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AGRICULTURAL POLICY ANALYSIS PROJECT

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THE POLICY INVENTORY: A TOOL FOR DIAGNOSING PRIORITIES FOR ANALYSIS AND REFORM OF AGRICULTURAL SECTOR POLICIES

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PRIORITIES FOR ANALYSIS AND REFORM OF
AGRICULTURAL SECTOR POLICIES

Summary

Developing country governments and the donor community have increasingly recognized the central role that macro-economic and sectoral policies play in shaping agricultural sector performance. This recognition has given rise to a need for a simple analytic tool to help LDC decision-makers and donor personnel in determining whether current policies help or hinder agricultural development and which policies should be assigned priority for analysis and possible reform.

The policy inventory is often the first step in this process. Developed by the AID-supported Agricultural Policy Analysis Project (APAP), the policy inventory consists essentially of a listing of the major policies affecting the agricultural sector, together with a preliminary assessment of their impact on sectoral growth and incomes. The inventory also catalogues in summary form the government agencies responsible for implementing each policy, the main alternatives to be considered, and other factors affecting possible policy reform. APAP experience with the inventory technique in El Salvador and elsewhere has demonstrated that a concise presentation of the main policies affecting the agricultural sector can be a valuable tool for decision-makers, improving their understanding of the overall impact of current policies on the agricultural sector, highlighting interactions, and serving as a useful guide to further policy dialogue and analysis

The policy inventory is a highly flexible tool. It can be scaled upward or downward, depending on the needs of the particular country or agency, the availability of information, and access to analytic resources for the inventory. As appropriate, an inventory can be completed on a "rapid reconnaissance" basis, relying on professional judgment of experienced analysts to assess policy impacts, or it can apply a more rigorous analysis using international price comparisons to measure the degree of distortion. It can be carried out as a freestanding exercise, integrated with a program of analysis focused on particular issues, or implemented as one component of a sector assessment or planning exercise.

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Introduction

The Agricultural Policy Analysis Project (APAP) is an AID-funded project designed to assist developing country governments and AID missions to improve agricultural policies and increase LDC capacity for policy analysis. As part of this task, APAP has frequently been asked to carry out an overall assessment of the agricultural policy situation in a particular country to support the policy dialogue or assist in the policy reform process. The policy inventory was initially developed by the project as a flexible, low-cost technique that project analysts could use in carrying out such assessments. Subsequent experience has indicated that the inventory is a tool with wide applicability that can be used by donors and developing-country personnel in a variety of situations.

The purpose of this paper is to provide an introduction to the policy inventory technique, how it is used, and the requirements for its application. It is directed primarily to decisionmakers, donor personnel, and others whose information needs may be met in part by a policy inventory, rather than to the analysts who would in most cases conduct the inventory itself.

1. Policy Inventories: A Tool for Determining Priorities in Agricultural Policy Reform and Policy Analysis

The frequently disappointing results obtained from donor-funded projects and government investment programs alike have refocused attention on the role of policies as determinants of development performance. It is now generally agreed that development projects cannot ensure a high rate of growth in agricultural production and incomes in the absence of conducive policy sets. Investments in agricultural infrastructure and supporting systems such as research and extension are valuable and necessary components of a total agricultural development strategy, but their efficacy can readily be undermined by such policies as mandatory delivery quotas and low crop prices. At the same time, the cost of many policies designed to promote production, such as fertilizer subsidies, has become unsustainable in an era of increasing fiscal stringency.

LDC government decision-makers and donors therefore need information permitting them to determine the importance of agricultural policy reform within the government's overall agricultural development strategy and the donor's assistance strategy. The policy inventory is an analytic tool designed to meet this need by giving decision-makers a "bird's-eye view" of current agricultural policies and their role in sectoral development. A policy inventory can provide decision-makers in the agricultural sector with rapid answers to three key questions:

- a. Do current agricultural policies promote or hinder agricultural development?
- b. Which policies in the agricultural sector and the economy at large should have priority for reform, given their impact on the agricultural economy?
- c. What are the main impacts of these policies (on production, income levels, trade, government revenues, and so on) that should be considered in evaluating possible reforms?

