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AGRICULTURAL POLICY
IN THE
CENTRAL AMERICAN/PANAMA REGION

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AGRICULTURAL POLICY IN THE CENTRAL AMERICAN/PANAMA REGION

SUMMARY

The nations that comprise the Central American/Panama (CAP) region are very different in resources, economic development, and approach to economic decisionmaking, but they face many of the same problems. Without exception, they depend heavily upon the agricultural sector and on exports for employment, income, and foreign exchange. In the area of foreign trade, each faces problems of finding and developing export markets.

To facilitate the identification and analysis of regional agricultural policy constraints, the Regional Office for Central American Programs (ROCAP) developed a project with the Interamerican Institute for Agriculture Cooperation (IICA) in 1981 to provide support for the Regional Council of Ministers of Agriculture (CORECA). The purpose of this study is to review the major current and future policy constraints facing the region and examine the potential roles of ROCAP and CORECA in addressing important policy issues.

A New Opportunity to Address Regional Policy Constraints

The study concludes that in spite of serious economic and social problems, a new regional spirit of optimism and cooperation is emerging based on the expectation of regionwide plans to end hostilities. The resumption of an effective Central American Common Market continues to be a high priority throughout the region. The Central American Vice Presidents meet regularly, often as a secretariat for periodic meetings of the five Presidents. The treaty to create the Central American Parliament now has been signed by all parties. Formerly, intergovernmental coordination was carried out by

ministries in only a few sections, but since the meeting of the five Central American Presidents in Esquipulas, Guatemala in May 1986, coordination now is carried out regularly in planning, tourism, and other fields.

In particular, the study concluded that:

- o All of the material reviewed and all of the officials interviewed concluded that agricultural policy constraints were major factors underlying the region's poor agricultural performance.
- o Agricultural policy constraints are also very important to the national macroeconomic concerns of each country, which in turn are critically important to agricultural and rural growth. However, these relationships are very poorly understood by both agricultural officials and those in other Ministries throughout the region.
- o Agricultural policy constraints are the focus of much of the policy dialogue, but there is very little capacity in the Ministries of Agriculture of the region to define systematically or analyze policy issues or options. In addition, efforts to strengthen the Ministries' capacity to conduct policy analysis have been limited.
- o Because the policy dialogue is critically important to the region, there is wide support for economic policy efforts. There is very little such work now, in spite of the importance of reducing policy constraints.

While there is concern in some quarters that the definition and analysis of policy constraints will dilute efforts on specific, practical projects to expand markets and improve production efficiency and productivity, there is general recognition of the importance of economic constraints such as export taxes and inappropriate commodity

pricing policies, the necessity to negotiate changes in these policies, and the potential benefit of practical, well-designed policy analyses.

In addition, there is general agreement that better tools to address policy constraints could have important benefits for agricultural sector performance.

In this context, CORECA continues to provide a forum for the region's Ministers of Agriculture to discuss common problems. In 1985, ROCAP ceased its support of CORECA, primarily because it appeared to be having little impact on policy decisions. However, in late 1986 new agreements between IICA and CORECA appear to reflect broad regional support for CORECA and to have strengthened its capacity to identify and focus on crucial regional problems.

Actions Needed, 1989-92

The study examined USAID policies and efforts underway throughout the region to modify policy constraints. It concluded that over the coming 5 years, increased efforts to define, evaluate, and reduce agricultural policy constraints will be crucial to regional economic growth and development. It observed the importance of the policy dialogue undertaken by the bilateral missions to negotiate reductions in economic policy constraints and concluded that progress in these negotiations would be supported by several factors:

- o Greater capacity of host governments to define and analyze policy constraints, alternatives, and options in order to facilitate agreement on steps that should be taken to reduce policy constraints.
- o A better developed regional perspective that supports definition and analysis of both national investment priorities and alternative

production and consumption incentive policies over the intermediate and longer term.

- o More specific data and information about the national economic sectors, about relevant policy constraints, and about existing and potential markets, market needs, product quality and health standards, transportation availability, schedules and costs, and other market information.

While ROCAP is not a part of the policy dialogue, it would appear to have very powerful leverage through the institutions it supports to provide or help provide much of the long-term effort to support the bilateral missions and host governments to make the policy dialogue more productive. Since ROCAP's network of institutions is already in place and at work in some of the areas of interest, ROCAP is in position to take advantage of its leverage to generate information and analysis to strengthen the policy dialogue throughout the region as well as to support direct efforts to define and modify regional policy constraints through CORECA.

- o Most officials interviewed agreed that 1988 is the strategically appropriate time for the development of a strong, intermediate-term agricultural policy project by ROCAP, and that CORECA and IICA are well positioned now to provide much of the institutional focus of the effort.

--There is a powerful surge of regional concern at this time, arising mainly from the Central American peace initiatives but also from the Central American Common Market, the current economic and financial pressure on intra-regional trade, and the belief that the worst of

the current economic crisis may be past and that cooperative regional growth may be possible once again.

--There is widespread recognition that macroeconomic policy issues are dominating the policy dialogue and that the Ministers of Agriculture are too little involved in this debate, in spite of its importance to them.

And, that major agricultural policy issues are not being fully addressed because there is so little capacity to define or analyze these important issues.

--There appears to be support for CORECA as an institution to help define, focus, and coordinate regional support for policy analysis and to work with IICA and others in the development of policy research and policy analysis.

--IICA has organized a major program area to undertake studies in the area of agricultural policy analysis, and almost certainly would be interested in actively cooperating in a future agricultural policy project. This willingness, plus the capacity to build on work now underway, would greatly strengthen ROCAP policy analysis efforts.

Recommendations

The study recommends that ROCAP design an effort to help identify, define, and appraise options to reduce selected agricultural policy constraints in the region. The activity would focus on several different classes of concerns:

- o Linkages between macroeconomic policy and agricultural investment and production.

- o Importance of agricultural development to national economic development and growth.
- o Common agricultural economic policy problems in the Central American region, e.g., basic grains policies, credit policies; self-sufficiency and export promotion policies, among others.
- o Regional economic problems, including impacts of production, marketing, transportation, or other subsidies, market information, production outlook and planning, or other, or regional external problems such as U.S. or EEC import policies, or others.
- o Alternatives to permit development of regional marketing infrastructures, such as markets, market information, grading, storage, warehouse facilities, or others, including monitoring of production, marketing, and policy decisions.

To facilitate this work, CORECA could assume several very important roles during the coming 5 years:

- o Identify regional policy constraints that could be referred to IICA or others for definition and evaluation.
- o Select among potential policy issues those of highest priority for definition and evaluation. In particular, decide among "regional" issues and "common" policy issues those that deserve the highest priority for definition and evaluation.
- o Design and implement organizational and management schemes to help Ministers of Agriculture conduct policy analysis necessary to permit them active roles in domestic debates on macroeconomic policy and on sector policies.

- o Undertake directly a limited number of policy analyses on selected immediate "regional" and "common" policy constraints.
- o Work with IICA and others to help design, conduct, and report research on policy issues needed to support the policy dialogue in Central America, especially with IICA efforts under the IICA Program I.

In support of such activities, the CORECA permanent secretariat would focus entirely on agricultural policy and would be organized accordingly. In addition, CORECA would need to look very carefully at the distinction between policy analyses, which are focused on decisions that must be made in the immediate future and which require as much economic information on the issue as can be developed in the time available, and policy research which focuses on economic facts and relationships between important factors. Both are critical, and in short supply, but the tendency is to focus resources on policy research and to ignore the analysis required to support the negotiation for conditionality actually underway in the policy dialogue. It would be important for CORECA resources to be focused carefully on policymakers' needs for analyses, while participating to a much smaller degree in policy research with IICA and others.

Finally, it would be important for CORECA to build on its support with the regions' Ministers of Agriculture and insure full access by Ministerial offices to resources required on a timely basis to actually support the Ministers in the policy dialogue and to avoid the management and organizational problems of the past and insure an organization that is not only competent and smoothly managed, but accessible to agricultural policymakers who need help, and flexible enough to deal with current and emerging problems.

