricultural policies by evaluating how policies get on the agenda of decision makers, and how macroeconomic decisions affect the implementation of agricultural policies.

Getting on the Policy Agenda

The ability to change agricultural policies is critical to developing countries, as poor sector performance and low per capita production are attributed to misguided or flawed policies. Typical policy changes embrace both macro and microeconomic policies. They aim at eliminating the effect on agricultural costs and incentives of overvalued currencies, protected manufacturing industries, rigid and unprofitable marketing boards and parastatal organizations, and other government interventions that discriminate against agriculture, including export taxes, administered prices and investment policy.

Agriculture and Development

According to the main speaker, Roberto Junguito, there is a consensus about the role that agriculture should perform in developing countries—to provide basic food, exports for foreign exchange, and employment for the rural population. Agricultural policies generally fall into one of three categories: 1) macroeconomic, including exchange rate policy; 2) sectoral, such as price supports, agricultural credit subsidies, rural development programs, and research and development; and 3) product-specific policies. Among the most important goals of policy reform are getting prices right, managing the adjustment associated with policy change, responding to issues involving income distribution, and designing a sound fiscal system.

Getting the Prices Right

Economists tend to focus on pricing mechanisms and market equilibrium prices. They argue that if a government allows the market to set the "right" price for commodities, it will reduce the effects of the discriminatory policies that favor and protect the manufacturing sector. However, in many cases, price reforms are not feasible politically. For instance, pricing policies that shift the terms of trade in favor of agriculture initiate a reallocation of resources and can precipitate urban unrest. In many economies, the adjustment process is difficult, for it requires new capital, a reallocation of resources into crops with long gestation periods, and alternative complements of capital and marketing infrastructure.

Additionally, price reforms threaten to reduce non-farm employment, upset wage agreements, and shift the distribution of income from urban to rural sectors. It may be necessary to respond to distributional issues, such as providing food to disadvantaged groups, which requires an efficient fiscal budgeting and tax system. Therefore, new policies, while desirable, require that both domestic decision makers and international agencies evaluate the institutional arrangements that will make it possible to implement the policies.
Discussion

In the discussion period, participants explained that farmers realize the short-term negative effects of a devaluation in the form of higher input prices before they enjoy the benefits of higher commodity prices. Consequently, many farmers are opposed to currency devaluations, though they are the long-term beneficiaries.

The group also discussed the relative power of the Minister of Agriculture. In some countries, by virtue of his primacy over resource allocation decisions, and fiscal, monetary and trade policies, the Minister of Finance determines agriculture policy, while in others, the Minister of Planning dominates the process. In some countries, planning councils make resource allocation decisions and establish parameters for policy options, granting sectoral ministers authority to make only marginal investment and budget decisions. (The exceptions to this trend may be ministries that are considered strategically important, such as transport, communications and defense.) Ministries of Agriculture, therefore, are generally viewed as weak and ineffective. This weakness is magnified by their diffuse constituencies, the high turnover of ministers, and the relatively small share of the government budget over which they have effective control.

Because few agricultural ministers have acquired staff sufficiently trained to analyze the policies proposed by the Ministries of Finance and/or Planning, alternative policy agendas rarely emerge from agriculture ministries. In effect, they abdicate, or else limit themselves to supporting only certain sub-sectors, such as irrigation or export crops, rather than the entire sector.

The participants debated the relative merits of different organizations determining agricultural policy, and agreed that agriculture interests must be represented, regardless of the institutional framework. The group concluded that policy making is more efficient when one ministry assumes the lead, and that ministers must develop a strong analytical capability so they can defend agricultural policies in inter-agency negotiations.

Agricultural Biases: Macroeconomic and Sectoral Policies

According to the speaker, Bruce F. Johnston, government policies interact with each other to form the basis for a strategy. Usually, that strategy is revealed only in practice; it is not always conscious or explicit, and cannot and should not be used as a “blueprint.” The choice of strategies, and of particular policies, is guided by implicit or explicit “strategic notions.”

Sources of Economic Growth

The past two decades have revealed two fundamental sources of economic growth: improved technology and increasing population growth rates. The agriculture sector has responded to the greater demand for food with increased levels of output and productivity. Generally rural specialization and access to credit increase farmers’ factor productivity. As farmers accumulate physical, human and social capital, the total output and productivity of each worker increase. Innovations in technology parallel developments in access to information, changes in relative prices and resource scarcities, and population growth. And yet, when the non-farm sectors are too small to absorb the growing population, workers return to the farms. Thus, population growth results in an increasing number of farmers, with a decreasing amount of land per farmer.

Strategies for Agricultural Development

The food equation in developing countries should be viewed as a dynamic balance between food supply and demand in individual countries, rather than as a global race between food production
and population growth. This balance depends on relative prices and on agricultural policies. Because agriculture is a source of income and employment in low-income countries, agricultural and pricing policies are critical. Governments often choose between two strategies: dispersed, "unimodal" growth and focused, "bimodal" development. Dispersal strategies spread resources among a wide range of farmers, emphasizing a broad-based pattern of agricultural development and gradual increases in productivity. Farmers adopt technology that is easy to use and consistent with their labor-abundant, land and capital-scarce resources. Conversely, focused development strategies tend to emphasize concentrated development and rapid modernization of a subsector of large, capital-intensive farm units, along with capital-intensive industrialization.

Dispersal strategies, characterized by greater participation among small farmers, theoretically lead to more efficient and equitable patterns of development. They tend to generate rural demand, and therefore precipitate higher levels of growth in output and employment in manufacturing and other non-farm sectors than focused development strategies.

However, only a few countries, including Japan, Korea and Taiwan, have mastered this approach, and the extent to which experiences in one country can be replicated in another is limited. First, countries vary in their food production and population growth rates. Second, overall food consumption is increasing in developing countries that rely on imports from the West. Third, food production in developing countries depends more on increases in crop yields than on area expansion. Finally, in successful countries, there was a distinct political consensus for agricultural reform.

What Have We Learned About Specific Policies?

The experience of the past 20 years offers several general lessons about agricultural policies:
1. Technical change can be promoted through agricultural research and extension policies;
2. Rural incomes and incentives can be improved through macroeconomic policies;
3. Factor markets can be improved through wage and land tenure policies, and through investments in human capital, institutions and infrastructure; and
4. Product and input markets can be improved through investments in physical and institutional infrastructure, for farm and off-farm economic activities.

The success of a dispersal policy depends on the concentration of commodities in the country. If, for example, a country specializes in only one or two commodities, it is more likely that the sector will be dominated by large farming interests and capital-intensive development policies. Additionally, unimodal policies are expensive: they require sound administrative systems, as well as investments in social and human capital, including health care, education and family planning programs, and a unique kind of political commitment found in few countries. However, Kenya has shown that by including smallholders in its strategy for tea, such a strategy can indeed be "dispersed".

Discussion

The participants discussed dispersal policies in various countries and the extent to which the experiences of Japan, Korea and Taiwan were unique. While many were skeptical that comprehensive land reform was possible in their respective countries, they agreed that policies supporting changes in tenancy (i.e., non-feudal sharecropping), should be adopted, as smaller

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operational units can be very efficient. The group concluded that dispersal strategies are a viable policy option for many Asian and African countries, but that the policies must emphasize new and divisible innovations, investments in infrastructure, and a commitment to education and extension targeting smaller farmers.

The participants noted that when countries attempt to pursue unimodal and bimodal policies simultaneously, most of the resources are absorbed by the larger farmers who wield greater political power and have access to foreign exchange. The group recommended that governments provide security of tenure, so that farmers will be more willing to experiment with new technology. Additionally, they should establish networks of national agricultural research centers to analyze data and propose policy changes, instead of relying on pressure from international agencies.

Planning, Legislation, and Administrative Decisions

According to Jerry Silverman, the next speaker, many of the unsuccessful rural development programs of the 1970s failed not because they were poorly-designed, but because the designers paid scant attention to implementation. Consequently, projects in the field differed radically from the intentions of the project designers and lenders. The differences were not due to resource and manpower constraints in developing countries. Rather, political factors undermined the program objectives and effectively altered the policy at the implementation stage. These political factors ranged from rivalries within government bureaucracies and powerful rural interest groups, to political coalitions and donor pressures. International agencies concluded that they must take better account of organizational and managerial aspects for development.