The answers to these questions can be used by decision-makers and donors in several equally important ways:

- a. To determine the broad outlines of a policy reform program, if such a program is needed;
- b. To identify the effects of existing policies on donor-funded projects and other sector development activities;
- c. To support policy dialogue, both within the government and between government and donors;
- d. To guide selection of issues for further analysis; and
- e. To monitor overall developments in the agricultural policy environment.

The primary advantage of the policy inventory technique is that it can generate information to serve these diverse purposes rapidly and with a very modest input of analytic resources.

2. The Elements of a Policy Inventory

A policy inventory consists of three basic elements, although these are generally supplemented with additional analysis and follow-up activities to suit the particular situation at hand:

- a. An overview of recent sectoral performance based on available data to determine whether agricultural production and incomes are growing at acceptable rates and where the main strengths and weaknesses of the sector currently lie;

- b. A listing of the major policies affecting the sector, including both macro-economic policies (fiscal, monetary, etc.) and sector-specific policies (prices, taxes and subsidies, etc.); and
- c. An assessment of policy impact, leading to a determination of whether policies are a major constraint, and, if so, which policies have the greatest negative impact on growth and development in the agricultural sector and, through it, on the economy as a whole.

The breadth and depth of the analysis in each of these three areas is determined by the amount of information available, the time frame for the inventory, and the analytic resources that can be devoted to it. In El Salvador, for example, assessment of policy impact was based primarily on the professional judgment of the team, which had extensive experience in agricultural development in the region. If additional resources are available, it may be preferable to base this assessment on more rigorous analysis. Where data and resources permit, a simple modeling exercise may be useful to determine how current prices affect the cropping pattern or farmer income.

Although the policy inventory is generally used to assess the overall impact of current policies on agricultural sector development, it can also focus on the analysis of specific policy issues. For example, a policy inventory may be extended to analyze existing trade and other policies that effect the competitiveness of a country's agricultural exports. In contrast to the El Salvador exercise, which examined the policy set as a whole, the inventory conducted by APAP in Senegal gave particular attention to the fit between current policies and the country's agricultural strategy with regard to the relative emphasis on

cash crops and food grains. The analysis reexamined the current strategy in the face of changing world price relationships and questioned whether the strategy should be shifted to give greater emphasis to traditional food crops relative to export crops and import substitution, and, if so, what changes should be considered in both policy and non-policy elements of the strategy.

The El Salvador experience underscores the importance of presenting inventory findings in a form that is concise, well-organized, and readily understandable by decision-makers. In this case, the team developed a simple format permitting the key policies affecting the sector to be presented in a few pages.

This format:

- a. grouped policies into macro-economic, sectoral, and sub-sectoral policies;
- b. indicated the main impacts of each policy on five selected variables of concern to policy makers (production, consumption, imports, exports, and government revenues);
- c. assessed the importance of each policy by ranking its impact on a five-point scale (from -2 to +2);
- d. listed the main alternatives to each policy as an aid to discussion and further analysis; and
- e. identified the agency responsible for each policy.

Presentation of the inventory findings in this format proved to be an effective means of increasing decision-maker awareness of the effect of existing agricultural policies and the importance of non-agricultural policies, such as the exchange

rate, to development of the sector. (A sample of this format is included as Annex 1 to this paper.)

Depending on the specific situation, the organization sponsoring the inventory may choose to supplement the policy inventory itself with one or more of the following:

- a. Analysis of major issues, where alternative reforms or priority questions for analysis have already been identified;
- b. Recommendations for further analysis or for specific reforms, where sufficient information exists to make such a recommendation; or
- c. Program design to structure the policy dialogue, develop a program of assistance to in-country analytic capacity, identify possible uses for program assistance or sector loans, and so on.

In the El Salvador case, for example, the issue of PL-480 rice import levels had been identified as a major policy question by the government, and analysis of this issue, along with several others, was included in the initial inventory program. This approach permitted AID to meet its immediate information needs relative to decisions upcoming in the short term, while also identifying priorities for a broader program of analysis and policy dialogue.

To be fully effective, the policy inventory must be followed up with analysis and other assistance to encourage the government to move quickly on policies identified as major barriers to sectoral development. Other follow-up actions include periodic updates to the inventory to incorporate policy changes made over time and joint sessions with government decision-makers to increase their awareness of policy inventory findings.

