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Agricultural Policy Analysis within the Agricultural
Sector Re-Orientation Project
ECUADOR

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1.0. The Policy Strategy of the Government

Private sector initiatives and greater reliance on the market pricing system, are the principal elements of the policy strategy of the present Government of Ecuador. This strategy seeks to reverse decades of public sector intervention in the resource allocation processes of the economy.

1.1. Background and Setting

The former policies, particularly for agriculture, were directed principally at social and political goals and frequently were based on little concern for the economic consequences. Since the late 1950's, the development strategy had been directed at an import-substitution effort for the industrial sector and various attempts at agrarian reform. Prices which appeared stable in nominal terms seemed to be another key element of the policy for agriculture. The positive impacts on the affected sectors were disappointing at best and the resulting distortions to the structure of economic incentives was severe.

The country has been in economic crisis during the 1980's as a result of the lackluster performance of the industrial and agricultural sectors. The crisis was delayed and perhaps ameliorated by a series of export booms in primary commodities; the most important and recent of these being the oil boom of the latter half of the 1970's. The export booms veiled the effects of the distortions which arose from the industrialization and agricultural strategies. Chief among these distortions were policy induced deterioration in the real exchange rate which jointly with industrial promotion laws led to artificially high

levels of imported inputs and equipment for the industrial sector and, given the quest for stable prices for agricultural products, to taxation of agriculture, particularly the tradeable commodities.

From the outset, the distortions led to conditions of disequilibrium in many markets, such as foreign exchange, savings, and agriculture; the governments responded with direct interventions through price controls, quotas and direct participation through parastatals. This direct involvement has led to further distortions and, importantly, to rigidities in the private sector's willingness and ability to mobilize productive resources. Many of the distortions created economic rents or transfers for specific groups in the economy. The beneficiaries of these income transfers represent economic, social or political pressures which will provide frictions in any process to return to a more neutral and less intervened structure of incentives.

The retarded development of private sector entrepreneurial capability and the vested interest positions which were developed by the previous policies are severe limitations which the present government is facing in attempting to return to market oriented bases for resource allocation. The risks are great for severe political and social disruptions evolving along the path to enhanced private sector incentives. The government needs to quickly develop the capability to identify policy alternatives and to analyze their economic, political and social implications; which analysis would permit the selection of courses of action which seek greater economic efficiency at acceptable levels of

social and political cost.

The proposed technical and financial assistance through the USAID sponsored project for reorientation of the agricultural sector is an effort to respond to this need. Furthermore, the project seeks to go beyond a mere analytical capability in policy formulation. By supporting the private sector with analytical and information resources, the project also seeks to contribute to successful policy implementation. The challenge is great because the issues are complex. The ultimate challenge is to help chart a path towards the fulfillment of the government's goals of Pan, Techo y Trabajo (Food, Housing and Employment) through private sector initiative and greater reliance on the market and the pricing system for resource allocation.

1.2. Policy Formulation for Agriculture

The policy framework for agriculture evolves from the decisions taken by several public institutions including the Ministry of Agriculture, the Central Bank, Ministries of Finance, Industry and Commerce, Health, The National Development Council and the Congress. The policy objectives for these institutions will generally not be mutually congruent even if all seek to implement the same overall objectives. The reasons for the lack of congruence are many, and among these, the fact that each public institution has its own constituency looms as the most important. In this institutional environment, the leadership of the Ministry of Agriculture must not only seek to make its sectoral policy initiatives congruent with the overall objectives of government but must also transact with other public

institutions and private sector groups to develop, jointly, policy innovations that are viable in the political, social and economic context of the current situation.

The present leadership of the Ministry of Agriculture has entered government with little bureaucratic experience and a dynamic take charge attitude developed from their successful experience as private sector entrepreneurs. They are rapidly learning about the fundamental differences in managing within the framework of public administration in contrast to management of private sector enterprises. They now appear to recognize that a bureaucracy which was built on principles different than theirs will have to be persuaded to implement the evolving policy framework. They also appear to recognize that the bureaucracy is needed; that policy statements require instruments and action within the public sector not just responses by the private sector. They are also keenly aware that policy innovations will need to be "sold" to the other public sector institutions and to interested private sector groups. They are, therefore, convinced that policy alternatives must be developed from rigorous and unbiased analyses which are, in turn, based on the best available facts.

The USAID project for Agricultural Sector Reorientation proposes to fill this precise requirement. The project will develop and make operational the capability of the top levels of leadership in the Ministry of Agriculture to identify, analyze, and promulgate policy alternatives which reorient the agricultural sector towards an increased reliance on private initiative, private markets and the competitive pricing system. It will also

facilitate this process by developing the capability for the identification, analysis and discussion of policy issues within the private sector. It seeks to accomplish this through support of a private sector foundation that is free from political, religious and interest group pressures and whose institutional commitments are to scientific rigor, impartiality and relevance.

The project will support the identification, analysis, formulation and successful implementation of policy innovations by greatly improving the information base on which the policy analyses and debates will be based and by developing the information systems about conditions in markets and production on which private sector optimizing behavior can be based. A central focus of the policy development process will be the development of a marketing strategy for the agricultural sector to create an environment in which the competitive pricing system gives clear signals for the efficient allocation of production and consumption resources. Paradoxically, these two necessary components of the reorientation project will help improve the public sector's ability to provide support services to the private sector.

What will evolve from all these activities is a coherent structure of incentives and information which will greatly enhance the efficiency of utilization of the country's resources. Coherence will be judged on economic efficiency and equity criteria as well as on social and political realism. The base of the evolving policy framework is the recognition that the actions of all actors in the economic processes will

determine the ultimate outcome of any policy initiative. This recognizes, therefore, that the private sector is composed of individuals who organize themselves into households, firms and other associations for the purpose of seeking optimum private and social wellbeing. The bases for private human actions in the quest for the maximization of wellbeing underly the ultimate outcomes of any policy framework. Policy analyses and formulation must therefore be well grounded on an understanding of private sector decision making and on information of how private persons respond to economic incentives and resource constraints.

2.0. The Major Policy Issues

The present government inherited a highly distorted structure of incentives for the agricultural sector. Not only were the signals fostering inefficient resource allocation, but they appeared inconsistent in terms of the desired social and political outcomes. For example, some commodities had been taxed and others subsidized relative to international prices. In other cases, e.g. wheat, the interests of urban consumers under the guise of concern for equity or nutrition predominated over the interests of rural poor producers of wheat.

Additionally, there existed a vast array of rules, prohibitions, etc. as well as direct public sector involvement in product and factor markets via the operation of numerous parastatals. In most cases these parastatals have been operationally ineffective, have interfered with private optimization and have generated large fiscal and monetary (including foreign exchange) burdens.