The Consultative Approach

Those who design and execute programs need a system by which they can manage explicit and informal political pressures, and integrate project designs with implementation constraints. The most effective mechanism is a consultative approach, involving project officials and beneficiaries in an interactive process of planning and decision making. Such an approach strengthens the project design and mobilizes support for its implementation. Its objectives include:

1. Revealing values and attitudes to which the program must be adapted;
2. Arriving at a procedural, analytical and operational framework that meets the development goals of the country;
3. Mobilizing local support for the development strategy and generating commitment and ownership by appropriate supporters and implementors;
4. Establishing a process for team functioning to be used throughout planning, implementation and evaluation; and
5. Improving the capacity of a project manager to plan and manage flexibly on an on-going basis during implementation.3

Devising a Strategy

Project managers can begin by identifying the individuals interested in the project, and the agencies most likely to be involved. After conducting this type of “stakeholder analysis,” managers can invite those concerned to planning meetings to share information and coordinate policy concerns. By focussing on the planning process itself, instead of relying on coordination at the implementation level, managers can increase their influence and power.

According to Mr. Silverman, managers benefit by understanding their constraints rather than attempting to control policy outcomes. A useful strategy to optimize one's influence is to facilitate communication among all interested parties and provide settings in which the objectives of all are revealed. The process of planning through identification and design workshops enables managers to build support for and create vested interests in support of the program or policy. This is critical for a program's sustainability.

Discussion

The group discussed the role of political management in project design and implementation, and agreed that politics is "the art of the possible"—a legitimate means for managers to make choices and resolve conflicts without having complete control of the project. World Bank staff present noted that the Bank is interested in sharing information and planning coordination in the early stages of a project, rather than trying to achieve "coordination" among agencies in the implementation phase. The next section illustrates this point.
Officials are told often by lenders that development is contingent on macroeconomic change, sectoral adjustments, and structural reforms in public organizations. Administrators are admonished to reduce inefficient market constraints, eliminate subsidies, privatize industries, and initiate monetary reforms. However, it is not enough to devise a policy, to have a good idea, or to have evidence that a certain policy will create certain benefits. The harder issue is to implement and sustain the policy reform. Instead of thinking about what "ought" to be done, professors from Harvard University, Merilee Grindle and John Thomas, challenged the group to think about how best to do it.

Evaluating two cases in which officials attempted to implement new policies, the participants constructed a general framework by which to assess their objectives, resources and strategies. They began by considering several fundamental questions:

1. How do issues get on the government agenda? Who are the actors? What is the role of crisis?
2. What are the political, bureaucratic and technical criteria that officials use to make decisions?
3. What factors lead to sustained policy reforms? How should reforms be implemented?

A key assumption the group made is that policymakers have some room in which to maneuver. They enjoy opportunities to introduce and pursue reform. Given their knowledge of the political and bureaucratic context in which they operate, government officials are in a good position to assume active roles in promoting new policies.

Reforming Land Tenure in the Philippines

Evaluating agrarian reform in the Philippines, the group designed an analytical perspective to assess the opportunities for reform. While the case addressed a major political issue, around which every social group in the country was mobilized, the framework is equally useful for smaller, more mundane decisions.

It is useful to consider the scenario in the Philippines in 1985 and 1986. The country was faced with a declining economy, a growing rural insurgency, and an acute sense of political crisis. However, despair turned to hope and expectation, as President Aquino, who had campaigned on the broad issue of agrarian reform, assumed power.

Framework for Analysis

When the Planning Commission convened to consider options for agrarian reform, it faced many constraints, including a dearth of information, strong political interests, and a series of complex legal constraints. It became clear that agrarian reform was a concept, not a blueprint. The task of the Planning Commission was to turn a popular idea, to which the President seemed committed, into a program that could be implemented. This was no small task. Like the policymakers on the Planning Commission, the participants considered strategies implementing policy reforms. The group agreed that officials should begin by considering their objectives, resources and strategy.

The Planning Commission had three objectives: (1) Action—to accelerate the process of agrarian reform initiated by the Marcos administration; (2) Land redistribution—to establish a
credible program of government-sponsored land reform; and (3) Political initiative—to seize the
initiative from the insurgent New Peoples’ Army (NPA) by doing something quickly.

To achieve its objectives, the group needed political support, economic resources, and technical
capacity.

**POLITICAL SUPPORT.** It became clear that while there was great political support for agrarian reform,
there was only feeble support for the group’s reform package. The President, Minister of Agrarian
Reform, Minister of Agriculture, the Army and the landowners were either opposed to the specific
reforms, or offered only wavering support.

**ECONOMIC RESOURCES.** The domestic budget was unable to support the program, and the donor
community was divided over the issue of compensation. While expropriation was not an option,
there was some consideration of raising funds through land bank bonds.

**TECHNICAL CAPACITY.** Information was limited and the group lacked the organizational capacity to
adopt a comprehensive reform program.

Thus, the conditions for an ambitious agrarian reform did not exist in the Spring of 1986 in the
Philippines.

The Commission needed to adopt a new strategy. It had two options: redefine the reforms, or
work to change the environment in which it operated. To change the reforms, it could offer the
President a more incremental program that would not alienate the landowners. To change the
environment, the Commission could mobilize farmers, appeal to lenders for resources, and gather
more information. The environment was dynamic and fluid—while there was much to be gained by
the gradual approach, it was also risky. The President’s popularity would not last forever, and the
NPA could reclaim the initiative for a more radical reform.

**Conclusion**

The participants agreed that policymakers must continually revise their strategy to fit the
changing environment. Positions and constraints are dynamic, changing rapidly. By constantly
reviewing the framework for analysis, officials like those in the Planning Commission are better
able to implement policy reforms.

**New Directions for Agricultural Policies and Institutions**

Building on the framework for analysis presented earlier, the speakers discussed with the
participants a case study on the reorganization of the Ministry of Agriculture in Kenya. They were
reminded to consider several questions before devising a strategy:

- What do you really want? (Specific objectives)
- What do you need to do it? (Resources)
- Are the resources available? Can you mobilize them?
- What is your strategy?

The case study of Kenya was somewhat similar to that of the Philippines. In both instances there
was a new government that inspired optimism for change, a sense of a new beginning, and
expectations for policy reform. However, the cases were very different. In the Philippines, the
issue of agrarian reform was substantive, affecting the entire population and precipitating great
emotional and political debate. In Kenya, the administrative reform was a less controversial and
more narrow problem, involving a bureaucratic reorganization.
Problems in the Ministry

According to the case study, it was into this structured system that a new person accepted the position of Permanent Secretary (PS) of the Ministry of Agriculture. While he was a competent and experienced civil servant, he faced several immediate problems. Because he was an administrator in a technical agency, with no background in agriculture, he had to establish his credibility. The ministry itself was loosely organized, with both horizontal and vertical, formal and informal lines of communication and power. The ministry's mandate was complex, involving the crucial issues of agriculture as well as the parastatals. Finally, there was pressure to reform the ministry so it could better address the challenges of the Kenyan agricultural sector.

The PS faced a time-management problem. He spent the majority of his days responding—to international representatives, to his subordinates, and to the President's staff. The case suggested that he wanted to delegate some of his responsibility so that he would have more time to consider policy issues. The group considered the strategic questions:

WHAT DID HE WANT? Before considering policy reform, the PS had to assert leadership in the ministry, delegate responsibility, ensure efficient lines of communication, and better control his time.

WHAT DID HE NEED TO DO IT? He needed to build a sense of consensus and teamwork within the ministry, to define a clear set of objectives for the ministry and responsibilities for line managers, and to reorganize the ministry. He needed information about how decisions were made and implemented, the legal authorization to make changes, and the cooperation of the bureaucrats.

WHAT SHOULD HE DO? The group discussed various ways that he could build a consensus, ranging from executive memos to inclusive task force meetings. Several participants shared their experiences in reorganizing ministries. One participant said he bargained with his subordinates, promising to support their authority and decisions, if in return they would keep him informed of potential problems, yet not come to him for every detail.