AGRICULTURAL POLICY IN THE CENTRAL AMERICAN/PANAMA REGION

I. INTRODUCTION

The nations that comprise the Central American region are very different in resources, economic development, and approach to economic decisionmaking, but they face many of the same problems. Without exception, they depend heavily on exports and upon their agricultural sector for employment, income, and foreign exchange. In the area of foreign trade, they face problems in finding and developing export markets that are similar in their nature and in their intensity.

The Regional Office for Central American Programs (ROCAP) is concerned with development issues that extend across the entire region. ROCAP's central purpose is to support of the efforts of the several bilateral missions and to identify for special attention problems that affect several nations and which can be most efficiently and effectively dealt with on a regional basis.

To facilitate the identification and analysis of regional agricultural policy constraints, ROCAP developed a cooperative project with the Interamerican Institute for Agricultural Cooperation (IICA) in September 1981 to provide for a secretariat to support the Regional Council of Ministers of Agriculture (Consejo Regional Cooperacion Agricola--CORECA) from Central America and Panama (Ministers from the Dominican Republic and Mexico also participate). The project initially was to operate from September 30, 1981 to March 31, 1985, but was extended to December 31, 1985. It was the subject of several evaluations, including a study made during the final months of operation in 1985. While ROCAP participation in the project ended at that time, CORECA continues to operate.

Several factors have emerged over the past 2 years to suggest that ROCAP might again consider supporting CORECA in its present or a modified form. The purpose of this study is to review major agricultural development and policy constraints likely to face the region over the next 5 years and, in this context, examine the potential role of CORECA should ROCAP resume its support. (The scope of work for the study is in Appendix A.)

This study reviewed studies by USAID and others, and included interviews with policy officials and others in Costa Rica, Guatemala, El Salvador, and Honduras. A list of reports and studies reviewed is included as Appendix B, a list of regional institutions as Appendix C, and a list of persons interviewed as Appendix D. The study was conducted in October and November 1987.

While the economic and security tensions of recent years have greatly increased the difficulties of international cooperation throughout the region, its need is stronger than ever and the potential benefits even more attractive. The success of a Central American peace plan would provide strong impetus for greatly expanded cooperation. The resumption of an effective Central American Common Market continues to be a high priority throughout the region. The Central American Vice Presidents meet regularly, often as a secretariat for periodic meetings of the five Presidents. The treaty to create the Central American Parliament has now been signed by all parties. Formerly, intergovernmental coordination was carried out by Ministers in only a few sectors (e.g., health, finance, agriculture) but since the first meeting of the five Central American Presidents in Esquipulas, Guatemala in May 1986, coordination now is carried out regularly in planning, tourism, and other fields.

Overall, it appears that a new regional spirit of optimism and cooperation is emerging based on the expectation of regionwide plans to end hostilities. To an important degree, cooperation on this most essential issue is necessary to support significant expansion of other cooperative efforts. The strong possibility of imminent success in this area suggests the need to explore numerous concepts for regional approaches to greater economic integration and more rapid overall development. This then raises the question of whether ROCAP should once again support regionwide efforts to facilitate agricultural policy, and if so, whether it should again support CORECA. Since ROCAP is preparing a Regional Development Strategy Statement late in 1987 to help guide its activities over the next several years, this appears an opportune time to examine ROCAP's role in regional agricultural policy.

CORECA

The Ministers of Agriculture of the region have long recognized that they face a number of common problems. For many years they organized regional efforts to deal with specific problems such as animal health but have lacked the means to design and deal with common agricultural policy constraints. In response to that perception, CORECA was organized to help Ministers of Agriculture from Central America and Panama promote increased production and inter-regional trade, and to stimulate agricultural development. The unit has three main functions:

- o to foster cooperation and coordination among the Ministers of Agriculture representing the Central American countries, Panama, and the Dominican Republic. As a permanent regional organization, it facilitates discussion, policy review, and decisionmaking by the Ministers with respect to policies, plans, and programs which

influence the growth and progress of regional agricultural production, trade and exports, and rural employment;

- o to initiate and coordinate regionwide research and analysis necessary to develop policy options and recommendations on matters considered important to increased production, intra-regional trade, and rural development. It was acknowledged that some of the studies could evolve into pre-feasibility and/or feasibility studies for project funding and implementation; and
- o to establish and operate a mechanism for the exchange of agricultural information and data, experts, and technical assistance among participating countries.

CORECA now has three main parts and a permanent secretariat:

- o the Ministerial Board (Regional Council for Agricultural Cooperation, RCAC) consisting of the Ministers of Agriculture from each country;
- o an Executive Committee consisting of the Vice Ministers of Agriculture from each country; and
- o an advisory group, the Technical Coordinating Committee (TCC), consisting of the Directors of the National Agricultural Planning Units (NAPUs) of each country.

In addition, CORECA is supported by a technical staff, the Technical Secretariat (TS). IICA personnel provides some support to the TS, which also relies on NAPUs to support activities in each country. The TS now consists of three persons: a director, coordinator of technical programs, and a general coordinator. None of the three is an economist.

CORECA originally consisted of the Ministerial Board, the TCC, and the TS. In 1983, the Executive Committee was added in order to provide a more

orderly review and implementation process to design and manage CORECA activities.

The TS was organized in two staff units, the Research and Analysis Unit (RAU), which undertakes or contracts studies intended to provide the basis for policy recommendations to the RCAC, and the Regional Technical Coordination Unit (RTCUC), which was to serve as a center for receiving requests for technical assistance that could be filled by available experts within the region. The RAU was supported by a special fund of \$350,000 plus \$150,000 for data and data management.¹ The RTCUC was supported by \$150,000 for travel and per diem for experts and \$70,000 for contracting expertise not available from regional public sector institutions.

ROCAP organized and implemented the effort to support CORECA in September 1981. While its life was extended several times through December 1985, it has not been funded by ROCAP since that time. Nevertheless, CORECA has continued to operate, supported primarily by IICA which provides direct support for CORECA offices and technical assistance for CORECA projects.

The 1981 ROCAP Project

In its initial organization, the ROCAP project anticipated that the Agricultural Secretariat would carry out five responsibilities:²

- o define major agricultural development problems and opportunities facing the region over the next 5-20 years;

¹ Checchi and Company, Evaluation of the Agricultural Secretariat, Project No. 596-0094, Draft--Subject to Revision, prepared for ROCAP, USAID, Guatemala City, Guatemala, November 1985.

² Ibid.

- o identify and analyze short and long-term policy planning, program, and investment options;
- c address intra-regional trade-related issues (tariffs, import/export restrictions, pricing and interest rate policies, and national self-sufficiency policies within the region) and recommend practical, politically acceptable mechanisms for promoting increased agricultural trade;
- c establish a mechanism for facilitating exchange of technical expertise and information within a regionally coordinated framework; and
- o stimulate rural employment and increased small farmer income through the coordination of efforts of national and regional institutions.

The final (1985) ROCAP evaluation reported that the several units that were to constitute CORECA had been established and staffed and their governing regulations approved by all participating countries. The RCAC was meeting at least twice yearly, while the TCC met even more frequently.³ The number of requests for technical assistance to public agencies, initially projected to average 20 annually, was 11 in 1983, 18 in 1984, and 50 in 1985. In addition, the RTCU prepared a large number of papers and studies (10 in 1985, 36 in 1984, and 28 in 1981) that were judged by the evaluation team to be somewhat narrower in focus than had been planned, perhaps more nearly agricultural sector studies than overall studies of agricultural policy and were faulted because they contained repetitive elements. However, they were found to be well done, informative, and of good to excellent quality.

³ Ibid.

Nevertheless, the Agricultural Secretariat was found not to have lived up to ROCAP's expectations, primarily because the reviewers could not identify policy decisions affecting the region or individual countries that had their origin in CORECA, nor could they identify increases in production, trade, or development that could be traced to CORECA's work. While project coordination was hampered by continuing management and administrative problems and most ministers had not made the token payments required by the project agreement, the project's levels of accomplishment were either satisfactory or partially fulfilled in each of the eight areas evaluated.