To emphasize and assert the new policy perspective, the present government undertook a series of drastic actions directed at improving the economic incentives for increased agricultural production. These actions were based on little information and analyses; they have not neutralized distortions, rather, they have only changed the incidence of the distortions. Furthermore, specific instruments for making the new policies effective have not evolved. Finally, many of the inherited policy dilemmas have proved intractable and the bureaucracy has not been incorporated into the new philosophy. There is therefore urgent need to

identify and implement courses of action towards a more neutral structure of incentives before economic events make policy reform even more difficult than it already is.

Priority policy issues include pricing policy, the marketing strategy and economy wide issues that affect and are affected by the performance of the agricultural sector. Within the issues in agricultural policy there exists the need to clarify trades off between resource efficiency, agricultural output and equity issues. The marketing strategy needs to address the role of public intervention in marketing and the need to improve the efficiency of the intermediation processes. Among the economy wide issues that require attention by policy makers in the agricultural sector are those related to exchange rate policy, industrial protection and the credit system.

2.1. Agricultural Pricing Policy

The present policy of setting "real" prices to foment increased agricultural output is based on an accounting cost of production approach. In general, these prices are much higher than last years prices in real terms and represent a major shift towards positive effective protection relative to import parity prices. The announcements of these so called "real" prices have significantly antedated planting seasons for annual crops, and they are reported to have led to substantially increased planting of the affected crops. As a consequence, the Ministry expects greatly increased output of grains at harvest time, in spite of delayed rains and the existence of drought conditions in some producing areas. The current dilemma for the Ministry is that it

must seek financial and physical resources to acquire what it believes will be large surpluses of grains in order to establish its credibility as a promoter of increased production.

The nature of the distortions to resource efficiency which have arisen from the interaction of the agricultural pricing policy of "real" prices with the other distortions in the economy are illustrated by the analyses presented in tables 1 and 2. The first table presents calculations of domestic resource cost coefficients for the "official" costs of production in five rice production techniques in coastal Ecuador. Among the many points that are illustrated by the analyses are that: if rice products and factors continue to be traded at the official and overvalued exchange rate, Ecuador cannot compete internationally in rice production under any production technique. This result emphasizes the extreme distorting effects of maintaining the official exchange rate for any agricultural market. At the open market exchange rate (120 sucres per US dollar). Ecuador is internationally competitive with Thai rice at approximately US\$ 300 per metric ton (FOB Bangkok). Additionally, traditional technologies are more resource efficient than so called "technified" methods. What this illustrates is that the cost-of-production approach to agricultural pricing rewards inefficiency in resource use, and the quest for self sufficiency, without measuring economic costs, may actually induce a greater dependence on international markets and lead to less secure food supplies.

Table 1 - Domestic Resource Costs (DRC) for Rice Production at Different Technology Levels in Ecuador, 1985

Production Technology (c)	Yield (MT/Hec)	Labor Share in Cost of Production (%)	Traded Input Share in Cost of Production %	International Price (US\$/MT) (a)	DRC at Official Exch. Rate (b)	DRC at Market Exch. Rate	International Price at which DRC=1 at Mkt ExRate
High Technology (14.3)	5.45	7	68	225	11.53	6.44	
				250	3.74	2.09	290
				300	1.59	0.89	
Medium Technology (Direct Planting) (25.1)	3.64	25	52	225	4.52	2.52	
				250	3.05	1.70	304
				300	1.85	1.03	
Medium Technology (Transplant) (44.8)	4.55	41	39	225	2.69	1.50	
				250	2.21	1.23	283
				300	1.62	0.91	
Traditional (Poza) (8.3)	3.18	71	11	225	1.38	0.77	
				250	1.27	0.71	165
				300	1.08	0.60	
Traditional (upland rainfed) (7.5)	2.27	70	11	225	1.69	0.94	
				250	1.54	0.86	210
				300	1.31	0.73	

- a) 5% broken, milled, f.o.b. Bangkok, MAG support price = 2,150 sucres/200 lb.sack paddy
b) Official Exchange Rate = 67 sucres/US\$1; Market Exchange Rate = 120 sucres/US\$1
c) Numbers in parentheses () are percentages of expected total production

Note: Costs of production and yields from National Rice Program in Guayaquil. Approximate freight and handling costs assumed equal to \$US50/MT. Extraction Rate = 0.58. A DRC coefficient less than one indicates a comparative advantage; a coefficient greater than one indicates a comparative disadvantage.

SOURCE: SIGMA ONE CORPORATION.

Table 2 - Structure of Protection in Rice Production in Ecuador Under Different International Price Assumptions, 1985

Production Technology	International Price (US\$/MT) (a)	Nominal Rate of Protection (b)	Net Rate of Protection (d)	Effective Rate of Protection (ERP) (e)
High Technology (14.3)	225	+0.96	+0.16	+1.98
	250	+0.81	+0.01	+1.61
	300	+0.58	-0.22	+1.02
Medium Technology (Direct Planting) (25.1)	225	+0.96	+0.16	+0.89
	250	+0.81	+0.01	+0.69
	300	+0.58	-0.22	+0.36
Medium Tech (Transplant) (44.8)	225	+0.96	+0.16	+0.52
	250	+0.81	+0.01	+0.38
	300	+0.58	-0.22	+0.14
Traditional (Pozo) (8.3)	225	+0.96	+0.16	+0.18
	250	+0.81	+0.01	+0.08
	300	+0.58	-0.22	-0.07
Traditional (upland/ rainfed) (7.5)	225	+0.96	+0.16	+0.19
	250	+0.81	+0.01	+0.09
	300	+0.58	-0.22	-0.06

- a 5% broken, milled, f.o.b. Bangkok
b Nominal Rate = (Domestic Price/(Int'l Price x Official Ex. Rate) - 1)
c Exchange Rate Overvaluation = (Market Rate-Official Rate)/Official Rate = 80%
d Net Rate = Nominal Rate-Exchange Rate Overvaluation
e ERP = (Value Added at Domestic Prices-Value Added at Int'l Prices)/Value Added at Int'l Prices

Note: Freight and handling costs assumed = \$US50/MT; Extraction Rate = 0.58; Domestic price of paddy rice = 23,650 sucres/MT; Official Exchange Rate = 67 sucres/US\$1; Market Exchange Rate = 120 sucres/US\$1; Numbers in parentheses () are percentages of expected total production.