As explained in Part B of the case, the PS worked with a foreign consultant to reorganize the ministry. Instead of continuing the system by which he randomly distributed tasks among his subordinates, he defined on-going responsibilities and assigned them to specific managers.

Role of Foreigners

The group argued that he should not have worked with a foreign consultant who could not appreciate the nuances of Kenya's informal power structure. Moreover, participants took issue with the process, which was not revealed to the ministry until the PS had already made a decision, and argued instead that the process should have been open and consultative. The speaker noted that the PS in fact had consulted with the managers on an individual basis and that they pledged to him their support. However, the group disagreed, arguing that he consulted them only after a decision had been made.

There was a protracted discussion of the role of foreign consultants in policy reform. The group was evenly split between supporting the Secretary's decision to appoint a foreigner, and arguing that it was inappropriate. In any event, the group strongly believed that the process was unduly secretive.

Lessons of the Case

The participants identified several lessons of this case:

1. Don't underestimate the Civil Service;
2. Respect bureaucrats’ desire for job security;
3. Take into account the informal power structure, in this case tribal relationships; and
4. Reduce insecurity in changing assignments and responsibilities.

What should the PS have done after it became clear that the bureaucrats were ignoring the reforms? The participants suggested that he approach the head of the Civil Service for help, appeal to the President, remove the uncooperative managers, reduce job insecurities, and fine-tune the assignments to better account for the realities of the Kenyan society.

Conclusion

The two cases (Philippines and Kenya) were different in substance and organization. However the issue of implementing policies was similar. Policy reform is a continuing process. Simply making a decision does not constitute policy reform; rather it consists of implementing the policy decisions. The decisions must be reinforced and revised in response to the changing environment. Policy-makers would benefit by developing frameworks with which to analyze their internal and external environments. From these analyses come strategies, which must be sufficiently flexible to respond to changing environments.

The Role of Power in Policymaking

Building on the framework for policy analysis, the group explored theories of the role of power decision making, and participated in a policy simulation, which applied those theories to an actual policy decision.

According to William Smith, managers make better policy decisions when they devise an organizational framework that accounts for institutional, managerial and technical factors. One critical factor often overlooked is the role of power. Typically, policymakers rely on hierarchical approaches to power, which are limiting. Successful policymakers exploit three forms of power: control, influence, and appreciation. By adjusting their management styles to reflect different types of power relationships, they can enhance their performance and achieve sustainable results.

On the basis of psychological experiments, the speaker likened managers’ use of power to their attraction to different colors. For instance, darker colors indicate control, and reflect the perception of harmony between one’s self and the environment. Lighter colors represent appreciation, and are symbolic of a cheerful, artistic and bright personality that is open to the environment. Mid-range colors reflect different degrees of influence, and suggest a middle-ground between appreciation and control.

Control in Relationships

Different types of relationships are characterized by varying degrees of control. In some relationships, managers exert direct control. Such a situation involves factors that managers control directly—such as resource allocation, personnel decisions, or time management. Control is a manager’s ability to cause something to occur directly without having to appeal to others. Those exercising control power have access to resources and action channels.

Other times, managers find themselves in relationships in which they can only exert influence. In these types of relationships, while managers cannot always guarantee certain outcomes, they can shape events by virtue of their position and access to resources. Those with influence develop sound negotiating skills and working relationships with their counterparts in various agencies and ministries.
Finally, managers may be able to exert little to no influence over a relationship, but must be content to appreciate the relative power balance. Those with appreciation respect the constraints placed upon them and are reconciled to the external events that they cannot influence—such as climate, or general economic and political events. This knowledge of one's limitations can become a source of power. Managers with appreciation skills work well within given constraints, and develop a broad perception of the policy environment and their role in it.

**Applying the Analysis**

An organization and a person should strive for a balance between appreciation, influence and control. The level of power managers wield depends on their purpose and the degree to which that purpose is shared by others over time. An individual's actual power is defined by sum of appreciation, influence and control, and the purposes to which they are applied.

The group discussed how control is mistakenly equated with power, which leads to an underestimation of the potential power held through influence and appreciation. For instance, bureaucrats often wield more power than their supervisors, primarily in the form of information and professional relationships.

**Managing Economic Policy Reform in Zolandia: A Simulation**

The participants applied their skills to a simulation that highlighted the tensions between political and economic pressures. The simulation was designed to provide a forum in which participants could integrate the theoretical insights discussed in the seminar with the practical implications of policy implementation. While the simulation focused on a fictitious country (Zolandia) in a real economic crisis, participants were encouraged to base their policy recommendations on their own experiences and insights, as well as on the material presented in the seminar.

**Zolandia: The Case Study**

The group read a case study on Zolandia, a poor, fragmented country in its fourth year of a severe economic crisis. The country relies heavily on international financial assistance to stabilize the economy and to restore growth. However, the assistance is conditioned on a set of structural reforms, including a 40 percent currency devaluation and higher real interest rates. Moreover, foreign lenders have demanded additional reforms, including a reduction in price controls, food subsidies, and the civil service, and suggested that Zolandia privatize several key industries.

While the military government is in the second year of implementing a structural adjustment program, few results are evident. Yet, the social impact has been severe, adversely affecting both urban groups and some of the poorer people in the country. A reduction in imports has depleted the supply of essential goods. Transportation is paralyzed. Food and fuel shortages have precipitated general unrest and dissatisfaction with the government. Various social groups have fared differently under the structural adjustment loan (SAL). While civil servants have witnessed a deterioration in their standard of living because of a salary freeze and a 40 percent currency devaluation, merchants and traders, and rural exporters welcome the higher prices associated with the reforms. The President must now decide whether to maintain the structural adjustment program in the wake of mounting unrest.

The simulation highlighted how different forces and perspectives influence policymakers, and how choices are made in an arena of competing objectives. The participants divided into several groups, representing both policymakers and social interest groups. The groups included the President, the military, the Minister of Finance and Planning, the Minister of Agriculture, the
Director of the Civil Service, the Director of the Central Bank, and the Director of GROCO—the large parastatal.

**Recommendations**

As the participants adopted the positions and biases of their respective ministries and considered their options, they asked themselves many questions:
- What is my personal choice?
- How does the reform affect my constituency?
- Who gains and loses as a result of the reform?
- What type of opposition should we anticipate?
- How can we build support for the reform?
- Which organizations will implement the reform?
- How will we finance the reform?

It became clear that the objectives and priorities of the different ministries conflicted. As appendix III indicates, the President received an array of contradictory recommendations from her key ministers. For instance, the recommendations ranged from reducing the civil service, to increasing civil servants' compensation, and from eliminating GROCO, to increasing its funding. After listening to her ministers, the President decided that the potential benefits of the SAL were not sufficient to justify the continuation of current political unrest. To gain time, she subsequently scrapped the SAL and requested that her ministers investigate alternative sources of external funding.

**Lessons From Zolandia: The Debriefing**

The participants, who had spent several days meeting in groups to prepare for the simulation, found the exercise useful and enjoyable. The simulation generated a discussion about the costs and benefits of structural adjustment programs, and a realization among the participants that though they represent different countries, they share many similar problems. Several participants concluded that the simulation reinforced the necessity of considering the political ramifications of policies before adopting a SAL. Others urged the World Bank and other lenders to appreciate and respect the political constraints policymakers face.

Sharing the lessons they learned from the simulation, members emphasized the importance of including representatives of all interests in planning and implementation meetings, and of sharing ideas and alternatives before decisions are made. Speaking about the simulation exercise itself, one participant appreciated the ability to test various theories in a "risk-free environment." The group suggested that in the future, more time be allowed for the formal presentation.
Sectoral Issues

Using a general framework for policy analysis, the group considered several issues affecting agriculture, including poverty, food security, and ecosystems management.

Confronting Poverty: People and Resources

Because small scale agriculture is labor intensive and does not rely on high import and capital input costs, it can provide more employment than other sectors. According to Uma Lele and Simon Commander, of the Bank and the Overseas Development Institute (ODI), growth in agricultural productivity not only increases employment opportunities for the poor, but also generates domestic demand for non-farm products. However, it is difficult to design and implement programs that increase the productivity of small farmers and reduce rural poverty. Generally, policies include some form of land redistribution, research and development for appropriate technologies, investment in irrigation and targeted credit programs.