CORECA Since 1985

Since 1985, CORECA has operated without direct ROCAP support, relying primarily on assistance from IICA. In October 1986, an agreement between the Ministers of Agriculture of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama; the Secretary of Agriculture and Water Resources of Mexico; the Secretary of Agriculture of the Dominican Republic; and IICA continued the basic support of CORECA.⁴

IICA designates a member of its professional staff to function as a Secretary of Coordination for CORECA and who is provided the necessary office space and secretarial support. Within IICA, the Director of Operations for the Central Area is designated as the permanent liaison with CORECA, and IICA is to support generally the preparation of cooperative projects for presentation to the Executive Committee and the Council of Ministers. Specifically, IICA agrees to provide the equivalent of 12 person-months of

⁴ IICA, Consejo Regional de Cooperacion Agricola de Centroamerica, Informe de la II Reunion Extraordinaria Del Consejo De Ministros de Agricultura (Acuerdo de Cooperacion Tecnica), Mexico, Panama y Republica Dominicana, October 1986.

support from its policy analysis program in support of CORECA projects to: analyze and evaluate models and alternative strategies of agricultural development; develop analytic capacity to define and develop adequate agricultural policies; and strengthen and implement institutional systems of planning and agricultural policy.

In addition to the policy analysis support, El Centro de Proyectos de Inversion (CEPI) agrees to provide the equivalent of 12 person-months consulting to support project development. Also, El Servicio Informatica agrees to support CORECA with the equivalent of 6 person-months in the development of information systems and structures and computations. To promote coordination between CORECA and IICA, the Secretary of Coordination is to meet at least monthly with the Subdirector General and Director of Operations for the Central Area of IICA and to prepare minutes of these meetings which will be available to the President of CORECA and the Director General of IICA. The Executive Committee of CORECA will be informed of the results of the meetings.

CORECA now plans to submit annual budgets by December 31 of each for consideration and approval by the Council of Ministers. The signatory countries agree to pay the equivalent of \$20,000 per year in support of CORECA.

As it reviews and prepares its overall plans for the next several years, ROCAP is examining what might be its most appropriate role in regional policy development. This includes examining the question of whether ROCAP should once again consider supporting CORECA. To support the examination of both questions, the following sections treat the economic context in Central America including the region's primary problems and constraints to development, followed by a brief discussion of USAID and ROCAP policy analysis project efforts and recommendations concerning future efforts in support of CORECA's regional policy activities.

II. THE ECONOMIC CONTEXT IN CENTRAL AMERICA

Economic policy constraints, including agricultural economic policies, are severely limiting economic growth and development in Central America and are central to much of the policy dialogue. As the economic pressures on the region have grown, and efforts to base development on private sector investment have become more important, economic policy constraints have become both more important and more difficult to deal with.

The economies of the Central American region have been under severe pressures since the early 1980s. Each nation faces a rapidly growing population, relatively low labor productivity with high concentrations in the agricultural sector, stagnant markets for traditional export crops, and low and declining food production and income per person.

Throughout the region, two major constraints preclude more rapid economic growth:

- o a high percentage of domestic savings is transferred abroad, thus limiting investment possibilities; and
- o little foreign currency is available to keep imports at levels consistent with suitable growth rates.

This convergence of highly negative external factors, added to the domestic problems inherent to these economies brought about a serious deterioration of economic and social conditions in the region during 1982-86, a situation that has persisted into 1987.

For example, the chief economic and social indicators for the 1982-86 period show that the situation worsened during the period.

- o Gross domestic product (GDP) growth fell from 5 percent per year to zero or below, thus ending a sustained trend which had lasted 20 years.
- o Per capita GDP in 1986 was no higher than it was 10 years earlier, after growing more than 2 percent annually over the 2 preceding decades.
- o During the last 5 years, investment levels relative to GDP have dropped below those of the 1960s, thus jeopardizing future growth potential.
- o Average inflation over the 5 years has been 3 to 7 times greater than in the 1960s and 1970s.
- o Recession and inflation have reduced both employment and real wages, and increased the number of people below the poverty line.
- o Because of the drop in GDP, fiscal pressures have increased, and little progress has been made in reducing fiscal deficits. Taxes on foreign trade continue to provide over 20 percent of all tax revenue. The fiscal situation seriously limits possibilities for reactivating the economy through expenditures and public investment.
- o Service of external debts and the deterioration of the terms of trade have had negative impacts on the balance of payments, even in countries that recently succeeded in improving trade balances.

Table 1. Central America and Panama: Selected Economic Trends

Country	Population Rate			Export Trade			GDP Per Capita		
	1980	1986	Annual Change	1980	1986	Annual Change	1980	1986	Annual Change
	(mil)		(%)	(mil dol)		(%)	(dol)		(%)
Costa Rica	2.25	2.49 ^{1/}	2.05	1,002	1,125	1.95	2,044	1,777	-2.31
El Salvador	4.51	4.91	1.43	1,074	338 ^{1/}	-20.60	780	792 ^{1/}	0.25
Honduras	3.69	4.37	3.44	850	780	-1.70	652	788	3.20
Guatemala	6.92	8.19	2.85	1,557	424	-19.49	1,128	748	-6.62
Panama	1.90	2.23	2.71	360	335 ^{1/}	-1.43	1,815	2,217 ^{1/}	4.08

^{1/} 1985.

Source: World Bank.

The region's preeminent problem continues to be the lack of stability, and efforts to implement a peace plan have received worldwide attention. However, the region's needs are global, beginning with security and political stability, and including industrial growth and job creation, improved agricultural productivity, expanded intra-regional and inter-regional trade, improved nutrition and health, and environmental protection. It continues to be in the interest of the United States to support development in the region, and the design and development of policy initiatives to facilitate that development.

Because the agricultural sector is vital to each of the region's countries, agricultural policy constraints are increasingly important to recovery and growth. In this context, USAID is attempting to focus its strategy especially on those critical economic areas that can significantly enhance the policy dialogue throughout the region.

USAID's Strategy and Goals

USAID's strategy for addressing the Central American region's development constraints is based on the Central American Initiative and focuses on achievement of four broad goals: (1) short-term economic stabilization, (2) basic structural reforms which permit rapid and sustained economic growth, (3) a wider sharing of the benefits of growth, and (4) the strengthening of democratic institutions and respect for human rights. The strategy is heavily targeted toward needs of lower income groups and emphasizes productive employment opportunities as well as greater access to health care, education, and social services and depends on the private sector as the main engine of development. It also seeks, through policy dialogue, to improve the role of the public sector by encouraging reforms which increase economic and political

freedoms, as well as management improvements which reduce the costs of public services. USAID stresses the importance of institution building and training in the development process, and strives to apply advances in science and technology to all its programs.

Stabilization. Economic stabilization, primarily reducing fiscal and balance-of-payments deficits and bringing inflationary pressures under control, is an essential requirement for private-investment-led growth. USAID encourages and underwrites stabilization efforts through programs supported by Economic Support Fund (ESF) resources, both to cushion temporary declines in economic activity and facilitate the adoption of reforms needed to stimulate economic recovery. A key objective of stabilization assistance is that countries be able to manage their external sectors on a current basis.

Long-Term Growth. Structural reforms are important to rapid and sustained economic growth. This strategy depends largely on reorienting development strategies away from import substitution and toward exports to non-regional markets. This reorientation is designed to result not only in faster economic growth over the long run, but also in job creation and a more equitable pattern of growth by encouraging labor-intensive patterns of development.

Spreading the Benefits of Growth. Export-oriented growth strategies promote more equitable development through job creation, encouragement of small businesses, and the generation of revenues needed to extend the coverage of health, education, and other social services. Coverage also is extended through more efficient operation of public services and the use of cost-recovery measures, both of which are particularly important in countries where real budgetary resources have fallen because of the economic crisis.