SOURCE: SIGMA ONE CORPORATION

The rice price policy interacting with the exchange rate policy, *inter alia*, is actually counter to the employment generation objectives of the government. More than half of the rice is produced under labor saving technologies, and these technologies are approximately 30% less efficient with respect to domestic resource use than are the more labor intensive technologies.

Table 2 indicates that the current price of rice would be the import parity price if the Bangkok price were US\$ 250/MT FOB, and that at these prices the effective protection for the technified production systems would range from 38% to 161%. These levels of protection arise from the policy of importing agricultural inputs at the official rather than the open market exchange rate. The problem, therefore, rests both in the product and factor markets. Currently, domestic rice is priced at more than 80% above import parity at the official exchange rate, but probably close to import parity at the open market exchange rates. What this means is that technified producers are being given the benefit of the exchange rate overvaluation whereas consumers of rice are de facto already trading at the open market rate. Correcting the distortion would, therefore, have little impact on consumer prices for rice.

All of the foregoing is not an argument for strict import parity pricing for rice since international markets are highly volatile. Stabilization could probably be achieved through a variable levy system at small average positive protection above long term average international prices. Currently such a policy would probably imply the need to import 15% to 25% of rice

requirements. With exchange rate unification as a concomitant policy, some technified producers would, perhaps, shift from rice production to their next best alternative. A complementary policy response could be to focus rice production research on increasing yields and reducing unit costs in the medium and traditional technologies.

The foregoing discussion illustrates some of the issues that arise in evaluating agricultural policy alternatives. The markets for other grains are as, or more, distorted than the market for rice, as is the market for dairy products. While there may be arguments for public intervention in these markets, the policy goals have not been clearly articulated except to say that increased production is what is sought. Other goals could include price stability, food security, rural incomes, foreign exchange earnings (savings), nutrition, etc. These need to be clearly outlined before a policy strategy for agricultural prices can be delineated.

2.2. Marketing Strategy

A marketing strategy cannot be completely designed until there is further clarity of purpose in pricing policy in product or factor markets. The goals of pricing policy and the instruments chosen for policy implementation will to a large extent determine the marketing strategy, particularly if public administration of prices should continue. The development of a marketing strategy must proceed pari pasu with the formulation of an agricultural pricing policy. The role of the public sector and its parastatals will be a function of the pricing policy in

these markets.

Some other elements of the marketing strategy are clear, however. Marketing margins are alleged to be high in almost all product markets. There is an almost universal belief that middlemen with market power are capturing economic rents to the detriment of consumers and producers. While these conditions may exist from time to time, it is more likely that middlemen experience large windfall gains and losses, and that this riskness is being incorporated into costs within the intermediation system. This system is primitive according to market system typologies; many intermediaries with relatively low levels of capitalization operate at high unit costs. Many of the intermediaries are women; they have probably entered the marketing system for lack of other productive opportunities. The marketing strategy would, therefore, seem to require public action to promote cost saving innovations in the marketing systems. Such action will probably center on strengthening the private intermediation system. The ways in which this can be done will require extensive analysis of the structure, conduct and performance of the marketing system's for selected commodities, e.g. grains, potatoes, meat and dairy products. Furthermore, the strategy of strengthening the intermediation system will require analyses to "sell" the idea to the public, and to other institutions which will have to participate in the marketing development process. Through this process, the intermediaries would more effectively compete with each other to reduce costs.

2.3. Economy Wide Issues

The preceding subsection illustrated the distorting effects that arise from importing agricultural inputs at the official and overvalued exchange rate. Exchange rate overvaluation creates excess demand pressures on all importables; presently such pressures are being managed through a complex array of protective barriers. The structure of protection differs commodity by commodity and may include a combination of barriers such as outright prohibition, quotas with prior licensing, payment at time of placing orders, and protective tariffs which can exceed 100%. These barriers raise the price of the protected items, create rents for the owners of factors involved in the domestic production of the protected items, create rents for those with access to quotas, and induce resource flows into the protected sectors and away from the unprotected activities.

With the complex structure of protection that has evolved from the import substitution industrialization policies for Ecuador, it is difficult to ascertain without careful analyses what are the incidences of the induced distortions. The incidence of industrial protection has been measured for Ecuador's two Andean neighbors, Colombia and Peru, where similar policies have been pursued. For Peru, it has been econometrically estimated that a 100% tariff on industrial importables would result on a 72% increase in the price of non-tradeables. The levels of industrial protection which are believed to exist for Ecuador currently, would result in approximately 50% negative protection to tradeable agricultural

commodities. There are many economic and social consequences from such inter sectoral distortions. Among them are the unemployment effects; on the one hand, investment would flow out of agriculture, thus reducing the demand for labor in that sector; on the other hand, labor in the economy as a whole is made more costly as the non-tradeables adjust to maintain the economy's general equilibrium. While some employment might be generated within the protected sectors, this effect is mitigated by the fact that domestic resources are higher priced relative to imported resources than they would be under a more neutral structure of incentives.

Furthermore, the incidence of protection leading to higher priced nontradeable goods and services causes a deterioration of the real exchange rate. If official exchange rates are fixed for long periods of time, then this result leads to an increase in the overvaluation of official rates and therefore to increased excess demand pressures for importables. The attempt to protect certain sectors is, thus, in effect self defeating; the levels of "true" protection that are achieved are small, and these are achieved at high social and economic costs.

Finally, since the non-tradeables include many foodstuffs such as potatoes, fruits, vegetables, cassava, plantains, and other commodities generally produced by low income producers, these are made relatively more expensive, and the demand for them is reduced. Also, non tradeables are included in the marketing margins for almost all foods; these too are made higher in price than they would be under more neutral structures of protection. The negative protection to tradeable agriculture depresses

domestic prices of the import competing agricultural products and therefore domestic supplies of commodities such as rice, bananas, wheat, milk, beef, other grains and other tradeable commodities. The artificially low prices for these commodities causes consumer demand to shift towards them while domestic supplies are being reduced. This causes the need for increased importation of foodstuffs; this is further aggravated if food is imported at the over valued official exchange rate. Frequently, the excess demand for imported foodstuffs which is generated is managed through import quotas; these cause rents for the importers. When these conditions exist, food is likely to cost more than it should and domestic food producers are being castigated by the industrial protection policies.

Industrial protection structures such as Ecuador's current policies can lead to increased rural and urban unemployment, high cost diets, decreased domestic agricultural output, dependence on imported food supplies and regressive effects on the distribution of incomes. The costs of industrial protection go beyond inefficiency; they include social and equity costs of substantial proportions.