The Structure of Agriculture

The success or failure of such programs depends on the structure of the agricultural sector. For instance, Kenya has nurtured a growing smallholder class in the tea and coffee sectors. The smaller farmers have benefited from recent structural adjustment policies, including an exchange rate devaluation. Subsequently, the result has been a more equal distribution of national wealth and income, and a consistent government commitment to the small-holders.

Conversely, Malawi has maintained a focused land tenure system, in which large farmers benefit by price supports, land security and technical assistance. Increases in productivity remain concentrated in the large estate sector, while the per capita production of small-holders has declined. The smaller farmers have borne the costs of recent macro-economic adjustments.

Land Access and Pricing

The lessons learned from examining the differences between Malawi and Kenya’s experience focus on land access and pricing policies. Effective poverty-eradication policies address the issue of land ownership, market structures, producer prices, and the allocation of public resources. Macroeconomic adjustments that alter relative prices are often the most effective policy tools. Complementary options include research and development to generate new food crops, subsidized credit policies, irrigation, human resource development, and enhanced risk management capabilities.

Political Constraints

The political constraints on policy-makers involved in implementing programs for the poor are considerable. Unlike landed estate owners, poor farmers are rarely organized to influence national economic policies. They are geographically dispersed, and often dependent on landlords. Joan Nelson notes four criteria for assessing the political acceptability of these types of programs: the duration of the policy; its funding source; the characteristics of its beneficiaries; and the allocation of credit and political gain.
In the context of a short-run economic stabilization effort, governments often find themselves in a two- or three-way bind. Measures that will please popular sectors may destroy business confidence and prompt capital flight. Such measures may also endanger external financial support. Conversely, measures that will please at least some among the business and industrial community and foreign commercial banks may prompt popular sector backlash, at the polls or in the streets. Weak and divided governments, unable to manage competing political pressures, are usually paralyzed and often overthrown.

**Discussion**

During the discussion, the group urged international institutions to be more sensitive to these constraints and to support national policy-makers in their attempt to remove some of the structural barriers to poverty alleviation. Several participants noted perverse effects of poverty alleviation programs. For instance, the introduction of improved technologies in small-holder crops, such as millet, sorghum and cassava, can depress producer prices if the income elasticity for such products is too low. Moreover, certain regions may respond more quickly than others to technological innovation, requiring additional policies to benefit smallholders located in low-income regions.

**The Price of Food Security**

Food security is a priority of many governments in developing countries. However, many policies designed to assure food security have proven too economically inefficient and elusive in practice. When policy-makers refer to food shortages, their implicit assumption is that more would be better—specifically, that more food would eradicate world hunger. However, it is becoming increasingly clear that in many countries, inadequate food supply is not the source of the problem; food shortages result more from a lack of purchasing power among the poor than from insufficient levels of food production. Food security in developing countries can be attained only by raising the real income of households so that they can purchase enough food.

Shlomo Reutlinger, of the World Bank, described two types of food insecurity: chronic and transitory. Governments can respond to food crises in two ways: by providing the people who face chronic food insecurity opportunities to earn more income, and by guaranteeing an adequate food supply by increasing domestic production or imports.

**World Bank Principles**

The World Bank realizes that while poverty is the main cause of malnutrition, eradicating poverty through economic growth takes time. The Bank operates on the basis of four principles:

1. The objectives of poverty alleviation and food security converge because the lack of food security is usually caused by a lack of purchasing power.
2. Food self-sufficiency or a rapid increase in food production will not necessarily increase food security in a country, although these goals may be desirable for other reasons.
3. In the long run, poverty alleviation linked with economic growth best reduces malnutrition. In the shorter run, redistributing purchasing power and food itself toward those who are undernourished can help.
4. Transitory food insecurity can be reduced through measures that facilitate trade and provide income relief, including food stamps and child feeding programs.
Policy Options

Macroeconomic adjustment programs that alter the terms of trade in favor of the agricultural sector have not yet contributed to greater food security in most poorer countries, as a majority of farmers are engaged in subsistence activities.

While programs designed both to promote economic growth and raise the incomes of the poor are desirable, in most countries, policies that accelerate economic growth do not affect food security in the short run. For that reason, additional measures that may trade off long-term growth for immediate food security are also required. Typically, governments increase supply through production or imports; subsidize consumer prices, or engage in targeted income transfers. Many governments try to stabilize food supplies and prices by using quotas and tariffs on imports and exports of food. However, because agricultural ministries lack adequate information or managerial skills to respond to changing market conditions, interventions of this kind often aggravate rather than reduce the price and supply instabilities.

Stockpiling

While many governments accumulate excessive buffer stocks, this option is costly because of high storage losses, low capacity utilization of facilities, and high interest charges on capital tied up in inventories. For countries with access to foreign exchange it is more efficient to stabilize prices by relying on exports and imports rather than by accumulating inventories, even if world market prices are unstable.

Several participants explained that governments stockpile food supplies for numerous reasons. First, visible inventories are interpreted as tangible proof of political power. To the extent that "food is power," governments want to demonstrate their ability to maintain a stable supply of food. Second, governments have a vested interest in avoiding the threat of political instability that is often present during periods of high market prices or when domestic harvests are poor. Third, they are skeptical about the IMF conditions associated with its emergency funds facility. Fourth, other options, such as foreign exchange reserves or trading on commodity exchanges are not credible to most officials because stocks are not immediately accessible. Finally, large food stocks can be useful in stabilizing food prices, a policy goal of most governments.

Lenders' Role

The international community has traditionally funded programs designed to alleviate supply constraints instead of ensuring that food reach those who most need it. International assistance can assist developing countries to attain food security by intensifying efforts to promote economic growth, coordinating food aid with other development projects, and funding programs that impact on food security, including crop diversification, public employment, income transfers, education, and family planning. Additionally, when designing adjustment programs, donors should try to ensure protection of the food security of vulnerable groups, including children and nursing mothers. As a means of income transfers, food aid is inefficient and often does not reach the target population. However, since the operative choice may be between providing or not providing food to malnourished people, donors should develop ways of better targeting food aid to the poorest social groups.
Prospects for Land and Water Ecosystems Management

Two linkages have become clear in development policy: agricultural forces alter the ecological balance, and sound environmental management is critical for sustained economic growth.

Jacques Kozub, of EDI, explained that both market and non-market forces influence the quality of the rural environment and ecosystems. Each set of forces contains its own imperfections and biases, and in theory they are viewed as mutually exclusive. Market forces (domestic demand for food, the necessity to increase exports and extract raw materials, and growth-oriented policies) combine with macroeconomic policies (exchange rate, tax, price, wage, subsidy, and trade policies) to influence the rate and composition of resource extraction. Non-market forces, including population pressure, land tenure systems, weather patterns, social and political institutions and interests, aesthetics, and silent constituencies such as tribal people also define resource development, often counteracting the market forces. The challenge for policymakers is to reconcile the market and non-market forces to achieve a sustainable use of the land and water ecosystems and the habitats they provide.

The Environment and Development

Environmental degradation undermines the sustainability of development, particularly in countries dependent on an eroding natural resource base. While economic growth, poverty alleviation, and environmental protection are often not mutually exclusive policy goals, countries must often select between economic and environmental considerations. Often the choice is complicated by institutional constraints, inadequate information and a lack of financial resources for this purpose.

Policy Framework

Policymakers need a framework by which they can analyze competing resource development policies. Whereas current evaluation techniques account for depreciation of capital and equipment, they do not calculate the depreciation of the resources themselves. To maintain a level of sustainable growth based on natural resource development, the depreciation of the resource base must be less than new investment made to preserve or upgrade it. That is, at the end of a given period, the resource stock must not be less than it was at the beginning. To evaluate the resource-use relationship, policymakers must consider the marginal opportunity cost of natural resources.

\[ \text{MOC} = \text{MC} + \text{MUC} + \text{MEC} \]

The marginal opportunity cost is comprised of:
- The marginal cost of extraction (MC), which includes direct labor and machinery costs.
- The marginal user cost (MUC), which incorporates the cost to future users of the foregone resources.
- The marginal external cost (MEC), which represents the cost of the externalities resulting from spillover effects of resource extraction. For instance, it would include the decline in land productivity due to soil erosion, or the loss of irrigation and drinking water resulting from the sedimentation of rivers and canals.