Democratic Institutions and Human Rights. Economic growth most benefits the citizens of the region and supports U.S. interests there if it occurs in an environment in which governments permit their people to participate freely in local and national political processes; to form labor unions, cooperatives, and other voluntary organizations; and to have recourse to a judicial system that will administer justice fairly and speedily.

While the policy dialogue focuses on the critical short-run issues of political and economic stability, it must also include the increasingly pressing issues that constrain development in the economic sectors and limit quality of life in the countryside. A sound agricultural policy is fundamental to such growth and development, but agricultural policy constraints have received little attention in the past.

Role of Agricultural Policy

Agricultural policies define the efforts governments make to stabilize and enhance agricultural investment, productivity, production, and income. In general, agricultural economic policies fall into one of two types: market interventions to increase investment and production incentives and stabilize prices and incomes; or, the allocation of direct investments by the government. Thus, market intervention policies such as basic grain pricing policies or taxation policies directly affect basic grain prices, production, and consumption (among other things). Government decisions to invest directly in irrigation projects, for example, rather than in research in genetics or improved management techniques affect production costs and, over the longer term, also affect production and consumption. Both types of policies have powerful impacts on the availability, quality, and price of basic goods, and are important to economic growth and social stability throughout the region.

Agricultural policies are primarily important because they affect food availability and cost, the largest family expenditure. Food prices are a primary determinant of real income levels and of personal disposable income for other consumer goods. As a result, they have major impacts on consumer demand, national economic activity, and, over the long term, economic growth. Agricultural stability, growth, and productivity are basic to support economic investment in general and to the capital development necessary to underwrite increased equity and broad participation in national development and growth.

While agricultural policy has long been an important element of the policy dialogue, its importance has grown very significantly with the region's increased reliance on private investment-led development. Private investors, by their nature, are extremely sensitive to the outlook for prices and costs and coherent agricultural economic policies are critical to both. Thus, the growing importance of private investment has brought a new and growing appreciation throughout the region of the basic importance of economic policy to agriculture.

The following section examines the major constraints to increasing agricultural production in four major countries of the region: Guatemala, Costa Rica, Honduras, and El Salvador.

III. POLICY PROBLEMS/CONSTRAINTS

Despite the importance of agriculture as the primary economic base across most of the region, its performance has been keenly disappointing, especially relative to its potential. Considerable efforts have been made to identify the constraints to more rapid growth and a greater contribution by the sector to overall economic progress. The results of these efforts are reported in various reports and documents of the bilateral missions and ROCAP. (An illustrative listing of reports is included in the list of "references" in Appendix B.)

The analyses reviewed generally identify constraints and classify them in order by importance. They commonly conclude that policy constraints are among the most limiting. A recent report prepared for ROCAP examined the entire region and grouped constraints into three broad categories: structure, policy, and operational.⁵ It defined policy constraints as "...those which result from either counterproductive impacts of poorly designed policy instruments or negative side effects of policies directed towards other objectives."

Among the most frequently identified policy constraints are:

o Agricultural Pricing Policies

Pricing policies in Central America have developed to stabilize supply and prices, and to curb practices of intermediaries. They frequently have unanticipated impacts because they distort incentives. For example, subsidies designed to substitute domestic production for imports, save foreign exchange, and increase food security often are

⁵ Coopers & Lybrand, An Agricultural Strategy for the Regional Office for Central America and Panama (ROCAP), undated.

costly, encourage high-cost production, distort investment, and lead to overproduction. Consumer subsidies, when they control basic grain prices and reduce producer prices, may constrain supplies. Marketing boards can incur large losses if they attempt to maintain producer prices in the face of consumer price controls.

--Commercial Role of Public Sector Agencies

Sectoral ministries and other agencies continue to play major roles in the price regulation and trade of agricultural products and inputs. In most Central American countries, government agencies buy farm products, sell inputs, and operate retail food outlets in order to enforce price controls. The objective is to correct a perceived defect in the market mechanism. However, the prices used often do not reflect real supply and demand conditions. They cause rigidities and distortions in the market, as well as public sector deficits.

o Macroeconomic Policies

--Exchange Rates

Most Central American economies depend on imports for nearly all technical inputs. Overvalued currencies or prices regulated to hold down production costs promote contraband trade while unified exchange rates can raise production costs and result in growth in export crop production.

In many cases, price and exchange regulations stimulate production of basic crops while unified exchange rates stimulate production of export crops. Such conflicts are difficult if not impossible to resolve within agriculture.

--Import Substitution Versus Export Promotion

Import substitution policies in the form of protective tariffs and producer subsidies have been used to increase local production of formerly imported poultry, vegetables, and grains. While these programs often succeed in increasing production, the producer subsidies and high consumer prices may more than offset the savings in foreign exchange.

Import limits and export promotion are not necessarily inconsistent, but must be applied rationally. Crops which are logically promoted for export need different kinds of land and are produced by different farmers. However, import substitution can severely distort investment choices and be ineffective and costly.

--Promotion of Non-Traditional Versus Traditional Exports

USAID encourages governments to concentrate on the production for export of non-traditional crops. The emphasis is justified by the need to increase export earnings, the projected poor global demand for traditional export crops, and the high potential income and employment from tropical and seasonal exports of fruits, vegetables, and ornamentals.

The benefits of export diversification are clear. However, these markets are highly competitive and the products perishable. Emphasis on non-traditional export crops may ignore the potential for increased productivity and greater production of traditional export crops. Better use of known technology could significantly improve the national competitive edge, despite expected continued low prices.

o Constraints From Allocation Policies

--Overemphasis on non-agricultural production, including policies that explicitly or implicitly favor investment in non-agricultural sectors at the expense of agriculture. The implications of this bias are increasingly well known, but the tendency continues to be widespread.

--Inadequate investment in human resources and production technology. Education in rural areas is inadequate. The problem extends to professional and sub-professional manpower training as well as basic education. As a result, primary education, especially in rural areas, is an area of continuing need and, potentially, one of the most effective investments.

Similarly, low productivity in Central American agriculture is well known. However, developing, transmitting, and incorporating productive technology is extremely difficult. Despite several successful programs, the constraint continues to be fundamentally important.

o Agricultural Taxation

Land and income taxes, considered to be the most equitable forms of taxation, have never been widely used in Latin America because they are difficult to collect. Instead, exporters of traditional commodities bear disproportionate tax burdens, which in some cases are restraining productivity and leading to decapitalization.

A particularly onerous combination of taxation policies occurs when multiple exchange rates are used. Export producers often face explicit or implicit taxes when export dollar receipts are paid in

local currency equivalents at low government-controlled exchange rates, while inputs and other costs must be paid at higher free or parallel market exchange rates.

o Agricultural Credit

Agricultural credit availability and credit policies vary considerably among countries and among commodities and classes of borrowers. Small farmers who produce basic food crops frequently are not considered creditworthy by the commercial banking system. As a result, they pay high rates in the informal system or are serviced by public development banks whose eligibility and subsidization policies lead to their frequent decapitalization.

Interest rates for agricultural credit at competitive levels may expand the pool of available credit. Nevertheless, the requirements of the lucrative (and probably more secure) markets for commercial and consumer credit can make it difficult to meet agricultural sector requirements even with unregulated commercial private interest rates.

c Trade Documentation Policies and Procedures

Import and export permits and associated procedures are a deterrent to export expansion throughout the region, especially for highly perishable non-traditional products. In some cases, import permits used to force import substitution have prevented competition in agricultural commodities and protected high-cost domestic agriculture. Sudden changes in procedures or limits increase the commercial risk of trade, particularly in perishable products.

IV. ACTIONS BEING TAKEN TO ADDRESS POLICY CONSTRAINTS

Each Mission approaches agricultural policy constraints on at least two levels. The first and most immediate involves the policy dialogue; the definition of "conditions" associated with loan and grant activities supported by the U.S. Mission and host government officials and private groups.

A second level involves formal projects that identify and define particular policy constraints and efforts to modify them. Important as the formal projects are, the immediate considerations of short-term problems play extremely critical roles in shaping the dialogue and defining and negotiating program conditionality.