There is therefore a need to analyze the incidence of the structure of industrial protection on the structure of economic incentives for agricultural production and on the cost of food supplies. Agricultural policy, particularly, pricing policy cannot be developed without measuring the intersectoral relationships between agriculture and the other sectors, including the monetary sector of the economy. These

relationships will not only affect the structure of relative prices for agricultural commodities and the intersectoral terms of trade, but they will also affect investment (e.g. credit) and other resource flows and ultimately the competitiveness of domestic agriculture relative to international markets. Regardless of the policy objectives - growth, employment, nutrition, export promotion, equity - a more neutral structure of incentives in the economy as a whole is preferable than a highly dispersed structure of effective positive protection for some sectors and negative effective protection for others.

2.4. Problems in Policy Formulation

At the present time there does not exist a viable process for the formulation of policies which will provide agriculture and the economy with less distorted incentives and enhanced utilization of domestic resources. The government as a whole and the leadership in the Ministry of Agriculture in particular are committed to achieve such policy reform. They need to be assisted technically, financially and economically by USAID, other donors and the multilateral development banks towards achieving their objectives in the area of policy reform in agriculture and the rest of the economy.

Among the problems in policy formulation, one that predominates is the lack of a clear statement of policy objectives. Policy pronouncements are adhoc when they refer to specific actions and overly general in other cases. In these latter cases, the operational or implementation requirements are not considered so that little impact should be expected. Another

problem with global pronouncements is that frequently the elimination of one policy instrument is not accompanied by a statement of its alternative. Such conditions pose the risk of social or political disruptions or at least that a new set of distortions will arise. In either case, such actions reflect a lack of assessment of the private, economic, social or political gains and losses that will arise from the policy change. This creates the possibility that forces will arise to negate the intended results from the policy innovation.

The failure to assess the potential distribution of gains and losses among the members of the society, reflects, in part, the lack of fora, media and bases for policy dialogue among the affected institutions and groups. Such vehicles for policy dialogue need to be created within and outside the public sector. Such dialogues cannot be undertaken until the capacity for identification, analysis, formulation and communication of policy alternatives is developed within the private and public sector. The lack of credible information also hampers the policy making processes and the potential for meaningful dialogue. Any debates which take place, at the present time, are based on impressions and anecdotal accounts.

A measure of the lack of resources for policy formulation is given by the lack of private and public institutions with capacity in economic analysis and information processing. The National Council for Science and Technology lists over 550 private and public entities in its inventory of scientific and technical resources within Ecuador; less than 30 of these could be remotely identified as having capacity in economic or social

analysis and in information processing. Within the Ministry of Agriculture there are few persons with skills in these areas, and their background is more oriented towards public intervention and control than towards developing clear and consistent incentives for private initiative.

Human, technical and financial resources will have to be brought from outside the Ministry and from outside Ecuador to quickly address the complex analytical and implementation problems that are embodied in the government's quest for improved policies regarding the structure of economic incentives. At the same time the existing human resources within the bureaucracy will have to be trained and motivated towards effective implementation of the new policy framework.

2.5. Urgent Policy Issues

The government and the leadership in the Ministry are faced with a number of pressing issues which require analysis, urgently. Some of these relate to correcting the policy of announcing high minimum or support prices for grains. Other issues center on the politically sensitive market for milk and dairy products. A third set of issues relates to alternatives for public sector involvement in a number of enterprises, such as ENAC, ENPROVIT, ENSEMILLAS, etc. Finally there is urgent need to find policy responses to disruptions that are likely to arise from the 1984/85 minimum price support policy for grains and from the possible cost of production impacts from an impending unification of the exchange rate. These issues will all have to be resolved in the next few months; for political reasons some

will need effective resolution by August 10, 1985, negotiations with multilateral lending agencies will require information on most of these issues in the September/October time period and the beginning of another planting cycle for annual crops will require that most operational implications of the policy reforms be resolved by mid October, 1985.

2.5.1. Alternative Grain Pricing Policies

The nature of the supply and demand relationships for most grains that are traded on international markets is such that quantity and price move in opposite directions in highly oscillatory patterns. Typically prices are substantially more volatile than quantities, and some markets are less stable than others, e.g. world rice markets are more volatile than world wheat markets. Economic analysis has shown that there are clear economic and social benefits from greater stability in these markets.

Ecuador continues to reveal a preference for stable prices in the grains. The methods which have been chosen have placed most grain markets significantly above (or below) real parity with international prices. Such conditions generate inefficiencies in domestic resource use, and in an economy that is opening further to world markets such conditions generate implicit taxes and subsidies to producers and/or consumers. For these reasons, international prices can often serve as the best valuation of any commodity which is potentially tradeable (imported or exported). In some cases, however, international markets are highly volatile and import parity pricing could lead

to high instability being transmitted from international markets to domestic markets. Such is the case for rice.

When a country is near self sufficiency secularly, a system of variable levies at a modest level of positive protection around long term international price trends can usually achieve the desired levels of stability and food security at small fiscal and foreign exchange costs -if other important distortions are not present. In the case where the country is highly dependent on international markets, e.g. it customarily imports more than half of its consumption of a commodity, then long term contracting or the use of future markets can help create domestic stability and minimize the costs of securing food supplies. Again, this requires that the domestic market be relatively free of other distortions.

For Ecuador, the markets for rice, wheat and other grains are highly distorted, with the system of announced and theoretically fixed minimum producer prices being just one source of distortion. The country cannot move to a system of variable levys around real import parity price trends in the short run without first assessing the role of other distortions and without assessing some likely economic, social and political impacts of moving to a new system for price stability and food security in the tradeable grains.

These issues are illustrated by the following analytical needs for a rice pricing study and for a wheat pricing study. Each of these could be completed within a period of four to six months. For rice pricing, the study would need to develop the

following information:

1. What have been the actual costs of production under various cropping techniques and for the principal producing regions in the current and recent past production seasons?

2. Of these costs which are represented by tradeable inputs and at what exchange rate have these been imported? What relationship do the domestic prices for these inputs have to a border price at the real exchange rate?

3. For each technology, region and season what were the resulting domestic resource costs and effective protection coefficients?

4. What have been the principal sources of distortions? Product prices or factor prices? How have these been affected by exchange rate or trade policy?

5. If the distortions arise principally in exchange rate policy or commercial policy, what are the prospects for correction of those distortions?

6. If the distortions outside of the sector can be corrected or ameliorated in the relevant short run, what level of average protection would produce the level of domestic output that is considered desirable on food security or self sufficiency grounds?

7. What are the economic and private costs to producers and consumers from the domestic prices which would result from the structure of protection identified in point 6, above?

8. If these costs are unacceptably high on one or more criteria what alternative levels of average protection might yield more acceptable prices and reduce their implied economic,

social and political costs?