In discussing this model, several participants commented that the result depends heavily on the discount rate. Discount rates used for agricultural projects are often high in the private sector because capital must yield quick returns to justify initial investments. Lower rates must be used if planners value a sustainable resource base, aesthetics, and the interests of future generations. However, such non-market calculations are difficult to quantify in monetary terms, and are
subjective. The conflict between different discount rates is essentially political, and is often decided by politicians, not development planners or economists.

Information

One participant noted that governments critically need information about natural resources to use in development planning, as well as in cultivating support for policies that favor sustainable use of the environment. Governments need to establish incentives that alter people's behavior in a way that protects the environment. The group agreed that investment in information systems and education are economic and political assets for long term environment management. Additionally, some investments yield a wide range of positive environmental externalities that benefit agriculture. These require, however, more comprehensive policy analyses than are available in most countries, and awareness of the trade-offs between economic returns and political liabilities. Examples of positive externalities are found in wildlife management in Zimbabwe, water management in Turkey and Jordan, and logging in Malaysia.

The group discussed variables that determine resource development, and agreed that when property rights are insecure, such as in the Brazilian Amazon, land will tend to be used in unsustainable ways. In such cases, unless governments take measures to avoid "land grabbing" by extracting interests (mining, logging), the poorest farmers are usually reduced to precarious farming, for example slash and burn agriculture.
Finally, the participants discussed how to implement agriculture policies by using control mechanisms, such as the budget, trade policy, technology and rural credit.

Inducing Change through Budgets

According to Teferra Wolde-Semait, a budget is more than an accounting and legal measure to ensure accountability in the use of public funds. It can also be used as an instrument of development policy—for determining development goals, rationalizing the allocation of resources, and managing fiscal and monetary policies. Its effectiveness depends on the quality of the program on which it is based. For instance, if the content of the program is poor, then the budget cannot serve as an inducement for change. However, if the program is sound, a budget system can affect the scope of the development program, as well as the pace of its implementation.

Developing Sound Budget Systems

A broadly conceived budget system should address such themes as resource allocation, stabilization and distribution. The first task involves allocating resources among sectors, government activities and departments. The budget reflects the allocation between public and private sectors, as well as between consumption and investment. A dilemma facing many countries is the tradeoff between current expenditures and investment for the future. Governments find it difficult to cut existing expenditures. New political forces develop and mobilize to protect existing programs. Moreover, reduced expenditures can decrease consumption and precipitate a recession, which few governments will accept.

Therefore, to develop stable budgets, governments must pursue active fiscal policies by improving their capacity to forecast revenues, estimate costs, and respond to unforeseen changes in revenue and expenditure. Moreover, governments need to be clear about the relationship between government borrowing and credit, monetary policies, external financing and their effects on the balance of payments.

Finally, governments can use budgets to distribute revenues. Generally this task has been left to sector departments and line agencies. However, often these decisions are distorted by political considerations, macroeconomic and foreign policies, and internal/regional conflicts. Increases in recurrent expenditures also affect the budget and skew the distribution of resources.

No technical competence or professional excellence can remove budgetary impediments caused by the political environment. Several factors affect and shape that environment:

1. Development policy perspectives. Government policies are the greatest determinant of successful development programs. Misgovernment, such as tyranny, incompetence and corruption, is the most serious impediment to development. Moreover, the role of the state, the size of the bureaucracy and its capacity to address development problems directly influence the effectiveness of development policies.

2. Objectives and strategy. Equally important is determining clear objectives, strategies and priorities in a given time-frame. It is essential to determine the level of the current budget as well as financial implications for subsequent years. Given the link between planning and budgeting, it is possible to maximize the impact of the budget system by choosing the most feasible course of action.
3. **Institutional issues.** Institutional problems and organizational structures of the government limit the capacity to plan and implement development programs. In some countries, the proliferation of government agencies and functions is a major impediment, and obscures the planning and budgeting process. An appropriate framework is required to monitor public enterprise performance. Often, such enterprises need administrative autonomy to make efficient operational decisions.

4. **Management capacity.** The quality of financial management determines good performance. Management tasks include: mobilizing domestic resources through tax collection; mobilizing external resources by increasing the effectiveness of external capital; managing external debt; raising the level of program implementation and fund disbursement; improving analytical capabilities; and developing policy options for current decisions as well as drawing lessons for the future. These technical matters improve the efficiency and management of the national economy.

**Planning and Budgets**

The participants agreed that even though developing economies face limited resources and are dependent on external capital, it is still important that governments make the most of existing resources and calculate the cost side of adjustment through sound budgeting. The group discussed the link between planning and budgeting, and the respective roles of the ministries. The point was made that the budget should be determined down the line—that it should emanate from ministries and be resolved at the cabinet level. Though the group agreed that the best structure would involve a specialization of functions, and include an institutional means of coordination, several participants argued that such specialization often leads to “wish lists” of projects, rather than sound planning within a budget ceiling.

Discussing the efficiency of public enterprises, the group examined various types of parastatals, and considered ways of making them more efficient and accountable. The group agreed that while in theory parastatals are less efficient than private enterprises, since they do exist and are difficult to eliminate, the most immediate issue for policymakers is to manage them more efficiently. Finally, the group discussed budgeting for uncertainties, and agreed that ministers should try to earmark contingency funds in the budget that can be accessed during times of economic crisis.

**Implementing Market and Trade Policies**

Free markets both precipitate and respond to change. A central issue for policymakers is the interaction between parastatals and private markets, and the relationships among policy goals and changes induced by markets. The speaker, Robert Christiansen, established a working hypothesis that there are inherent conflicts between market-oriented agricultural initiatives contained in policy reforms and many of the political and economic requirements of the state. A government’s ability to implement economic reforms and mobilize the nation’s economic resources reflects the characteristics of existing political coalitions.

**Conflicting Agendas**

These political constraints present a challenge to international lenders. Unless the lenders are more attuned to, and design programs consistent with, the internal pressures facing national governments, the reform process is extremely tenuous and may be unsustainable. To some extent, the donors themselves have become influential members of these domestic coalitions. Because the coalition partners have conflicting agendas, donors must first understand the nature of the coalition before addressing economic reform initiatives.
Typically, lenders and governments have conflicting agendas, which is a source of tension that both parties must manage. International agencies, including the World Bank, have been explicit in expressing the need for a shift in development emphasis from political consolidation to internal growth-oriented programs. Such programs should include more suitable trade and exchange rate policies, increased efficiency of resource use in the public sector, and improvements in agricultural policies. Responding to the perceived failed programs of the 1960s and 1970s, lenders now try to support programs that will generate a quicker "supply response" and promote exports. They have an implicit faith in the market and in the anticipated benefits of privatization.

Governments have political as well as economic and development goals. In the interest of food security—which they also define as political security—they want to control agricultural institutions and markets. They have less faith in the merits of the private sector, as it is "imperfect" and can precipitate social and political strife. Governments include in their economic goals reducing risks in smallholder agriculture, achieving price stability and food security, increasing revenue collection, attaining economies of scale, and performing the role of buyer and seller of last resort.

Privatization

The issue of privatization remains controversial in developing countries. Based on several studies of the MADIA countries, the speaker concluded that lenders do not know much about the operation of the private sector in many developing countries, particularly those in Africa. A study of fertilizer imports in Cameroon found that capital shortage hurt potential importers and prevented fertilizer from being distributed in remote areas. It concluded that there were no prospects for developing economies of scale in procuring fertilizer. In Malawi, an effort to introduce private grain marketing failed, as capital shortage hurt private traders, and the regulated transport sector undermined many of the benefits of privatization. Again, the constraints prevented distribution in the remote areas.

Lessons Learned from Case Studies

Case studies offer the following lessons and policy implications:

1. The private sector needs public sector support, including a system of standard weights and measures, communications and infrastructure, transport systems and credit. In some cases, subsidies may be necessary.
2. The public sector must be willing and able to regulate the private sector without stifling incentives.
3. The public sector must also supplement the operation of the private sector by stabilizing prices and acting as a buyer and seller of last resort.
4. International agencies must be prepared to accept an increased role for the public sector in the early stages of privatization.
5. Governments and donors must recognize each other's agendas and use these tools (support, supplementation) to help resolve the inherent conflicts.