USAID provided loan and grant assistance for the Central American region of \$998 million in 1987, with more than \$615 million in economic support funds; \$97 million for agriculture, rural development, and nutrition; \$51 million for education and human resource development; and \$234 million for other development activities and programs. In connection with the transfer of these funds and the development of the projects, a broad range of highly specific concerns was identified. In policy dialogues between U.S. and host government representatives, very specific recommendations were made for modifying policy constraints, together with the priority of these recommendations.

The conditionality requirements and recommendations made by U.S. representatives are based on the action plan and the country development strategy, which are in turn, based on the USAID strategy and the Mission's understanding of current effective development constraints and alternatives. In most cases, there is considerable information available about country and regional macrosocial and macroeconomic trends but only very sketchy

information about the fundamental economic relationships that are essential to guide efforts to change specific policy constraints, especially those concerning agriculture.

The discussions with USAID and other officials in the Central American region indicated acute awareness and serious concern regarding five separate aspects of policy constraints. The first is a lack of basic information. While most of the policy constraints mentioned above are well known to policy officials, they are not adequately measured. Production or consumption responses to price and income changes are frequently not known, for example. Nevertheless, officials must negotiate important grant and loan conditions that assume producer and consumer responses to price and income changes.

The second is the difficulty of focusing negotiations on important long-term agricultural policy constraints when immediate concerns such as economic and political instability and violence may be much better defined and thereby dominate discussions. The third is the difficulty of dealing with the persistent urban bias that pervades many of the regions' policymakers, and their lack of appreciation of the importance of agricultural and food policies in economic development. Fourth is the risk and difficulty of dealing separately on a national basis with regionwide constraints. And, fifth is the limitation imposed by the lack of national capacity to systematically design and evaluate impacts of alternative policy constraints and policies.

These concerns, taken together, appear to be leading to three kinds of actions focused specifically on policy constraints. First, USAID/Washington is increasingly conscious of the negative impact of certain classes of policy constraints and appears to be working to emphasize them in the policy dialogue. Rigid monetary policies that lead to overvalued currencies is an

example, as are policies of self-sufficiency in basic crops and those that impose penalties on traditional export crop production. In response, the Missions are concerned with the description of such constraints and with attempts to describe and measure their impacts.

Second, there appears to be an increased level of interest in policy constraints on the part of IICA and other regional institutions, including the Central American Institute for Business Administration (INCAE). Regional policy analysis is one of five major program areas defined by IICA, and it proposes to spend about 16 percent of its quota funds on policy analysis in 1988, 9 percent of total funds available (Table 2).

Table 2. IICA: Distribution of Resources by Programs in 1988 and 1989 (\$1,000)

Program	1988		1989	
	(\$)	(%)	(\$)	(%)
I Agricultural Policy Analysis and Planning	1,938.8	8.7	1,774.1	9.0
II Technology Generation and Transfer	9,358.3	41.8	9,015.0	45.6
III Organization and Management for Rural Development	7,432.4	33.2	5,420.2	27.4
IV Marketing and Agroindustry	1,676.8	7.5	1,571.1	8.0
V Animal Health and Plant Protection	1,977.5	8.8	1,979.4	10.0
TOTAL	22,383.8	100.0	19,759.8	100.0

Source: IICA, Proposed Program Budget, 1988-1989, presented at the fourth regular meeting, Ottawa, Canada, August-September 1987.

IICA is focusing its policy analysis projects in several broad areas, including evaluations of policies governments in the region use to allocate

investment funds and policies used to provide incentives for production, consumption, investment, and growth. IICA faces the general problem that there is more interest among its cooperators in allocation policies than in incentive policies, in spite of the enormous importance incentive policies have in stimulating and guiding private sector based economic growth and development.

In the case of INCAE, it has been primarily concerned with business management problems and the training of managers, but now is increasingly concerned with economic policy issues and the design and development of improved economic policies. Other regional institutions such as FAO and the World Bank were not interviewed in the course of this study but were reported to be interested in the support of increased effort in the field of economic policy in Central America.

The third kind of effort includes routine actions undertaken by Missions in the management of development projects. The USAID Missions tend to focus most directly on the organization and direction of development projects, but they indirectly address policy constraints in two ways. The first is through projects on policy or which support policy analysis capacity in the Ministry, as in the case of Honduras. The second is in the routine evaluations of project effectiveness in which reasons for project success or failure permit the identification of real and immediate impacts of policy constraints.

Following are very brief summaries of actions being taken to address policy constraints by four bilateral Missions.

USAID/Honduras

Of the \$112 million USAID expenditures in Honduras in FY 1986, 62 percent were economic support funds. Most of the balance was spent for agriculture, rural development, and nutrition (\$22 million).

In Honduras, special efforts have been made to strengthen the capacity of the Ministry of Natural Resources (MNR) to conduct policy analysis. Through annual grants, about seven analysts are added to the staff of the MNR for policy analysis purposes.

USAID/H is now implementing a new policy project which has a small agricultural policy component. The project would be implemented by the Ministries of Finance and Hacienda. However, it would permit an expansion of support for MNR policy analysis, and is expected to lead to development of a future project on agricultural policies and their impact.

USAID/Guatemala

In FY 1986, 80 percent of the \$60 million USAID program was accounted for by ESF funds, with nearly one-half of the remainder devoted to agriculture.

USAID/G has ongoing efforts to increase and strengthen the policy dialogue between the public and private sectors, and it is facilitating a more positive role for the private sector by helping it develop the capacity for the preparation of credible studies and analysis, reports, and proposals.

A large agricultural sector program is now under serious consideration in Guatemala in which policy conditionality and the analyses necessary to define and measure both policy goals and progress toward goals would be an important component. This sector program might be designed for early 1989 implementation.

Other policy related activities are planned, such as a review of basic grains pricing and marketing policy as part of an ongoing Agricultural Task Force Followup program.

USAID/Costa Rica

The USAID/Costa Rican program expenditures were \$119 million in FY 1986, also primarily ESF funds (78 percent) and agriculture/rural development (12.5 percent).

In Costa Rica, the program focus is on the support of export-led growth and depends heavily, but not exclusively, on investment in non-traditional export areas. The Mission, together with the Costa Rican government, has been working to identify and modify policy constraints to investment in the agricultural export sector, and in laying the basis for longer-term economic growth. Constraints that are limiting foreign investment in Costa Rica are of particular interest, but the Mission also has been working closely with the domestic financial sector to help it organize to provide financial support for new and expanded project activities.

In Costa Rica, the potential for broad-scale increases in agriculture is thought to be especially strong. The industry is attempting to develop markets, reduce costs, and increase productivity. Thus, the Mission is concentrating on identifying and removing constraints to investment and growth throughout the industry, and on helping the government design new economic and financial policies to support investment and market expansion. Because of the project commitment to export expansion, efforts to remove agricultural policy constraints likely will continue to be focused in this area.

USAID/El Salvador

The USAID program expenditures in El Salvador are the largest in the region and accounted for more than 40 percent of the effort in the five countries described in Table 3. Again, the bulk of the effort was in ESF funds (84 percent), while agriculture/rural development efforts accounted for just over 5 percent of the total.

**Table 3. Importance of USAID Project Areas for
Four Central American Countries Plus Panama and ROCAP, FY 1986**

Project Title	El Salvador	Costa Rica	Guatemala	Honduras	Panama	ROCAP	Total
	-- percent --						
Agriculture, Rural Development, & Nutrition	5.3	12.5	8.6	19.5	52.4	11.1	11.8
Population Planning	0.6	0.6	2.6	2.2	0.3	0	1.1
Health	4.5	2.2	1.9	6.9	0	4.1	4.0
Child Survival Fund	0	0	0	0	0	0	0
Education & Human Resources	0.9	0.7	2.9	7.2	2.8	2.6	2.5
Selected Development Activities	4.5	5.7	4.0	1.5	12.0	6.3	4.5
Economic Support Fund	84.2	78.3	80.0	62.6	32.6	75.9	76.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: USAID, Congressional Presentation, Fiscal Year 1988, Annex III: Latin America and the Caribbean.