9. Can a concensus be promoted among the affected parties in the move to a more neutral structure of incentives?

10. If the extra-sectoral distortions cannot be corrected in the relevant short run, is it reasonable to expect that product prices can be used to neutralize their effect? If so, repeat the process of questions 7 to 9.

11. Having established an estimate of the average level of protection which would produce the desired level of expected (trend) production, it is then necessary to establish the rules for computing the average reference international price which will serve as the basis for the system. The following specific questions need to be answered:

a) How many periods need to be included in the moving average for the international price?

b) What will be the periodicity of adjustment, monthly, quarterly, bi-annually, annually?

c) Will more than one international market be considered? More than one quality? Will these be averaged with weighted or simple averages?

12. What will be the institutional mechanism for making the policy effective? Will a price band for intervention be established? Will a public sector agency take physical possession of grains? How will the government finance any taxes or subsidies that result from the system for intervention?

13. If greater levels of exports or imports will be generated, is the physical infrastructure in place at the ports?

What are the trading arrangements for domestic and international dealers?

For wheat pricing, a set of similar questions would be asked, and additionally, there would be a need to ascertain the potential to use future markets for seeking price stability. Additional questions would also center on the structure and organization of the wheat processing industry.

Both studies would benefit greatly from the results of a study on the determinants of food consumption patterns by different population groups. A central issue of such a study would be to ascertain the role of retail prices in determining the existent budget patterns and the likely nutritional impact which might result from more neutral approaches to stability and food security. This study could provide valuable insight into the determination of the appropriate level of protection to domestic production of grains (and milk for that matter). The recommended technique would be to calculate different scenarios on the distribution of gains and losses in scenarios related to different real price levels for the affected food products in the purchasing patterns of different consumer groups.

2.5.2. Milk Pricing Study

A milk pricing study is also urgent, and the leadership of the Ministry wishes to institute policy reform in this area, in part as a demonstration of its philosophy towards neutral and market driven structures of economic incentives. The issues and questions to be answered in the milk pricing study are similar to those for the grains, particularly the issues surrounding wheat

prices. In these two cases, income distribution (producer and processor incomes) and conjectural ideas on the nutritional impact on the poor predominate the policy debate. Consumption effects and industrial organization issues would be central to the analysis and efficiency and stability questions, would be secondary, though very important, still.

The milk pricing study is also affected by the fact that the international market is highly distorted due to the dairy policies pursued by most of the countries which are members of the Organization for Economic Cooperation and Development. Accordingly, the prices at which Ecuador can acquire milk products in international markets are not a proper valuation of these commodities and cost of production and efficiency criteria will play a greater role than import parity pricing in determining a reformed and more market oriented system. In this regard production data and data on costs of production from Ecuador's Andean neighbors may prove a useful reference.

In addition to the questions indicated above and those similar to the grain price studies, the milk price study would require the following questions:

1. What are the legal and health regulations regarding the handling and processing of milk and milk products? Are these regulations being circumvented? Why?

2. What are trends in production, importing, processing by product type and final consumption?

3. What are the structures and organization of the production, processing and distribution industries? Is there market concentration in any of these processes? What is the

source of concentration (including an assessment if such concentration is policy induced)?

4. What population groups consume milk and dairy products? What are the determinants of the consumption patterns, e.g. incomes, prices, family composition, occupation or regional location, etc.?

5. What health problems are being transmitted by the present system? What is a rough estimate of the economic social and political costs implied by the health problems?

6. If a more market oriented structure is to evolve what are the infrastructural, industrial organization and marketing system requirements?

7. What will be necessary to compensate potential losers from policy reform, or at least how can they be "sold" on the idea of reform?

2.5.3. An Approach to the Pricing Studies

Since these studies are urgently needed, it will not be possible for them to be completed in time if they are to be undertaken when the proposed project is fully operational, it is therefore recommended that USAID contract a pricing policy team as soon as the project is approved. The grain pricing and milk pricing studies as well as the necessary consumption analyses could be undertaken by an integrated team to achieve consistency and economies of scale.

The contractor team would be structured as follows:

<u>Professional</u>	<u>Person Months</u>
Senior Pricing Policy Analyst	6

Grain Trade Specialist	4
Milk Marketing Specialist	4
Demand Analyst and Econometrician	6
Industrial Organization Analyst	2
Institutional Analyst	2
Junior Economic Analysts	10

The team would begin work as soon as possible and provide fully documented decision oriented reports at the end of four months and fully documented reports at the end of 6 months from contract initiation. They would require access to all sources of consumption and production data and would probably have to develop some cost of production data through field work. They would also require access to INEC's computer, SAS and a IBM/PC. The total estimated cost of such an effort would be approximately US\$ 600,000.

2.5.4. The Role of Public Enterprises

Government participation in a number of public enterprises has evolved as an expression of past governments' philosophy towards intervention in agricultural product and factor markets. Many of these enterprises are widely viewed as ineffective. A stated goal of the present government is to return as many as these activities to the private sector. The path to such devolution is fraught with economic, financial, legal, political, social and operational dilemmas. The government urgently needs high level international assistance to address these various aspects of its involvement in public sector enterprises.

The strategy proposed is a three tiered approach consisting

of three types of inter-connected studies:

1. A broad based study of the governments role in public sector enterprises;

2. A set of option studies for a number of the public enterprises, and,

3. Detailed implementation studies to institute operational reform, divestiture or complete elimination.

The broad based study would be a total review of the governments involvement in public enterprises. The principal purpose of the study would be to ascertain those activities for which there might be legitimate reasons for public involvement and those for which the private sector might be the more appropriate venue. From this broad based study would evolve a taxonomy which would classify activities rather than enterprises as to whether or not they belong in the private sector or the public sector. For those indicated to remain in the public sector, the taxonomy would also specify whether or not operational and institutional reform and strengthening is required. For those to be eliminated from the public sector the taxonomy would indicate whether or not the activity should be divested or written off.

This diagnostic stage would then feed the option study stage where each enterprise would be analyzed in terms of possible options for implementing the recommendations regarding its activities. In some cases the options would be to merge related activities for new public or private sector enterprises in other instances policy approaches towards achieving desired objectives

would be identified. These studies would be carried out with a review of extant documentation, articles of incorporation, annual reports, operational plans, etc. and with interviews with management, clients and suppliers. ENAC, ENSEMILLAS, ENPROVIT, ENDES have already been identified as candidates for option studies.