Carefully designed and implemented, the policy inventory can become a useful tool for monitoring developments in the policy environment, both positive and negative. It can be used to track progress toward implementation of a policy reform program and to verify that the planned reform program is not being undermined by policy changes in other areas. For example, increases in the domestic price of an export crop may not make production of this crop more attractive to small farmers relative to food grain production in the face of even larger increases in the consumer price of grain.

3. Considerations in Implementing a Policy Inventory

A typical policy inventory exercise is a six-step process:

- a. Planning, including decisions on both the mix of in-country and expatriate expertise to be used and the funding requirements;
- b. Preparation, including gathering and reviewing information available in-country, such as historical production data and previous policy analyses;
- c. Inventory of existing policies, including a review of recent performance in the sector and non-policy developments that should be taken into consideration in evaluating the importance and impact of existing policies;
- d. Assessment of policy impact, including formal or informal analysis of existing policies as discussed above.
- e. Analysis of policy alternatives, which may be implemented as part of the inventory exercise or separately; and
- f. Follow-up to discuss the inventory findings with policy-makers in the sector, develop a program of analysis and reform if needed, and monitor policy changes over time.

Although an inventory can be conducted by AID and/or developing country government staff without outside assistance if analytic staff are available, it is usually preferable to mobilize additional expertise to ensure that the inventory is carried out rapidly and thoroughly. Direct participation of AID and government personnel in the exercise is nonetheless highly desirable to represent decision-makers' interests during the analysis, to ensure that in-country personnel are fully familiar with the findings, and to pave the way for follow-on dialogue and analysis.

The most important planning parameter for the inventory is therefore the determination of the mix and level of expertise to be fielded for the exercise. At a minimum, the team must include individuals with extensive knowledge of the country, skill in macro-economic analysis (including trade and fiscal issues), familiarity with agricultural development, and analytic expertise in agricultural economics.

The plan for the inventory (and the terms of reference for any outside personnel involved) should clearly reflect the broad scope of the policy inventory exercise. Although specific issues may be incorporated into the inventory program, the inventory's main aim of providing an overview of major policy concerns is better served if the analysis gives primary emphasis to answering the three questions outlined in the first section of this paper. The overall focus can be lost if too much emphasis is given to particular issues of current interest or to development of a

program for future analysis or assistance to the sector. An illustrative scope is included as Annex 2 to this paper.

Two other issues must also be addressed in planning for the inventory:

- a. Should analysis of reform alternatives or other specific issues be included in the inventory exercise or carried out separately?
- b. Should the inventory be implemented as an independent exercise or included in a larger examination of sectoral and economic development issues, if one is planned in the near future (e.g., a sector study, preparation of a five-year plan, or CDSS revision)?

There are advantages and disadvantages to focusing the exercise exclusively on the policy inventory, rather than incorporating it in a program of policy analysis or a broader examination of agricultural sector issues. On the one hand, implementation of the inventory as a free-standing exercise simplifies planning for the inventory and tends to focus attention on inventory findings, preventing them from becoming lost within the overall study. On the other hand, inclusion of the inventory in a larger program of analysis may clarify the relationship between policy and non-policy issues and attract policy-maker attention, by generating outputs of more immediate interest to them, such as analysis of specific reforms or identification of sector investments.

In planning a policy inventory, it is therefore necessary to give careful consideration to the current level of government concern over policy and to other developments in the sector. By examining the environment in which the inventory will be implemented, those sponsoring an inventory can position it so

that it provides as much support as possible to ongoing dialogue, planning, and reform activities.