The dominant consideration in El Salvador continues to be its internal hostilities and the impact they are having on the nation's economy and on its outlook. The uncertain political climate has reduced both external and internal investment in the agricultural sector, at the same time the government's need for funds has grown. The result has been even greater policy constraints in the form of export taxes and pricing policies. The

Mission is concentrating on negotiating with the government for the modification of these constraints.

While current efforts to address policy constraints are primarily focused on conditionality, the Mission has completed a systematic inventory of policies affecting agriculture.⁶ This broad review of macroeconomic and sectoral policies and investment programs underway and planned identified government interventions and indicated the principal area of policy impacts.

Like its neighbors, El Salvador is focusing much of its development effort on export-led private sector exports, with the expectation that production growth will be heavily in the area of non-traditional export crops. Both the host government and USAID/El Salvador are aware of many of the problems current policy constraints hold for investment in export production. The policy dialogue is focusing on these areas as much as possible under the current difficult circumstances.

USAID/ROCAP

The Regional Office for Central American Programs (ROCAP) was organized in 1962 by agreement between the United States and the Organization of Central American States (ODECA) to finance and promote activities which further regional cooperation and economic integration in Central America. It is accredited by formal agreements to the governments of Guatemala, El Salvador, Honduras, Costa Rica, and Nicaragua.⁷ It designs and manages USAID projects with expenditures of \$43 million in FY 1986, mostly for ESF projects (76 percent) and agriculture/rural development (11 percent).

⁶ Robert R. Nathan Associates, Inc., An Inventory of Policies Affecting Agriculture in El Salvador, prepared for USAID/RDO, El Salvador, August 1984.

⁷ USAID/ROCAP, USAID: Background, Strategy, and Programs, undated.

Unlike the bilateral missions, ROCAF is not a part of the policy dialogue within the countries, but because of the substantial support ROCAF provides to a network of institutions, it is able to negotiate conditionality to influence the policies and activities of these institutions. The network of regional institutions includes:

- o Central American Bank for Economic Integration (CABEI) in Tegucigalpa, Honduras;
- o Latin American Agribusiness Development Corporation (LAAD) in Guatemala City;
- o Latin American Export Bank (BLADEX) in Panama City;
- o Nutrition Institute for Central America and Panama (INCAP) in Guatemala City;
- o Tropical Agricultural Center for Research and Education (CATIE) in Turrialba, Costa Rica;
- o Inter-American Institute for Agricultural Cooperation (IICA) in San Jose, Costa Rica;
- o Central American Institute for Business Administration (INCAE) in San Jose, Costa Rica;
- o Central American Institute for Industrial Research and Technology (ICAITI) in Guatemala City; and
- o Secretariat for Central American Integration (SIECA) in Guatemala City.

In the area of economic policy, CABEI, LAAD, and BLADEX are of major significance throughout the region.

In addition, ROCAP is cooperating with IICA and INCAE to focus the efforts of these institutions more directly on the identification and modification of regional and national economic policy constraints.

CORECA

CORECA officials point out that their institution has been in a period of transition and now is in a position to play a more strategic role in identifying and modifying policy constraints throughout the region. At the time of its organization, CORECA was given a visible and central role in defining and recommending policy changes, coordinating essential technical assistance, and providing analytical support for decisions in member countries. In retrospect, it appears that during the extreme economic difficulties of the period, the role for regional cooperation by agricultural Ministers was smaller than anticipated relative to national problems and issues, and the management and organization of CORECA was not always well suited to deal with regional needs.

CORECA now has been reorganized and reoriented toward a more strategic and more practical role. It intends to be highly selective in its activities so that the Council of Ministers can focus on policy issues in more detail. In part, the reorganization was made necessary by the end of ROCAP support and the need to rely more heavily on IICA. However, it also came from concerns on the part of the Ministers that their attention was being diluted by attempts to deal with too many issues in too broad a context.

As a result, policy constraints continue to be of very high priority to CORECA. In particular, IICA studies (Program I) that evaluate the criteria used to develop priorities for national investment throughout the region and which potentially could be used to develop national investment priorities and

thus facilitate planning are of interest. CORECA is also considering efforts to evaluate how well policies work that intervene in markets to change production incentives. Finally, CORECA is discussing the determination and evaluation of potential regionwide policies to support trade and the infrastructure for trade, and how these might be designed and implemented.

V. ACTIONS NEEDED: 1989-92A Potential Regional Policy Focus

Agricultural performance continues poor throughout the region, with the sector contributing far less than its potential to economic development. While there are many constraints to agricultural growth and development, nearly all observers agree that macroeconomic and sectoral economic policies are among the most important. In spite of the considerable agreement on what many of the constraints are, there is much less accord on what could or should be done to change the policies. An evaluation of the policies in place, their impacts, and alternatives for change would seem to be not only feasible but extremely important.

At least two important distinctions about policy should be made when viewing it from the perspective of the entire region and especially when considering ROCAP's role. One is the commonality of policy constraints and issues among the countries of the region. For historic, cultural, climatological, and economic reasons, many policies have common roots. Those found in one area frequently are common to most or all countries in the region. The approach to basic grains pricing policy is an example.

The other distinction concerns regional policy problems that emanate from outside. An example would be a trade barrier, say the U.S. sugar policy or a restriction on the market for a particular non-traditional export that is produced by all the countries.

These distinctions become important when considering what might be the most effective ways to address policy constraints. Common action, perhaps through CORECA or a similar organization, could be more appropriate to address trade problems than duplicate efforts by each country or only partial efforts.

Likewise, with stronger analytical information, Ministers' efforts to change policies likely would be more effective through a unified front than by individual actions.

Several of the region's major policy constraints are in this category--trade barriers (both among the countries of the region and to extra-regional markets), access to markets, transportation, and market development are but a few. There are others. For this type of problem, a very strong case can be made for a regionwide approach, and for strong analytical support provided by a technical staff such as from CORECA.

The question remains how the "common" policy problems--those that are a constraint in several countries but really require national action--are to be addressed. Should these be left to the bilateral missions to provide assistance; to the national government to address individually; or should a regional approach be developed?

Concerns similar to these led to the organization of CORECA in 1981, and have maintained the interest of the Ministers of Agriculture in the institution. Expertise could be developed in CORECA to support individual national governments in such cases, and which could be transferred from country to country with CORECA playing a coordinating role. CORECA might also coordinate the identification and provision of such assistance from outside the region.

CORECA also could address national policy issues. It could help identify and evaluate regional impacts of changes in individual national policies, and how well they work to deal with specific problems. Again, basic grains policy serves as an example. Throughout the region, countries have roughly similar grains pricing policies. Similar problems with these policies have evolved

and there are acknowledged needs for reform to spur development in the basic grains sectors. In addition, there is little official trade in basic grains among countries in the region, also a result of existing policies. While changes in these policies are primarily problems for individual countries, they have regionwide impacts. Ministers of Agriculture throughout the region need information about contemplated changes and assessments of potential impacts. In addition, policies designed with a regional view could be more complementary and actually encourage basic grain trade in the region (especially to handle the periodic shortfall and surplus situations that occur).

In addition to sectoral policies, macroeconomic policies are crucial to the stability of the sector and to the growth and development of agriculture throughout the region.

Importance of Macroeconomic Policies

In part because of the region's current economic crisis and the shortage of hard currency to pay large external debts, individual governments have become increasingly preoccupied with macroeconomic policies.

In this context, there is growing recognition of the dominant role of macroeconomic policies in the performance and development of the agricultural sector. It is becoming clear to both the public and private sectors that monetary, fiscal, trade, exchange rate, and other national economic policies have greater impacts on agriculture than do agricultural sector policies, and that policy decisions taken outside agriculture can be far more influential than changes in any of the policies and programs managed by Ministers of Agriculture.

This recognition is still growing, but with it is growing a sense of frustration and helplessness because of the complexity of the situation and the unfamiliarity of such policies to concerned public and private sector officials alike.