The indepth studies would be thorough economic, financial, legal and management science reviews to prepare the assets and activities for divestiture, liquidation or reformation. Such studies should be initiated at once in collaboration with other donors because, in some instances, some current proposals being considered by some multilateral lenders actually call for strengthening enterprises which would be made redundant if the pricing policy reforms are instituted.

2.5.5. Profiles of Private Marketing Enterprises

As policies and public institutions are being changed to devolve responsibility and initiative to the private sector, it is also necessary to support the development of the private sector's capacity to respond to the new structures of incentives. One major constraint to private innovation in the marketing system is the lack of permanent capital for equipment, facilities and operations. It is believed, but needs to be verified, that the private sector would respond with a vast array of cost reducing and efficiency seeking innovations if the new incentives were accompanied with access to a line of credit for market development. A fund with this purpose is being proposed by the World Bank; such fund could greatly enhance the implementation of

the USAID guided policy reforms. It is therefore strongly recommended that the USAID financial and technical assistance be used to execute a study of the profiles of possible innovations and clients for the Market System Development Fund.

3.0. The Agricultural Sector Re-orientation Project

The agricultural sector re-orientation project will assist the government, through the Ministry of Agriculture and through the private sector, to establish a structure of policies and economic incentives to promote private sector initiative towards greater economic output with reliance on market forces for the mobilization and allocation of productive resources. The project will also contribute towards the creation of an environment in which price signals in, principally, privately run markets provide for the efficient and equitable distribution of the increased economic output.

The objectives of the project are 1) to develop the capacity to identify and analyze problems in the formulation of agricultural policy and to establish the means through which policy innovations can be effectively implemented; and 2) to promote the development of an efficient and progressive marketing system that transmits clear price and other resource allocation signals to all actors in the market system.

The project consists of five major interrelated components:

1) The establishment and effective use of capacity for analysis and promotion of policy reforms within the leadership echelons of the Ministry of Agriculture.

2) The establishment and use of private sector capacity in identifying, analyzing and communicating policy alternatives within a private sector foundation.

3) Implementation of a Marketing System Development Strategy to support the implementation of improved policies.

4) Support to the new policies and marketing strategy through market news and crop forecasting information for use by the private and public sectors.

5) Support to the policy formulation and implementation process with the development of a timely, accurate, reliable and believable information system for sectoral performance data for use by the private and public sectors.

The specific means are to use technical and financial assistance to establish a policy analysis unit at the Ministerial council for the Ministry of Agriculture and to provide technical assistance to the Ministry for the development of the marketing strategy. Financial and technical assistance will also be used to support the development of policy analysis capability and the execution of key policy studies within a private foundation.

With regard to the information systems, the project will use technical assistance, financial resources and an on the job training cum learning by doing approach to:

1) Strengthen the capacity of the Ministry of Agriculture as a user of information;

2) Promote the use of sound statistical methods on all data gathering, processing and dissemination activities with the Ministry of Agriculture;

3) Strengthen the capability of the National Institute for Statistics and Censuses (INEC) as a developer, provider and maintainer of information bases centered around a modified area sample frame approach;
and very importantly,

4) Develop the market news and crop forecasting systems and the ability to disseminate information on a timely basis within MAG.

Separate reports have been prepared on the private sector policy analysis capability to be developed at a private foundation, on the marketing strategy, and on the development of the information system. The balance of this report, therefore, deals with the development of the policy formulation capability within the Ministry of Agriculture. The next sections describe the short run and long run functions of the Policy Analysis Unit for the ministerial council in the Ministry of Agriculture. The institutional relationships with the Ministry and with the private sector, particularly the private foundation are specified. The relationship of the Unit's activities and the development of the Marketing Strategy and the information system are also outlined. The report concludes with specific project design recommendations regarding organization, staffing, financial requirements, technical assistance requirements and the strategy for coordinating the technical and administrative efforts in the various policy analysis and formulation activities.

3.1. The Policy Unit at the Ministerial Council

The cornerstone of the project is the development of a quick and effective response capability to identify, analyze, formulate and promulgate policy innovations to support the top leadership of the Ministry of Agriculture. The functions will be to provide short run policy recommendations based on rigorous

analyses and the best available data. These recommendations will be developed within the context of the governments overall policy objectives and with careful consideration for long run implications regarding economic, social and political realities. The identification, analysis and formulation of policy alternatives will be undertaken in concert with the development of the marketing strategy and with the support of the new information system resources. It is also expected that there will be close collaboration and communication between these public sector activities and the private sector policy analysis activities at the foundation; the operation of the foundation will, however, always be autonomous and independent of any public sector control.

The principal users of the services provided by the Unit will be the Minister and his staff, the subsecretaries and those persons to whom they may from time to time assign a policy formulation responsibility. The Unit will be independent of existing planning, programming and budgeting activities within the Ministry. These activities will, of course, receive the products of analytical studies and issues papers developed for or by the Unit. The Unit will not have a planning, programming, budgeting or project design role; it will focus exclusively on policy issues and not on operational, administrative or management issues unless these impinge directly on the implementation of a proposed policy innovation.

The members of the Unit and their external technical advisors will have frequent and confidential access to the top leadership of the Ministry. It is intended that the top

leadership take an active role in the identification of policy issues and in the review of recommended policy implementation strategies.

3.1.1. Modus Operandi

The modus operandi will be that the Unit with the guidance of the Ministerial Council will prepare an agenda of key and pressing policy issues. For each issue the council and the Unit will develop a series of options and alternatives for consideration and analyses. The Unit will analyze or commission the analysis of each issue and the related alternatives. The Unit will respond on a timely fashion (timeliness being among the most important criteria for its effectiveness) with a recommendation for policy action. This recommendation for action will consist of a detailed course of action for the implementation of a specific alternative. The specific alternative will be selected from all those considered on the basis of clearly delineated policy objectives and trades off among them, e.g. economic efficiency, economy wide growth, employment, equity, consumption, production, export/import effects, etc. Each alternative considered will be evaluated quantitatively with respect to its expected effect on some or all the following outcome variables:

1. Resource efficiency as measured by domestic resource cost coefficients.
2. Output effects: quantities produced, gross revenues generated and contribution to economy wide and sectoral growth.

3. Food consumption effects delineated for key population subgroups, e.g. rural poor, urban poor, regional differences.
4. Foreign exchange, balance of payments, fiscal and monetary effects.
5. Private and public investment effects and/or requirements.
6. Farmer and rural labor real income effects.
7. Price stability effects in all related markets.
8. Food security effects.
9. A measure of the change on C.S. and P.S.
C.S. = Consumer Surplus, P.S. = Producer Surplus

Additionally the alternatives would be evaluated qualitatively with respect to the following criteria:

1. The requirements for institutional (private and public) change and innovation and an assessment of the prospects for such change being forthcoming.
2. An assessment of the adaptability, flexibility and responsiveness of public and private actors who must adjust to changing incentives and institutional arrangements to make the policy effective.
3. The potential to generate innovations in technology and institutions to further the implementation of the policy and the realization of the desired effects.
4. An assessment of the risk that undesired deleterious effects may ensue particularly with regard to equity, social and political outcomes.