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4. The World Bank has undertaken a research study, directed by Uma Lele, on "Managing Agricultural Development in Africa" (MADIA). MADIA has involved analysis of six African countries (Kenya, Malawi, Tanzania, Cameroon, Nigeria, and Senegal), and is funded by seven other donors (USAID, UK, ODA, DANIDA, SIDA, the French and German governments, and the EEC).
Few General Guidelines

Several participants expressed frustration that no general guidelines were presented regarding the appropriate roles for the public and private sectors. They also questioned which instruments (subsidies, tariffs, transportation, etc.) are most efficient. However, the group agreed that because each country faces fundamentally different challenges in their agricultural sector, it is hard to derive general principles or guidelines about efficient trade policy. Because different commodities require different policy instruments, a country-by-country approach is the only alternative.

The group also discussed the role of the international community in agricultural policy and agreed that when lending agencies appreciate the difficulties in building a broad national consensus, they can facilitate the adjustment of economic reforms. Several participants raised the issue of cooperatives, to which the speaker responded that cooperatives are often a first step toward economic liberalization. However, he cautioned that they must grow gradually so as to maintain their institutional integrity, and that they must remain free from government control to be effective.

Vested Interests

The point was made that some government officials have vested interests in retaining intervention programs and therefore resist movements toward more flexible markets. The group discussed several examples of government intervention, including the coconut industry in the Philippines, the cashew industry in Tanzania, and the Commodity Credit Corporation in the United States. Several participants noted that there are vested interests on the international side as well, including external finance officials and multinational corporations. Participants argued that liberalizing markets creates new problems, including middle-men and leakages of profits out of the country through exports.

The group discussed efforts to regulate and support the private sector in Nepal, Ghana, Chile and Egypt and concluded that while privatization may be more efficient in theory, in practice there remain many reasons to maintain state enterprises. These reasons include providing price stabilization, transportation systems, and a buyer/seller of last resort. Moreover, in many cases, the private sector in some countries is not necessarily more efficient. The point was made that a private sector monopoly is not inherently better than its public sector counterpart.

Market Factors

Examining the concept of efficiency, the group agreed that factors other than cost are important. For instance, if a government values food security and market stability, then it will accept a "second-best" level of efficiency. The group found this acceptable, so long as the second best solution is carried out at the lowest possible cost and with the fewest market distortions. The group concluded that governments should define the environment in which markets will operate and allow some levels of competition consistent with their food security and development goals.

Participants agreed that a challenge for governments is to incorporate the best aspects of the private sector into the public operations. For instance, if the private sector can collect grain better that the public sector, then the government should encourage private participation. The group suggested that there is a role for donors to help identify where the private sector can support the country’s development goals.
Choice of Techniques for Technological Change

It is difficult to generalize about appropriate technologies across sectors and countries. Where certain technologies succeed in one country, they often fail in another. Climatic differences, and variations in soil content, inputs and processing techniques require a country-by-country approach in selecting agricultural technologies. According to Shawki Barghouti of the World Bank, there are four sets of factors that individual countries should consider when identifying and investing in appropriate technologies: performance of the agricultural sector; trends in the production of staple cereals; agronomic and technological factors; and economic factors.

Challenges in the Agricultural Sector

In selecting technologies, governments should consider the formidable challenges facing agriculture in many countries: declining investment and diminishing profits; inadequate cost recovery; neglected and inefficient irrigation projects; and insufficient revenues to cover operation and maintenance costs.

Factors in Investing in Technologies

Governments enjoy a variety of options in procuring technologies. Advanced technologies are available for major crops, secondary crops, specific commodities, water management, irrigation and drainage, feedstock and fertilizers, and livestock. The choice of technologies should be based on an evaluation of the costs of production. These costs depend on inputs, which include labor and subsidies.

The choice of technology depends as well on physical factors, including the environment in which the crop is growing. Government planners should determine which lands present a comparative advantage for certain crops, and therefore, which technologies are preferable. Land use planning, or land capability studies, are critical in this respect. Technologies should adjust to the changing environment. Environmental changes include not only weather and soil patterns, but such factors as the flow of water brought about by irrigation.

Government's Role

The government's role is not over after it has selected and invested in a specific technology—in fact, the challenge has just begun. Innovations that increase agricultural yields depend not only on research and investment, but on tests at the farm level, high adoption and diffusion rates, and increased farm production. Because farmers themselves play a crucial role in each of these factors, governments should be attuned to their reactions, particularly in the adoption and diffusion stage where the technology is transferred from the research laboratory to the farm.

Generally, the rate at which farmers adopt new technologies depends significantly on their education and training. While governments invest great sums in technologies, they spend little on farmer training. Governments would see increased technological diffusion rates if they invested more funds in human resources and improved infrastructure in the rural areas. Poorer farmers are more likely to take risks when they foresee a stable and prosperous environment. A well-served community is a key to a sustainable technology.
Caveats to Technology Policies

Countries have emphasized certain crops and excluded others for cultural, historical, political, and economic reasons. Consequently, as governments have diverted scarce resources and technologies to these main crops, they have removed options for farmers to grow alternative or secondary crops. Such institutionalized biases toward certain crops distort the efficient management of agricultural policies. According to the speaker, governments should be more explicit about how agricultural and technological policies affect the choices available to farmers. The most efficient policies allow farmers to maximize their options, and select which crops they will plant.

Another critical issue for governments in considering technology policies is the question of applicability. The group discussed whether technology is neutral with respect to scale—that is, whether the benefits of an innovation can be captured and used by both small- and large-scale farmers. If a technology only benefits large-scale enterprises, the government must decide whether to invest in special technology for use in smaller enterprises, or whether to induce farmers to switch to the crops that benefit from the technology. Participants agreed that it is essential for governments to respond to the needs of both farming sectors by investing in a wide array of technologies.

Finally, government interventions, including technological policies, cause market distortions and inefficiencies. Many countries that justified interventionist programs on a short-term basis find it impossible to dismantle them, as vested interests mobilize around the programs. There is a tradeoff between interference in the short run, and the overall efficiency of the economy.

The group agreed that while technology policies can propel the economy to a higher production possibility frontier, an efficient market is necessary to facilitate technological diffusion and a sound budget is required to appropriate sufficient funds.

Inducing Change through Credit

The theory of rural credit has undergone several transformations over the past decade. As explained by the speaker, EDI’s J.D. Von Pischke, the old theory assumed that farmers are poor, that without credit they cannot increase production or improve their economic situation, that governments should provide cheap credit, and that by providing incentives, governments can induce change through the use of credit. This approach was based on supply-leading credit: the provision of credit was sufficient to induce change, regardless of the incipient demand for credit.

Given these assumptions, the policy prescription was that government-funded cheap credit was a positive development tool. Governments established specialized farm credit institutions (SFCI) and financed them by external funding or the domestic treasury. Programs were designed to determine appropriate levels of credit, allocation schemes, and institutional mechanisms for administering the program. Most SFCIs did not attempt to mobilize rural savings. The resulting institutions were alien in that they were staffed and controlled by urban agencies, yet located in the countryside.

Rationing Credit

SFCIs rationed credit using several criteria. Intensive rationing provided farmers with few resources for high-yielding technologies. The entire enterprise was funded by debt, with little or no equity, in response to the perceived poverty of farmers. Often, the new technologies were over-designed for the task at hand, and without sufficient training, farmers were unable to increase their yields sufficiently to service their debt. Subsequently, loan repayments were inconsistent. Variable weather patterns and commodity price fluctuations also made it difficult for farmers to repay their loans regularly.
Extensive rationing was more politically motivated. Credit was allocated on the basis of political patronage. However, when state budgets contract, the loan amounts decrease in value and became less effective. In some cases, only small portions of a farmer's input costs were financed. Inflation further trivializes the effective amount of the loan, decreasing the incentive to repay. Deceit, corruption and diversion often undermine the program.

**Problems Implementing SFCIs**

Governments involved in subsidized credit programs face political problems, namely what to do when farmers did not repay the loans. Politicians are not interested in entering into an adversary relationship with rural borrowers, as there are major political repercussions associated with evicting farmers. However, if government did not establish some sanctions for farmers in default, there were no incentives for farmers to repay the loans.