In a companion problem, Ministers of economy often have little understanding of agricultural policies, their impacts on the sector, and, in turn, their impacts on national development. Thus, it is essential that Ministers of Agriculture have the capacity to become involved in the design and implementation of macroeconomic policies, and in evaluations of the importance of those policies to agricultural production and trade, rural incomes, investment, agricultural infrastructure development, and rural development in general. These developments are leading to two related concerns:

- c There is virtually no public sector capacity in any of the countries in the region to conduct analyses of macroeconomic policy on the agricultural sector. Analysts in the agricultural Ministries typically have little background and/or training in macroeconomics. Analysts in other parts of the public sector, such as the Central Bank or Ministry of Finance or Ministry of Hacienda, may have macroeconomic training but have little or no background, knowledge, or understanding of the agriculture sector.
- o The great and growing importance of macroeconomic policy leads to calls for Ministers of Agriculture to have a larger role in economic policymaking for the countries. While Ministers may or may not be members of the Economic Cabinet, most have little capacity to perform in this capacity. Their own backgrounds likely have not prepared them

for such a role and there is little or no capability in their Ministries to help prepare them.

Whether Ministers of Agriculture can ever play more prominent roles in macroeconomic policymaking for the entire country is always debatable. However, there is agreement that they should be involved in deliberations that concern the agriculture sector, especially to assess likely impacts of contemplated general policy changes. These observations suggest that greater analytic capacities are needed in the Agricultural Ministries. At the very least, the capacity should exist in the Ministries for thorough assessment of macroeconomic policy impacts on the agriculture sector, information which could be used in national economic policy deliberations.

The Ministries now lack the capacity to conduct solid economic policy analysis even on the sectoral level, let alone the macroeconomic policy level. It has proved difficult to institutionalize such capability for various reasons. Policy analysis units frequently change with administrations. Beyond that, public sector compensation levels usually do not attract or hold appropriately trained and qualified analysts. Most Ministries have some kind of planning unit that relates in various ways to the national planning units, but these are variable in quality and performance over time, especially as related to policy. Most planning units, in fact, do little of what is generally regarded as policy analysis.

Another reason for the limited analytic capacity for policy analysis is the lack of a generally accepted understanding of what is encompassed in policy research and policy analysis, and in the distinction between the two. Also, there is too little common understanding of how a policy analysis unit can most effectively operate in the national governments, or how it might

interact with or relate to other units of government (such as the planning units) or to other organizations.

ROCAP-Bilateral Mission Approaches to Policy Constraints

The foregoing points bring into focus the respective roles of ROCAP and the bilateral missions. Important changes in policy constraints tend to be the result of the policy dialogue and project conditionality. There is a widespread belief among persons interviewed that the policy dialogue could deal more successfully with longer-term economic constraints if it were better supported by more analytic capacity in the countries and by a broader, more regional view of policy constraints by country officials. At the same time, there is general agreement by most of those interviewed that CORECA's potential for success would be greatly enhanced by stronger capabilities for policy analysis in the individual countries. This is true for several reasons, not the least of which is the ability to prepare the Ministers for participation in CORECA. The better the analytic capability in each country, the better prepared a Minister can be to contribute to the deliberations of CORECA--to know how a policy affects an individual country and how changes might affect the entire region.

Efforts to strengthen the capability of individual countries, of course, are viewed as the responsibility of the bilateral missions and some have projects that include this as an element. In Honduras, grant funding is provided to ADAI, a not-for-profit research organization, which in turn provides analysts to the Ministry of Natural Resources (MNR). There are concerns about this arrangement and it appears that another grant may not be made to ADAI. A proposal from MNR to establish a new arrangement through IICA (Program I) is being viewed favorably. Under the current arrangement, the

unit tends to get drawn off into "political things" for the Minister, to focus on standard research topics (marketing efficiency) rather than policy analysis, and to not address relevant policy concerns. From AID's view, there were two other problems as well--the ADAI overhead costs and the arrangement's lack of permanence, so that when AID funding ends, the group could cease to exist. Repeated attempts have been made to get the Government of Honduras (GOH) to provide counterpart funding, to no avail.

The MNR/IICA proposal would involve:

- o A joint USAID/GOH designation of FL 480 monies for a contract with IICA to provide policy analysis directly through Program I (not CORECA), administered through the country representative. The funding would count as GOH counterpart funds.
- o USAID/H then would provide a direct grant to IICA, Program I (or a Honduran entity) to support the work of the analysts, to do studies, hire consultants, travel, etc.

This proposal is mentioned as a possible model for other bilaterals to work in concert with ROCAF and IICA. A variation of the scheme would involve adding a CORECA technician to each country office who would be administratively supported (space, secretarial support, etc.) by the country representative's office and would interact with others in the IICA country office, the Ministries' policy units, headquarters staff, etc.

Future ROCAF Support of the Policy Dialogue

Over the next 5 years, the Central American region will continue to suffer an enormous disadvantage relative to more developed areas, in part because of the capacity of developed regions to focus large amounts of resources effectively on problems that affect broad areas. In research, for

example, developed countries can identify constraints that affect production, consumption, investment, or marketing and focus the necessary resources to deal with most problems. In Central America, where incomes are low and expensive research resources very scarce, it is necessary to focus individual research efforts on very similar problems in several countries, perhaps in three or four. These competing effects likely will be fragmented, underfunded, and incomplete if they are undertaken at all. Not only is it far more efficient, but in many cases, more effective to do this work centrally.

ROCAP, because of its support for a network of regional institutions, would appear to have powerful leverage to provide or help provide much of the long-term effort to support the bilateral missions and host governments and make the dialogue on policy constraints more productive. It has significant potential to:

- o Increase the capacity of national governments to understand and analyze policies and policy options relative to national investment programs, policies to intervene in markets to alter incentives to produce and consume and policies to establish a regional and national infrastructure to support expanded export production and marketing.
- o Supplement national governments' capacity to define and analyze policy constraints and options, and help them strengthen their own capacity in this area.
- o Organize and support institutions that can help strengthen national capacity to define and analyze policy options, help provide such support directly, and provide direct analysis and services for regionwide services.

By focusing its efforts in these areas, ROCAP could be in a strong position to use its institutional leverage to generate information and analyses to strengthen the policy dialogue throughout the region. In addition, it could more directly support efforts to define and modify regional policy constraints working through the Regional Council of Ministers, CORECA.

CORECA and IICA now seem much better positioned than before to expand their work on policy analyses of regionwide and regional problems. CORECA seems willing to use its policy advisory unit to screen and focus policy concerns, perhaps even to focus exclusively on agricultural policy issues and thereby avoid diluting efforts by work on "technical" issues such as insect eradication programs and others. Technical coordination is useful, but could be done at a lower level, possibly in IICA, and probably should not occupy CORECA resources that could better be focused on regional and national policy issues and concerns.

In this setting, CORECA could assume several very important roles:

- o Identify regional policy constraints that could be referred to IICA or others for definition and evaluation.
- o Select among potential policy issues those of highest priority for definition and evaluation. In particular, decide among "regional" issues and "common" policy issues those that deserve the highest priority for definition and evaluation.
- o Design and implement organizational and management schemes to help Ministers of Agriculture conduct policy analysis necessary to permit them active roles in domestic debates on macroeconomic policy and on sector policies.

- o Undertake directly a limited number of policy analyses on selected immediate "regional" and "common" policy constraints.
- c Work with IICA and others to help design, conduct, and report research on policy issues needed to support the policy dialogue in Central America, especially with IICA efforts under the IICA Program I.

In support of such activities, the CORECA permanent secretariat could focus entirely on agricultural policy. It would be necessary to devote considerable time to the delineation of policy issues; what is and what is not policy; which issues are regional, or common to several countries and are likely to be the focus of the policy dialogue, and which are not, and how these should be approached.

CORECA would need to look very carefully at the distinction between policy analyses, which are focused on decisions that must be made in the immediate future and which require as much economic information on the issue as can be developed in the time available, and policy research which focuses on economic facts and relationships between important factors. Both are critical, and in short supply, but the tendency is to focus resources on policy research and to ignore the analysis required to support the negotiation for conditionality actually underway in the policy dialogue. It would be important for CORECA resources to be focused carefully on policymakers' needs, while participating to a much smaller degree in policy research with IICA and others.