ANNEX 1

POLICY CATEGORY: MACROECONOMIC, FISCAL

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT					EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
			PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES		
1. level and structure of taxation/ agriculture	revenue generation	- Ministry of Finance - National Assembly	-1	0	-1	-2	+1	taxes extracted from the agricultural system have averaged 10-11% of agricultural value-added ^{1/} 90-95% of the sector's fiscal contribution originates in the coffee export tax, which, at current prices and exchange rates, has a strong negative impact on the profitability of coffee production. Declining coffee output is closely related to falling agricultural employment, income, and consumption	1. revise coffee export tax to more nearly approximate an income rather than gross sales basis 2. broaden the tax base 3. improve tax administration and collections
2. level and structure of expenditures/ agriculture	provide public goods, services, and infrastructure	- Ministry of Finance - National Assembly	-1	-1	-1	?	+1	central government expenditures on agriculture ^{2/} at 6-7% of total expenditures are low in comparison to agricultural sector tax revenues and to agriculture's contribution to GDP. While agriculture's share in central government's expenditures has remained constant, its share is of a declining total in real terms. Expenditures are biased in favor of livestock and traditional export crops.	1. as conditions permit, increase real levels of expenditure 2. prepare revision of intrasectoral allocation of expenditures in light of short- and medium-term national development objectives. (See Table 5, Sectoral Fiscal Policy)

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable

NOTES: ^{1/} not including income and stamp taxes, which are thought to be small though specific data are unavailable

^{2/} includes current and capital expenditures, not financial investment

POLICY CATEGORY: MACROECONOMIC, MONETARY

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT					EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
			PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES		
1. interest rate regulation/ agriculture	regulate supply and demand for fi- nancial resources; influence costs	- Monetary Board - BCR	+1	0	+1	+1	+1	The GOES has adopted an interest rate structure designed to provide for a positive real rate of return to savers and full cost recovery on lending operations. Agricultural borrowing rates are only modestly lower than other sectors. Through its impact on savings, this policy should enhance investment and growth over the medium-term.	1. More active imple- mentation through more flexible and frequent interest rate revisions 2. Study interest rate measures to foster the development of long-term financial instruments
2. supply of credit/ agriculture	support production, processing, and marketing	- BCR - Commercial Banks - BFA - Cajas de Credito	-2	-1	-1	-2	-2	While efforts have been made to increase agri- culture's share in total lending, new credits to the agricultural sector have fallen 25% in real terms since 1979. Refinancing has grown from 9 to 33.5% of total credit to the sector, while arrearages and debt service obligations continue to accumulate.	1. Refinance outstanding overdue loans on extended repayment terms 2. Increase volume of new credits to agri- culture 3. Study restructuring of agricultural credit to provide finance for nontraditional crops, ag. processing, and marketing

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable

NOTES: 1. The Monetary Board is composed of the heads of the following institutions: Central Bank and the Ministries of Planning, Economics, Finance, Agriculture and External Trade.

POLICY CATEGORY: MACROECONOMIC, EXTERNAL TRADE

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT					EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
			PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES		
1. support of the official rate of exchange/ agriculture	avoid inflationary and, possibly, contractorary short-term conse- quences of de- valuation. Pre- serve political credibility	- Monetary Board - BCR - MICE	-2	-2	-2	-2	?	An overvalued exchange rate reduces the domestic price of tradeable goods, which include virtually all agricultural commodities. While there is some controversy regarding the short-run impacts of devaluation in El Salvador given current conditions, there is no question that the medium-term development prospects of the agricultural sector are jeopardized by an overvalued exchange rate. The recently initiated process of selective devaluation suffers from the following: (1) ad hoc implementation by fiat -- contributes to uncertainty and sociopolitical tension; (2) no intrinsic correspondence between sector or subsector imports and exports -- creates potential for distortions and windfall gains/losses; (3) administratively complex; (4) given its uncertain and selective implementation, may not be providing the desirable incentives of a devaluation, especially as regards needed investment decisions.	1. Further selective devaluation; 2. crawling peg 3. official devaluation 4. Higher import tariffs with export subsidies
2. import tariffs/ agriculture	generate revenues; protect domestic suppliers	- Ministry of Finance - MICE	0	0	0	0	1	Agricultural inputs and commodities imported from the CACM are largely exempt from tariffs. Applicable tariff rates for non-CACM imports of these types of goods are low. Explicit tariffs on agricultural imports have little impact on the sector.	1. In the absence of devaluation, higher tariffs on competitive imports of agricultural commodities may be considered

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable
NOTES:

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POLICY CATEGORY: MACROECONOMIC, REGULATORY

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT					EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
			PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES		
1. regulation of the nationalized banking sector/ agriculture	control of domestic financial flows	- BCR - National Assembly	+1	-1	+1	+1	-2	As evidenced by agriculture's share in total credit, which is substantially larger than its share in GDP, nationalized management of the banking sector has probably averted a collapse of commercial lending to agriculture. Small farmer access to credit has also improved. This has been accomplished, however, at the cost of increasing GOES transfers to the financial sector, especially that part of the financial sector serving the agrarian reform. Also, due to general economic conditions, credit flows are not adequate to meet agricultural sector needs.	<ol style="list-style-type: none"> 1. Implement an agricultural pricing strategy to enhance the financial viability and repayment capacity of the agricultural sector 2. As economic stability is recovered, study means to liberalize and decentralize management of the commercial banking sector. Such a liberalization should specifically emphasize the development of new financial institutions/markets to serve the needs of small-scale and non-traditional agriculture. Specialized credit coops may be an option.

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable

NOTES: 1. It is unlikely that a purely commercial financial sector would have been able, given the interests of its stockholders, to maintain services to the agricultural sector during the recent period of war and political insecurity.

POLICY CATEGORY: SECTORAL, FISCAL

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT					EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
			PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES		
1. level of taxation/ coffee	generate revenues	- Ministry of Finance - National Assembly	-2	0	-1	-2	+1	While total taxes have averaged 11-13% of GDP in El Salvador since 1979, the coffee export tax represents 20-25% of value-added by coffee. At current prices and exchange rates, few coffee producers, including those of the agrarian reform, are able to realize any profit after taxes. Coffee production has declined by about 25%, at an accelerating rate. Employment and incomes generated by coffee have fallen commensurately. Accumulated losses, indebtedness, and the spread of coffee rust due to reduced expenditures on fungicides, seriously threaten the survival of this industry which has traditionally provided 50-60% of El Salvador's foreign exchange earnings.	1. revise the coffee export tax base to exempt estimated production costs from taxation 2. revise marginal tax rates on coffee producer incomes in accordance with foreign exchange rate policy ¹
2. level and structure of taxation/ other agriculture	generate revenues	- Ministry of Finance - National Assembly	0	0	0	0	0	The coffee export tax provides 90-95% of revenues extracted from the agricultural sector. ²	1. study alternatives for sharply increasing the land tax. The current assessment of approximately \$1.50 per ha. per year generates little revenue. A progressive land tax can discourage land concentration and speculation, thus complementing agrarian reform, and encourage more intensive land-use. 2. increase tariffs on competitive food imports 3. improve the collection of agricultural income taxes 4. study the incidence of the stamp (turnover) tax on agriculture. To the extent that it is enforced in agriculture, it may generate

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NOTES: 1. Devaluation to 24:1 could permit the maintenance of high marginal tax rates on a revised base. In the absence of devaluation, marginal rates may also need to be reduced.

2. Not including income and stamp taxes, as explained in the note to Table 1.

POLICY CATEGORY: SECTORAL, MONETARY

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT					EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
			PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES		
1. interest rate regulation/ intra-sectoral	to provide in- centives for particular activ- ities in agri- culture	- Monetary Board - BCR	0	0	0	0	0	A one percent interest rate discount is currently provided on crop credits for basic grains, non-traditional export crops, and coffee harvesting for small and medium growers. The impact of this policy is likely to be minimal, however, in relation to the currently constrained access to adequate volumes of credit. Access to credit is in general a far more significant factor than interest rates. Interest rate subsidies can adversely affect financial sector liquidity.	1. study incentive structures based on explicit subsidies (where subsidies are justified) as a substitute for interest subsidies 2. consider means of developing and incorporating informal rural credit markets into the agricultural financial system. Farmers are often willing and able to pay higher than commercial rates in return for timely credits. Informal lenders are often more effective at providing credit to small farmers. The organization of grassroots credit cooperatives may also be considered.
2. supply of credit/ intra-sectoral	support production processing, and marketing	- Monetary Board - BCR	-2	-1	-1	-2	-2	Current credit volumes are grossly inadequate to support recovery and future growth of agriculture. Of credits made available in 1983, 78% went to traditional export crops, 9% to basic grains, 8% to livestock, and only 5% to other crops. BFA faces serious financial and administrative problems.	1. undertake an appropriate agricultural pricing strategy 2. refinance outstanding overdue loans on extended repayment terms. This measure will primarily benefit the Phase I Agrarian Reform Cooperatives, and the non-reformed coffee and cotton subsectors. 3. increase volume of new credits to finance: rehabilitation and production