5. An identification of principal groups of gainers and losers with respect to economic outcomes.
6. The potential for generating windfall gains or losses or for increasing concentrations of wealth and political power.
7. The possibility for generating negative externalities, e.g. environmental degradation, susceptibility to animal and crop species pests and diseases, and stress on public services such as water, sanitation and transport systems.
8. The potential for promoting entrepreneurial effort and other incentives to human capital formation.
9. The impact on the distribution of labor and the allocation of resources among household members such as labor force participation, nutrition, health.

These action recommendations would be presented in clear expository form in the vernacular without use of technical jargon, particularly from economics. All technical analyses, quantitative and qualitative would be provided as appendices. In many cases timeliness will require that only approximate assessments be made; in such cases a determination will be made by the Unit or the Council as to whether further in depth studies would be commissioned to external sources such as the private foundation, consulting firms (domestic and/or international) or to academic institutions in Ecuador or abroad. The Unit would provide technical directions of a general nature and funding for these commissioned studies.

3.1.2. Institutional Relationships

The Units first and foremost linkage is to the Minister of Agriculture, the Ministerial Council and their designated representatives. Through their delegated authority they can require information and assistance from all other staff and operational activities within the Ministry. Some of the Units principal requirements will be data from the various entities that form or are adscribed to the Ministry. It is expected, therefore, that the Units functions will be a major driving force in developing the data gathering, processing and analysis capabilities of the Ministry and other entities involved in the development of the Agricultural Information System.

The Unit will also relate to other ministries and official entities and the public sector with delegated authority and clearance from the Minister or the Ministerial Council. Principal contacts will be with the Central Bank, the Development Bank, the Ministries of Health, Finance, Industry, the Corporacion Financiera Nacional, and the Secretariat for Rural Development.

The Unit will also relate to the private sector, under the delegated authority of the Minister. The private sector contacts will be of three broad types: 1) contracts for studies or surveys with private firms and institutions to provided needed analytical or information support to the Unit; 2) contracts, cooperative projects and communications/information exchange with the policy studies effort at the private foundation; and 3) meetings with individuals, firms or associations with interests (economic, social, political, etc.) regarding policy alternatives

being considered. The particular procedures for these activities will be developed during the early phases of operation by the Unit. One important criterion for these procedures, however, would be that these activities should not interfere with the Units ability to respond to the Minister and the Council in a timely fashion.

3.1.3. Organization, Staffing and Support Needs

The Unit is intended to be an agile and quick responding activity with complete access to and confidence of the Ministerial Council. Its principal resources are human talent and information. Its organization should be simple with the core activities centered on four or five senior policy advisors with staff support and facilities for data access and processing and for report preparation. One of the senior policy advisors would serve as coordinator selected as a primum inter pares from among his colleagues. Remuneration, perquisites, etc. would be determined by the Council--all senior advisors would be of equal status, rank, etc. Secretarial support, research assistance, office space, etc. would be equal for all senior policy advisors. There would not be a heirarchy among the support personnel; they too would be of equal rank and operate in a service pool fashion. The support personnel would be young economists, engineers, accountants, statisticians and data management personnel. These persons are probably already employed within the Ministry; they would be recruited from within and be provided with on the job training by the senior advisors and the USAID provided technical assistance resources.

The senior policy advisors will be recruited from the private sector or the university community in Ecuador. It is intended that they be compensated from extra-budgetary resources made available to MAG, by the private sector, USAID or other international donors. The compensation will be set so as to attract the top Ecuadorian talent. While it would be preferred that they be economists with experience in the economics of agriculture and with quantitative skills, it will be acceptable for some of them to not be economists. Nevertheless, all advisors should have a demonstrated understanding of the workings of the competitive pricing system as the markets' vehicle for resource allocation. They should be keenly aware of the vast differences between policy formulation and public sector planning. The group should be recruited to provide complementarity of skills and experience. The skills and or experience required include the following in addition to writing skills:

1. Agricultural price policy and marketing.
2. Public finance and agricultural credit.
3. Econometrics and supply and demand analysis.
4. International trade, foreign exchange and monetary aspects of agriculture.
5. Production economics and agricultural research policy.
6. Private enterprise finance, marketing and management.
7. Economy wide (macroeconomic) relationships.

Additionally, it would be useful if the following experiences were represented in the group - agribusiness, agricultural

exporting, grain production and/or marketing, retail trade in foodstuffs, commercial banking, industrial economics and policy analysis in the Central Bank or Finance Ministry.

The policy unit should be provided with ample resources for computing, data acquisition, field trips, in country travel and a modest amount of international travel to participate in conferences and consultations. They should also have a substantial fund for commissioned studies and consultation. A budget for the additional resources required on an annual basis would include the following:

	US\$ Per Year
Senior advisor salaries and perquisites	100,000
Word processing and computer equipment	20,000
Domestic travel and subsistence, etc.	25,000
International travel	8,000
Studies and consultations fund	250,000
Data, publications and other materials	<u>22,000</u>
Total Annual Expenses	\$ 425,000

Some of the above resources could be provided in local currency, other items will require foreign exchange. It is understood that office equipment, support staff, domestic communications, local transportation, messenger services, etc. would be provided from existing ministry resources. It is estimated that these additional resources would be valued at approximately US\$ 250,000 per year. In addition to the above resources, extensive international technical assistance will be required. These requirements are delineated in the next subsection.

3.2. International Technical Assistance

The human resource base for rigorous policy analysis that

exists in Ecuador at the present time is very sparse. It will probably be difficult to recruit the necessary talent for the Policy Analysis Unit, and it will be necessary to provide permanent technical assistance and on the job training to the senior policy advisors.

Permanent technical assistance in the persons of a Senior Policy Economist and a Senior Marketing Advisor should be provided to the Unit, each for a period of two to three years. These two senior positions should in turn be supported by a quantitative economist for a period of two years. These three persons should, in turn, be supported by international technical assistance of a short run nature. Such short run technical assistance should be organized around a series of key topics and should be composed of senior experienced advisors and a number of younger analysts with specific technical skills as required by each issue.