Typically, banks have been reluctant to lend in rural areas. Banking is a highly leveraged industry, in which margins as low as one or two percent can be the difference between profit and loss, and eventually bankruptcy. Compounded with the risks involved in agriculture (weather and commodity prices), the very nature of the program—cheap credit—discouraged commercial bankers from participating. From a banker's perspective, the returns were unattractive, the repayment rates were low, and the collateral was weak.

**The "New Orthodoxy"**

A new more comprehensive approach to rural credit has evolved since 1971. This theory argues that SFCIs should offer more financial services, reduce transaction costs, establish better linkages between formal and informal capital markets, serve more of the rural population, and achieve greater economies of scale.

The new orthodoxy assumes that farmers are not so poor as they are perceived, but frugal in making long-term investment decisions. It assumes that markets and policies are as important as program design. To serve more rural people, it emphasizes financial services in addition to loans and stresses reduction of transaction costs of using and providing financial services. The comprehensive model is flexible, as it allows for higher interest rates, rural cooperatives, and rural savings institutions, and the effects of dynamic market forces.

**Savings Deposits**

SFCIs that become diversified rural financial institutions accept savings deposits, which increases their administrative costs. Managers must now worry about setting interest rates such that the spread between borrowing and lending rates is both profitable to the institution, and still competitive. This requires better accounting systems and record keeping, which in turn act as financial controls. Typically, the benefits of an enhanced accounting capability spill over into the lending function. In almost every case where a rural bank accepts savings deposits, the rate of loan repayments increase.

According to Mr. Von Pischke, when banks encourage savings, the relationship between bankers and farmers changes. The bank becomes part of the community and a less alien institution. It must offer better services to the community, but in turn, learns more about the customers, such as their ability to make loan payments. Subsequently, the bank is in a position to make better loan decisions and attain higher repayment rates.
Access to Credit

The group discussed the relative importance of access to credit, as opposed to the interest rates. Participants from the Philippines explained the popular “5/6” program, where a small trader can borrow five pesos in the morning, but must repay six at night. A 20 percent daily rate annualized over a year is astronomical. However, borrowers don’t think in those terms. Like people making monthly mortgage payments, more important than the annual rate is the ability to make payments. Similarly, access to credit is more important than the annual interest rate.

Reducing Risk

Considering how banks can reduce the risks associated with lending, the group discussed why the Grameen Bank in Bangladesh was successful. The Grameen Bank instills a sense of confidence in the lenders because it establishes controls. Women must form their own groups, make regular saving deposits, meet weekly, and decide what to do with the loans. The groups reduce the risk of lending to individuals.

There was considerable disagreement over what “agricultural” lending meant. For instance, banks lend money to sectors indirectly associated with agriculture, such as fertilizers, transportation, or poultry. According to Mr. Von Pischke, it is not important to define agriculture for banking purposes. Under the new orthodoxy, the emphasis should be on making good loans. Governments should not earmark funds for “agricultural lending,” but should instead establish an environment in which good lending is possible.

Case Studies

The group discussed several country-specific experiences in establishing and managing rural credit institutions. The participants noted that even under the new orthodoxy, actual levels of national monetary flows channeled through rural banks is small—often around two to three percent. Moreover, rural credit is typically biased toward larger farmers. In Nepal, the government uses small farmer cooperatives. While the banks incorporate voluntary savings as part of the program, they need a high interest rate spread to remain solvent. In Tanzania, recovery rates are low, though they have increased as banks have started accepting deposits. In Ghana, while the banks are liberalizing interest rates, the central bank is not expanding the money supply. Thus, as interest rates increase, the business community is squeezed. Finally, in the Philippines, as the government budget came under increasing pressure in the early 1980s, many of the government-financed rural development banks simply closed.

The participants concluded that innovation is essential to induce change through credit. Yet, innovation requires competitive interest rates and a liberal market—conditions which are found in few countries. Given the nature of food and its importance to governments, a certain amount of policy intervention is likely to continue. Under a new orthodoxy, however, governments can begin moving toward a more liberal system consistent with their food security concerns.
Conclusion

The seminar concluded by considering how policymakers can implement sustainable policies by generating a credible consensus for economic reform.

Building a Credible Consensus for Economic Reform

The first and hardest task for governments is to define development or economic reform. Unless officials can explain the policy around which they want to construct a consensus, then there is no point discussing strategies for consensus building. The speaker, Ojetunji Aboyade, suggested one definition of development: development should be conceived in terms of the capacity of a people to respond to change, and the ability to predict, analyze and manage the dynamics of change. Developing this capability is more important than achieving short-term economic targets. Once an economy can absorb shocks and respond to change, then it has achieved the flexibility for sustained and incremental growth.

Therefore, development is about people. To attain a satisfactory level of development, a country needs trained and skilled people. Countries cannot develop when:
- They are overwhelmed by external constraints;
- Social goals and objectives are unrealistic in relation to the available resources and the stated time frame; and
- Strategies and policy instruments are irrelevant or inadequate.

The Financial and Real Accounts

To measure development, policymakers should consider both the financial and the real account. The financial account consists of classical economic determinants, such as GDP and debt ratios, used by international lending institutions. When governments and international agencies focus on the financial side of development, they may conclude that the country is developing. However, the standard economic figures and statistics can disguise more fundamental problems. A better measure of development is the real account, which includes such variables as capital productivity and human resource development. The real account measures the ability of a society to evaluate and solve its problems, and to initiate programs consistent with sustainable development.

Identify Key Actors

After defining economic reform, the government should identify the groups in society with a stake in the reform to assess their conflicting objectives and policy concerns. Policy changes always create winners and losers. Typically, the losers are more organized and politicized than the potential beneficiaries. Policymakers should determine whether it is possible, desirable or necessary to build a credible consensus. Usually, even when groups in society oppose a policy reform, if the government is legitimate and the ruler achieves a consensus, the policy can be sustained.

Devise a Strategy

If the government has a multiplicity of objectives, it ought to develop a multiplicity of policy instruments. Such instruments can include budgeting, credit, and technology. The group agreed
that consensus building can be inefficient. It can waste time and delay reforms. However, by reaching out to social groups in formulating options and policies, governments are in a better position to build a consensus. This is true even when the government becomes compelled to stray from the recommendations of the various groups. The participants discussed how to appeal to the population, ranging from newspapers and television to public hearings and village meetings. They agreed that information management is critical in building a credible consensus. The government should constantly explain to the people what it is doing, and who will be affected—even if certain groups oppose the measures.

**Anticipate Possible Difficulties**

Consensus can be abused politically, especially when rulers take liberties and abuse the public trust. Consensus is difficult to achieve, particularly in the following instances:

- Where the political system is one in which few participants agree to the rules of the game;
- Where there is a genuine confusion over the effects of various policy reforms;
- Where there remain incipient class or ethnic conflicts, competing elite interests, geopolitical considerations, and cultural and ethnic rivalries;
- Where there is a pattern of policy discontinuity and failure;
- Where governments have lost credibility, and can no longer convince people that a policy will benefit the country in the long-term; and
- Where external pressures run counter to the interests of groups in the domestic polity.

**Ingredients of a Successful Program**

Characteristics of a success consensus building program include the following:

1. A set of consistent policies and programs that explain the probable social costs of reform and recognize the distributional burdens to be shared by various social groups. The government should be explicit in identifying who will bear the burden of adjustment.
2. A faithful and honest adherence to those policies that the government has adopted. It must be clear to the people that the government is following its policies earnestly.
3. An open system of public administration and information management. The government should explain its objectives at every stage, particularly as it makes mid-course corrections. It is important that people understand the nature of the policy change and who will be affected.
4. A perception by large segments of the population that reform programs are not inspired by external agents or imposed on them by foreigners. Even when governments design programs internally, too often people conclude that external agencies are forcing the country to agree to undue hardships on its people. Organizations such as the World Bank can facilitate structural adjustment by refraining from heavy-handed lobbying and the appearance of excessive interference during the implementation of the program.