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POLICY CATEGORY: SECTORAL/EXTERNAL TRADE

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT					EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
			PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES		
1. Import tariffs/ agricultural inputs	generate revenues	- Ministry of Finance - MICE	-1	+1	-1	-1	+1	Imports of agricultural goods from the CACM are generally exempt from duties but are subject to stamp tax. ¹ Imports from outside the CACM are also subject to the stamp tax plus ad valorem duties ranging from 2-15%. Levies are relatively light and impacts on the agricultural system moderate.	1. If a devaluation takes place, reduce or eliminate both the stamp tax and import duties on agricultural inputs.
2. Import tariffs/ agricultural commodities	generate revenues, protect domestic producers	- Ministry of Finance - MICE	+1	+1	?	?	+1	Non-competing imports from outside the CACM (e.g. wheat) are taxed at a lower rate other than the stamp tax. Competing imports generally bear a specific duty, combined with the stamp tax and an ad valorem duty ranging from 8-30%. A moderate degree of protection is provided to domestic producers.	1. In the absence of a devaluation, consider increasing tariffs on competing agricultural imports
3. export subsidies/ intrasectoral	promote non- traditional exports	- Monetary Board - Ministry of Finance - MICE	+2	+1	-1	+2	-1	Non-traditional exports outside the CACM are implicitly subsidized in two ways: preferential interest rates, and access to the parallel foreign exchange market. The effectiveness of access to the parallel market in stimulating exports is dramatically illustrated by the 55% real expansion of the Salvadoran poultry industry since 1979.	1. Devalue to restore profitability and stimulate exports of the agricultural sector as a whole. 2. In the absence of devaluation, move traditional agricultural export products to the parallel market or institute system of import tariffs and explicit export subsidies. 3. Eliminate subsidies through preferential interest rates.

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable
 NOTES: 1. This exemption of CACM agricultural trade from duties applies to both agricultural inputs and commodities.

POLICY CATEGORY: SECTORAL/RESOURCES

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT					EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
			PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES		
1. land-use/ intrasectoral	to promote the ef- ficient utilization of soils	- National Assembly - Ministry of Finance - Ministry of Economics - IAG - ISTA	-2	-2	-2	-2	-2	Only 47% of land suitable for intensive annual cropping is devoted to such uses in El Salvador today; only 16% of the country's irrigation potential has been realized; about 18% of land currently in agricultural or ranching use should be withdrawn from production in the interest of soil and/or water conservation. Inattention to the land-use impacts of pricing and other policies, and the lack of a positive land-use policy favoring intensification contribute to low productivity in spite of land scarcity.	<ol style="list-style-type: none"> 1. implement a pricing strategy to restore profitability to agricultural production 2. consider the more active use of land taxes as an instrument to promote land-use intensification, the retirement of marginal lands from production, and a more efficient size structure among farming units 3. liberalize and clarify land tenure and agricultural property rights legislation to facilitate the shift of present land-use patterns to better and higher uses organized on the basis of more efficient farm unit sizes. Intensification of agricultural production, particularly as it will involve horticultural and fruit crops, may be best accomplished through smaller farm unit sizes than currently characterize either the Phase I agrarian reform or the traditional export sectors. 4. actively pursue development of irrigation potential making maximum possible use of private sector resources

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable
NOTES:

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POLICY CATEGORY: SECTORAL/TECHNOLOGY