3.2.1. The Senior Policy Economist

The Senior Policy Economist to be provided by the project is the core of the international technical assistance. This person will probably serve as the contractors resident manager and as the principal liason between USAID, the Policy Analysis Unit and the other USAID funded components of the project. This person will coordinate the short term technical assistance and will provide informal but effective technical leadership to the Unit in collaboration with the Unit's coordinator. Not only is talent and experience related to policy analysis and formulation required, but great tact and effective communications in written

and spoken Spanish are also required.

This person will operate as another member of the group of senior policy advisors in the Unit. Additional responsibilities will include the formulation of the analytical approach for all issues to be analyzed and in collaboration with the person (or persons) responsible for each action memorandum to identify the sources of data to be used in the analysis. This person will also provide consultation on methods, theory and data analysis and will recommend external consultation as required. The coordination of seminars and on the job training will also be an important function.

Additional to the above functional abilities that are required, the Senior Policy Economist should have skills and experience as follows:

1. Strong theory and practical foundations in the micro-economics of agriculture.
2. Experience in the analysis of trade and economy wide issues.
3. Training at the doctoral level in monetary and macro economics.
4. Experience as a trainer in on the job training situations.
5. Appreciation if not skills of an econometrician and data management specialist function.
6. Prior experience in commodity and household budget demand analyses would be desirable but not mandatory.
7. An understanding of the analytical approaches based on Household Production Economics would be desirable or at

least some graduate level coursework on labor economics.

8. An understanding of the literature on technical innovation in agriculture, adoption studies, factor price policy studies and the literature on returns to investment in agricultural research would be highly desirable.

If the last five criteria are not areas or strength for the person selected, then these skills and experiences would become priority selection criteria for the post-doctoral/ABD economist, particularly econometric and data management skills. Additionally these two persons would work closely with the Senior Marketing Advisor.

3.2.2. The Senior Marketing Advisor

Desired Qualifications. The Senior Marketing Advisor should be an agricultural economist with at least 5 years of experience in research, teaching and technical assistance in the area of market system organization and commodity analysis with significant field experience in Latin America. A Ph.D. degree is desired; an M.S. degree would be a minimum requirement; F-3 level of Spanish language capability is required. Should have well developed communication skills and be well versed in survey research and data analysis methods. An ability to motivate and work with younger professionals is important.

Length of Appointment. Two years with a possible extension for a third year.

Scope of Work. The Senior Marketing Advisor will be officed

in the MAG in close proximity to the senior policy analysis advisor. His/her duties will include the following:

1. Collaborate with the senior policy analysis advisor in carrying out these activities:
 - a) Responding to the Minister and cabinet member requests for advice on policy and market system issues;
 - b) Provide guidance to the Minister, and staff economists;
 - c) Develop an agenda of policy and marketing system strategy issues, prepare scopes of work for specific studies to be contracted outside the Ministry, review and evaluate research results;
 - d) Arrange for and participate in policy dialogues with the Ministerial staff focusing on the results of studies carried out both inside and outside of the Ministry;
 - e) Arrange conferences, seminars and short courses for MAG staff and selected participants from the private sector and other government agencies.
2. Advise and assist the MAG Subsecretary for Marketing and his staff on these activities:
 - a) Planning and supervising commodity system studies and follow-up actions to implement new policies and programs;
 - b) Building and maintaining MAG staff working relationships with the private sector, financial

- institutions and other government agencies;
- c) Providing in-service training for MAG staff actually involved in commodity systems analysis and in the preparation of commodity situation reports;
 - d) Selection of MAG staff or potential staff to be sent abroad for post-graduate and specialized non-degree training.

3.2.3. Short Term Technical Assistance

Short term technical assistance would be provided by the project to complement the skills and experience of the permanent technical assistance and to direct and coordinate specific policy or marketing strategy studies. The short term technical assistance would include senior professionals and more junior professionals to provide specific data related skills.

The following are projected needs for technical assistance by senior professionals:

Area of Expertise	Person Months
1. Marketing Strategy	12
a) Marketing policy (4)	
b) Market stabilization (4)	
c) Market development/investment (4)	
2. Food Security and Consumption Effects	6
3. Rural Labor Markets	4
4. Agricultural Research Policy	6
5. Open Economy Macro Economics	4
6. Intersectoral Resource Mobility	4

7.	International Trade	4
8.	Credit Policy	4
9.	Political Science and Public Administration	4
	TOTAL	48

Additionally about 36 months of short term technical assistance by more junior professionals should be provided.

Budget Implications (Personnel)

Senior Policy Analyst		
3 years @ 150,000	\$	450,000
Senior Marketing Advisor		
3 years @ 150,000		450,000
Quantitative Economist		
2 years @ 100,000		200,000
Short Term Senior Assistance		
48 months @ 12,000/month		576,000
Short Term Junior Professionals		
36 months @ 5,000/month		180,000

Additionally, these personnel costs should be supported with separately budgetd funds for the execution of specific studies. These funds would cover data collection, computing, acquisition of publications, information tapes, etc.

350,000

TOTAL \$ 2,206,000

3.3. Plan for the Policy Analysis Unit

The policy analysis unit should incorporate itself at the earliest convenience to the direction and execution of the studies presented as urgent in Section 2.5. Additionally, it should begin providing the ministerial council with short term policy advice.

It should also establish an agenda for policy research for the next two years. This agenda should be carried out through

contracts with local firms and institutions, international technical assistance and through sponsorship of policy research at the private foundation. The proposed plan of work is presented in the following paragraphs.

Contracted but closely managed studies:

1. Approaches for strengthening the Private Marketing System including Commodity Focus Studies.
2. In-depth study of implementation options for reforming or replacing ENAC and ENPROVIT.
3. Impact of exchange rate and monetary policy on the agricultural sector, particularly on the credit system for agriculture.
4. Political and social assessment of feasibility of policy reforms.
5. Public administration assessment of bureaucratic change required to implement policy reform.
6. Impact of liberalizing imports in agricultural factor markets.
7. Options for export promotion.
8. Management science studies of the requirements for operational improvements in the credit system and its public and private institutions.
9. Demand analyses and household budget surveys.
10. Costs of production surveys for key commodities.

Sponsorship of research at the private foundation:

1. Policy alternatives for food security and meeting consumption needs of urban poor.

2. Incidence of trade policy on the intersectoral terms of trade.
3. Agricultural Research and Extension Policy.
4. Equity, social and political effects of economy wide trade liberalization.
5. Impact of policy and marketing innovations on the labor market, particularly the supply of labor by women in the context of household resource allocation processes.

The total costs for these studies have been included in the budget presented earlier - their full cost to the project, including activities within the Policy Unit, is estimated at 2 million U.S. dollars.