**Developing Internal Capacity**

The participants agreed that one of the best ways a government can build a consensus around a reform package is to undertake a realistic assessment of the problems the country is facing and to derive potential solutions internally. When a government negotiates with an external agency as an equal partner, and the agency appreciates the real and legitimate political problems the government faces, the government is in a better position to sustain a negotiated reform program. Part of being an equal partner is developing data and proposals from which to negotiate, rather than relying on outside economic analyses.
The key to building consensus, then, is to develop the intellectual capacity of the country. Too often, governments are unable to harness the skills and expertise of their citizens, and are therefore unable to develop a sense of intellectual confidence.

**Implementing Reforms**

The speaker challenged the group to consider why so many officials are unwilling to undertake reforms until it is too late—until they are imposed on the country externally. Several members suggested that the civil service undermines new policies. They tended to agree that it is unrealistic to expect the bureaucrats to implement policies that are contrary to their own interests.

**Conclusions and Evaluations**

Mr. Willoughby, Director of EDI, closed the seminar by discussing with the group the implications of the proceedings for their work in implementing agricultural policies. He reviewed the main objectives of the seminar:

To introduce participants to a variety of concepts and theories going beyond pure economic analysis; to help them understand how these concepts may be used to illuminate the formulation and choice of policies under realistic conditions; and to contribute effectively to their ability to implement sustainable agricultural policy and institutional reforms for addressing specific development problems in their respective countries.

The participants agreed that the seminar had successfully accomplished its objectives and that the material covered was relevant to their careers and professions. They valued the opportunity to discuss economic theories in a neutral environment, and away from the demands of their jobs. They found that the breadth of the curriculum, ranging from sector-specific issues to general management techniques, was useful. However, they valued most the discussion periods, in which they shared their experiences and observations with the speakers and with each other.

**Hands-on Approach**

In general, the sessions that addressed explicitly frameworks for analyzing policy implementation were rated higher than those sessions focusing on more academic issues. According to the participants, the discussions on the nuts and bolts of getting things done will be most useful to them in their jobs. It follows that the simulation exercise, along with the Harvard case studies, were extremely popular. The participants appreciated the "hands on" approach that these activities encouraged. More than other sessions, the simulation and case studies allowed the participants the opportunity to integrate theory with practice as they tackled tangible problems.

Finally, according to the participants, the most important point brought out in the discussions was that international agencies need to better understand why governments do not implement economic reforms. They agreed that the international community must appreciate the internal political constraints that national decision makers face, such as influential coalitions and vested interest groups. Moreover, government priorities, including political stability and food security, often conflict with reform policies. While the participants agreed that reforms are necessary in many cases, they urged representatives of the EDI and World Bank to work with them to develop strategies to make economic reforms more consistent with government objectives and compatible with internal political constraints.
# Appendix A

## Seminar Schedule

**Seminar on the Theory and Practice of Agricultural Policy**

**June 6-17, 1988**

| Monday, June 6  | a.m. | Seminar Purposes and Organization (Kozub, Malone)  
|                |     | Why Political Economy Matters (de Lusignan)  
|                | p.m. | Politics and Agricultural Policy: The Agenda (Junguito)  
| Tuesday, June 7 | a.m. | Macroeconomic and Sector Policies: Biases and Forces at Work (Johnston)  
|                | p.m. | Planning, Legislation and Administration Decisions: The Institutions (Silverman)  
| Wednesday, June 8 | a.m. | Confronting Poverty: People and Resources (Lele/Commander)  
|                | p.m. | Movie Presentation  
| Thursday, June 9 | a.m. | The Price of Food Security (Reutlinger)  
|                | p.m. | Prospects for Land and Water Ecosystems Management (Kozub)  
| Friday, June 10  | a.m. | Framework for Decisions and Action (Smith)  
|                | p.m. | Simulation: The Problem Set (Nicholson et al)  
| Monday, June 13  | a.m. | Simulation: The Results (Nicholson et al)  
|                | p.m. | Inducing Change Through Budgets (Wolde-Semait)  
| Tuesday, June 14  | a.m. | Inducing Change Through Markets and Trade (Christiansen)  
|                | p.m. | Choice of Techniques for Technological Change (Barghouti)  
| Wednesday, June 15  | a.m. | Building a Credible Consensus for Economic Reform (Aboyade)  
| Thursday, June 16  | a.m. | Inducing Change Through Credit (Von Pischke)  
|                | p.m. | Reforming Land Tenure Systems (Grindle/Thomas)  

Friday, June 17
  a.m.       New Directions for Agricultural Policies and Institutions (Grindle/Thomas)
  p.m.       Seminar Evaluation (Kozub/Malone)
Appendix B
List of Participants

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Mr. Pierre Nkoulou Ntere
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National Milling Corporation  
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Mr. Kamil Mansour  
Advisor to the Minister  
Ministry of Agriculture  
Khartoum, Sudan
Appendix C
Recommendations for Policy Reform in Zolandia

_The Minister of Planning and Finance_

1. Eliminate price controls on agricultural products;
2. Eliminate subsidies for wheat and rice;
3. Reduce the civil service by one third; and
4. Privatize industries gradually.

The minister made the distinction between short-run and long-run hardships, noting that he anticipated long-run stability to occur within one year. The President and her political advisors were skeptical that stability would occur so quickly, and emphasized that short-term hardships were potentially destabilizing. The minister responded that the reason that the SAL had not been effective to date was because the government had not reduced sufficiently the civil service. Moreover, he stressed the negative implications of doing nothing and urged the President to consider the welfare of the entire country, not just those who are hurt in the short run.

_The Minister of Agriculture_

1. Eliminate price controls;
2. Increase personal income through incentive schemes according to an increase in agricultural production;
3. Eliminate subsidies;
4. Reduce the civil service, but only the “dead wood”;
5. Create self-employment opportunities;
6. Privatize industries and create joint ventures; and
7. Establish loans for agricultural components to be allocated for research and development, appropriate farm machinery, up-grading the skill of technical personnel, and improved water management, cropping and processing facilities.

The President expressed concern over whether the government could create job opportunities for the unemployed civil servants, and noted that the minister’s recommendations assume that the civil servants are willing to accept such jobs.

_The Minister of Civil Service_

1. Take a broader approach in considering civil service reduction;
2. Consider a phased lay-off program;
3. Initiate an educational campaign to coincide with the implementation of lay-offs;
4. Establish a standard time frame and criteria for lay-offs;
5. Establish multi-sectoral committees at the national level to formulate general principles and regulations necessary for implementing the measures;
6. Establish a multi-sectoral committee at the technical level, chaired by a politician and comprised of labor and civil service representatives to oversee the implementation; and
7. Provide compensatory measures, including six month payments for family support, retraining, and loans for establishing new businesses.
The President doubted that the government could finance compensatory programs, given the mounting budget deficit. The Minister of Finance agreed, and added that the Civil Service's policies would be inflationary and imprudent. The Minister of Civil Service argued that firing people without providing compensation was politically dangerous, as the unemployed groups could become volatile and threaten the government.

**The Minister of GROCO**

1. Do not privatize GROCO;
2. Maintain the control of floor prices for rice and wheat in order to encourage farmers to produce;
3. Provide GROCO with sufficient funds to enable it to buy crops from farmers;
4. Initially maintain subsidies for fertilizers and imported seeds;
5. Phase out subsidies only gradually by increasing the price to farmers;
6. Eliminate subsidies only as food prices stabilize.

The President again noted how these recommendations required additional expenditures which were not forthcoming. She argued that the government already spends a significant amount of state funds on GROCO, even though the marginal benefits and performance record are unclear.

**Governor of the Central Bank**

1. Devalue the currency again to increase export income, increase farmers' income, earn foreign exchange and build up the reserves;
2. Privatize banks to develop the financial sector, make the private sector more efficient and reduce corruption;
3. Deregulate interest rates to promote intermediation, bank viability and deposit/savings mobilization;
4. Decontrol prices to provide higher producer prices, increase production and lower consumer prices, and lower the subsidy burden;
5. Enact administrative reforms by reducing the bureaucracy and releasing workers for other employment; and
6. Establish incentives to increase savings, including price decontrol, privatization and administrative reforms.

The President complained that the Governor ignored the political risks associated with the SAL and concentrated unduly on economic theory. The Minister stressed long-run benefits of adhering to the SAL's conditions.
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