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT					EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
			PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES		
1. Research, extension, and technical assist- ance/intrasectoral	to identify and propagate agril- cultural pro- duction, process- ing, and marketing technologies which are consistent with national de- velopment objectives	MAG through: CENTA ISTA	-1	-1	-1	-1	-1	<p>The research/extension and technical assistance (RETA) effort in El Salvador today is: under-funded, under-manned, and misdirected. While major emphasis has been placed on serving the agrarian reform sector, recent evaluation reports indicate that less than half of the Phase I coops and perhaps fewer than 20% of the Phase III beneficiaries received any assistance during the 1982/83 crop year. RETA efforts remain focussed on traditional export crops and basic grains. These are crops characterized by slow technical progress and slow demand growth. Obstacles to small farmer adoption of available technologies for these crops are mostly of a nature that must be resolved -- through interventions in other parts of the agricultural system (i.e., land security, credit, marketing); not through extension. The present Salvadoran RETA system does not do an adequate job in providing farmers with information and assistance with the new, high-potential agronomic opportunities that must be the primary source of future agricultural growth in El Salvador.</p>	<ol style="list-style-type: none"> 1. provide incentives/ remove obstacles to the development of more private sector capability in technical assistance for agriculture 2. focus GOES research efforts on: <ol style="list-style-type: none"> a) the cost-effective solution of specific high-priority problems in traditional agriculture such as coffee rust and environmentally acceptable pest management systems for cotton b) field trials and adaptation of cultivars suitable for intensive production c) extension efforts emphasizing these new cultivars, on-farm water management, handling, storage, and other on-farm processing techniques 3. provide the working conditions necessary to attract and retain high-quality technical personnel

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable

NOTES:

POLICY CATEGORY: SUBSECTORAL

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT					EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
			PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES		
1. producer price supports through direct purchases/basic grains	to maintain production incentives and farm incomes	IRA	?	?	0	0	-2	Due to both financial and storage capacity limitations, IRA is unable to purchase a large enough portion of domestic basic grain production to significantly alter average market prices, although individual producers may benefit from access to the IRA market. IRA's influence on producer prices is mainly significant in that it can alter total marketed supply through grain imports. Grain imports, however, work to reduce rather than increase average producer prices. IRA operating losses constitute a substantial continuing drain on the public treasury.	<ol style="list-style-type: none"> 1. study the possibility of transferring some or all of IRA's centralized storage capacity to producer co-operatives 2. study means to improve the efficiency of the existing private sector marketing system 3. focus public sector purchasing activities in those areas where remote access or other factors indicate a low degree of competition among private grain merchants
2. consumer price controls/basic grains	to maintain consumer prices at "reasonable" levels	Ministry of Economy, IRA	0	0	0	0	0	The Ministry of Economy publishes, and attempts to enforce, maximum retail prices for basic grains and a variety of other consumer goods. Effective enforcement is a near impossibility, however, and price controls are almost universally ignored.	<ol style="list-style-type: none"> 1. dismantle the price control system, replacing it with direct and specifically targetted consumer subsidies where these are warranted.

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable
 NOTES:

(Continued...)

ANNEX 2

SAMPLE SCOPE OF WORK FOR ANALYSIS OF AGRICULTURAL POLICIES WITHIN AN AGRICULTURAL SECTOR STUDY

The following sample scope of work has been developed as a guideline for use in planning for an agricultural sector study. It is based on an assumed level of effort of approximately six weeks, including analysis, drafting, and preparation of the final report. The scope of work should be revised to reflect specific policy areas of concern; mission programming needs, or a different level of effort than that indicated.

It is assumed that the overall scope of work for the study will include a description of the agricultural sector, its recent performance and future possibilities, and the effectiveness of government programming in support of agricultural development, such as research and extension. Consequently, these tasks are not addressed in the draft scope, although the agricultural economist(s) on the sector study team would normally be involved in these tasks as well.

Qualifications of Personnel

The analyst assigned to this task should be an agricultural economist with an advanced degree (Ph.D. preferred but not required) and at least five years' experience in developing countries, preferably in the region. S/he should have experience in analysis of pricing policy and be familiar with institutions and policies surrounding the marketing of agricultural products in developing countries. Familiarity with donor programming for agricultural development is desirable. Previous experience with analysis of agricultural policies at the sectoral level is also desirable, but not required. Strong quantitative and writing skills and competence in the local language at the 3/3 level are prerequisites.

Scope of Work

The analyst will prepare a description and analysis of the current set of macro-economic and micro-economic policies affecting the agricultural sector. Based on interviews with individuals in-country, review of available literature, and his/her own analysis of the situation, the analyst will prepare a report discussing:

- 1) the nature of current policy interventions affecting the pricing and marketing of agricultural inputs and outputs, including price controls, taxes and subsidies, and government involvement in the marketing of agricultural inputs and outputs;

- 2) the degree to which the current policy set is favorable or unfavorable to growth and development in the agricultural sector, measured by the deviations from relative and absolute international prices and other measures as appropriate, and the presence of policy-induced distortions in the sector;
- 3) the priorities for reform in agricultural policy, including the direction that reform should take and the need for further analysis, if any, to explore specific reform packages more fully;
- 4) the current set of procedures and institutions that set agricultural policy and the role of analysis in this process;
- 5) the institutional capacity of the Ministry of Agriculture, other ministries affecting policy in the agricultural sector, and non-government bodies to analyze sector policy issues and influence policy; and
- 6) the nature of mission action needed to improve agricultural policy, including policy dialogue and supporting analysis, project-related support of data collection and analysis, programming of funds to support specific policy changes, and other actions.

In addition to a review and interpretation of the situation in each of the above areas, the analyst will in particular complete the following analyses and present the results in the draft and final reports:

- 1) An analysis of farmer incentives for principal crops and other agricultural products (specify), based on a comparison of current farmgate prices to the equivalent international prices, correcting for exchange rate distortions and marketing costs between the farm and the main port or the point of consumption. The results of this analysis should include a full description of the derivation of border-equivalent farmgate prices, preferably in spreadsheet form, so that the mission is able to update it periodically. The report should give the ratio between actual and border-equivalent farm prices and, as resources permit, the information may also be expressed in the form of nominal or effective protection coefficients, domestic resource coefficients, and other analytic tools.
- 2) An analysis of consumer prices, parallel to that for farmgate prices, comparing current prices for important agricultural products in the principal market to their equivalents at the border prices,

corrected for marketing margins, etc. The results of this analysis should be presented as described above. As appropriate, the analysis should be extended to examine the incentive effect of government subsidy programs, such as fair price shops or "consumer cooperatives."

- 3) An analysis of farmgate and border-equivalent prices for one or more purchased inputs, using the same methodology outlined above. As data permit, the discussion of pricing policy for outputs and purchased inputs should include an interpretation of how existing distortions are likely to affect factor prices (especially the return to labor), the cropping pattern, adoption of input-using technologies, marketing behavior (versus on-farm consumption), and the overall returns to agriculture relative to alternative economic activities.
- 4) Case studies of one (or if possible two) recent policy changes (specify suggested changes), identifying the principal institutional and non-government actors involved, the issues raised during the decision process, and the role of analysis, if any. (This task may be assigned instead to the institutional analyst, if one is included in the team.)

(Note: It is highly desirable for the analyst to spend two or three days in Washington prior to arrival in country, to permit consultation with AID and World Bank personnel as well as review of documentation available at those institutions that may not be available in the field. This period can also be used to gather international price data, which is readily available in Washington from USDA or the Bank's commodity section, and sometimes difficult to obtain in the field.)

Reporting Requirements and Administrative Concerns

The analyst will report to the sector study team leader and will work under the overall jurisdiction of the AID Agricultural Officer.

The analyst will submit a draft report to the mission as part of the overall draft of the sector study. The draft should cover each of the topics outlined above and clearly state the findings of the analyst, including conclusions regarding priorities for policy reform and recommendations for AID and host-government action in this regard. The draft should be suitable for distribution outside of AID, but may include an annex or cover memo for more limited distribution. The draft should include preliminary calculations of price incentives as outlined above, and fully document how these were derived.

The analyst's final report should reflect mission and other comments on the draft and should be submitted for incorporation into the overall sector study prior to the analyst's departure from country. It should be in English but should include an executive summary in the local language. A framework for monitoring evolution of price incentives should be included in the final report, in a form suitable for use with computer spreadsheet programs available to the mission. Sources used in the study should be fully documented, including individuals contacted as well as other documentation consulted. The final report should present a recommended strategy for assistance in the policy area, including additional analysis, capacity building, and policy dialogue as appropriate, and should include adequate justification for the approach recommended.