Finally, it would be important for CORECA to build on its support with the regions' Ministers of Agriculture and insure full access by Ministerial offices to resources required on a timely basis. It would concentrate on actual support of the Ministers in the policy dialogue, insure an organization

that is competent, smoothly managed, and accessible to agricultural policymakers who need help and flexible enough to deal with current and emerging problems.

VI. SUMMARY CONCLUSIONS AND RECOMMENDATIONS

Based on the review of material available on regional problems and programs and on interviews with officials and others, the following conclusions and recommendations are presented:

- o Throughout the region, growth in agricultural productivity is low and is significantly retarding national economic growth and development.
- o All of the reviews and all of the officials interviewed concluded that agricultural policy constraints were major factors underlying the region's poor agricultural performance.
- o Agricultural policy constraints are also very important to the national macroeconomic concerns of each country, which in turn are critically important to agricultural and rural growth. However, these relationships are very poorly understood by both agricultural officials and those in other Ministries throughout the region.
- o Agricultural policy constraints are the focus of much of the policy dialogue, but there is very little capacity in the Ministries of Agriculture of the region to systematically define or analyze policy issues or options. In addition, efforts to strengthen the Ministries' capacity to conduct policy analysis have been limited.
- o Because the policy dialogue is critically important to the region, there is wide support for economic policy efforts. There is very little such effort now, in spite of the importance of reducing policy constraints.

While there is concern in some quarters that the definition and analysis of policy constraints will dilute efforts on specific, practical projects to expand markets and improve production efficiency

and productivity, there is general recognition of the importance of economic constraints such as export taxes and inappropriate commodity pricing policies, the necessity to negotiate changes in these policies, and the potential benefit of practical, well-designed policy analyses.

In addition, there is general agreement that better tools to address policy constraints could have important benefits for agricultural sector performance. As a result, the study recommends that ROCAP undertake an effort to help identify, define, and appraise options to modify selected agricultural policy constraints in the region in order to strengthen the policy dialogue and help improve sector performance.

The effort could focus on several different classes of policy concerns:

- Linkages between macroeconomic policy and agricultural investment and production.
- Importance of agricultural development to national economic development and growth.
- Common agricultural economic policy problems in the Central American region, e.g., basic grains policies, credit policies; self-sufficiency and export promotion policies, among others.
- Regional economic problems, including impacts of production, marketing, transportation, or other subsidies, market information, production outlook and planning, or other, or regional external problems such as U.S. or EEC import policies, or others.

--Alternatives to permit development of regional marketing infrastructures, such as markets, market information, grading, storage, warehouse facilities, or others, including monitoring of production, marketing, and policy decisions.

The activity should have five major purposes:

- Increase the capacity of Ministers of Agriculture to conduct policy analyses in order to increase their participation in internal debates on both macroeconomic and agricultural sector issues.
 - Support increased activities by CORECA to identify regionwide common agricultural policy issues and regional policy issues that arise because of common interests and concerns; to coordinate policy analyses on selected issues and policy research on major areas of concern.
 - Support efforts by CORECA and IICA to develop arrangements with Ministries of Agriculture to strengthen individual Minister's capacity for policy analysis and planning.
 - Support efforts by IICA to undertake policy analyses in cooperation with CORECA and with individual Ministries.
 - Support efforts by CORECA and IICA to define basic policy data and research needs and to monitor policy development, policy changes, and policy impacts.
- o Most officials interviewed agreed that 1988 is the strategically appropriate time for the development of a strong, intermediate-term agricultural policy effort by ROCAP, and that CORECA and IICA are well positioned now to provide much of the institutional focus of the effort.

--There is a powerful surge of regional concern at this time, arising mainly from the Central American peace initiatives but also from the Central American Common Market, the current economic and financial pressure on intra-regional trade, and the belief that the worst of the current economic crisis may be past and that cooperative regional growth may be possible once again.

--There is widespread recognition that macroeconomic policy issues are dominating the policy dialogue and that the Ministers of Agriculture are too little involved in this debate, in spite of its importance to them.

And, there is recognition that major agricultural policy issues are not being fully addressed because there is so little capacity to define or analyze these important issues.

--There appears to be broad support for CORECA as an institution to help define, focus, and coordinate regional support for policy analysis and to work with IICA and others in the development of policy research and policy analysis.

CORECA has developed recent agreements with IICA and with SIECA and others to provide support for its activities during the next several years. There is general agreement that many of the conceptual and operational problems of the past have been solved and that CORECA now has much broader organizational support through the region.

--IICA has organized a major program area to undertake studies in the area of agricultural policy analysis, and almost certainly would be interested in actively cooperating in a future agricultural policy

effort. This willingness, plus the capacity to build on work now underway, would greatly strengthen ROCAP policy analysis efforts.

APPENDIX A. SCOPE OF WORKI. OBJECTIVE:

The Contractor will provide the professional assistance of one Senior Agricultural Economist to ROCAP to conduct an in-depth study/analysis of agricultural policy issues in the Central America/Panama (CA/P) region in preparation for ROCAP's Regional Development Strategy Statement (RDSS) for the 1983-1992 period.

II. SCOPE OF WORK:A. Background

ROCAP will be preparing a Regional Development Strategy Statement (RDSS) for submission to AID/W in late December, 1987. ROCAP requires the services of a Senior Agricultural Policy Advisor to conduct an in-depth study/analysis of the agricultural policy arena in the CA/P region. The purpose of agricultural policy is to modify market forces so that farmers and other actors in the sector will alter their production and marketing decisions in ways which promote the common good. To facilitate that process, a Project Agreement (No. 596-0094) was signed between the Inter-American Institute for Agricultural Cooperation (IICA) and ROCAP in September, 1981. The Project was designed to operate from September 30, 1981 to March 31, 1985. Initially, AID authorized only a Phase I, to September 30, 1983, with continuation for the full-term contingent upon an evaluation of progress during Phase I. Based on the evaluation, Phase II was implemented until March 31, 1985. The project was subsequently extended to September 30, 1985 and again to December 31, 1985.

The purpose of the Project was to support a regional effort in Central America, Panama and the Dominican Republic to assist the Agricultural Secretariat (CORDECA) of the region (comprised of the Ministers of Agriculture from each country; an advisory group made up of the Directors of the National Agricultural Planning programs and a technical staff). In November 1985, a final impact evaluation of the Project was conducted and the results of that evaluation are available in ROCAP offices. The primary focus of the study/analysis called for under this contract will be to assess what has transpired in the agricultural policy arena since the termination of ROCAP participation in CORDECA in 1985, and will be based on primary and secondary information sources from ROCAP, bilateral USAID missions in the CA/P region, and public and private sector institutions.

The specialist will work under the guidance of the ROCAP Agricultural Development Officer and will be required to work in Guatemala City, and travel to the other CA/P countries (El Salvador, Honduras, Costa Rica and Panama). The required time estimated to complete the assignment described in this Scope of Work and qualifications for the specialists are as follows:

1. Qualifications: This Agricultural Policy Specialist will be a senior level agricultural economist with an in-depth knowledge of the Latin America agricultural sector and the constraints to the development process. The agricultural policy specialist should be familiar with the major policy issues of the CA/P region, and up-to-date with the bilateral missions and other donor activities in the region. The individual selected must be able to meet and establish rapport with high-level government officials, agricultural leaders and private sector representatives. He/she should be familiar with the AID programming process, particularly with the Country Development Strategy Statement (CDSS), and how it related to AID programming. He/she must have a Spanish language capability equivalent to FS-3.
2. Specific Scope of Work: The Agricultural Policy Specialist will be responsible for organizing and directing the overall study/analysis, and will be responsible for the form and substance of the final document, assuring that it meets the AID criteria for CDSS documentation. The Agricultural Policy specialist will also be responsible for the following Specific Scope of Work.
 - a. Define the major agricultural development problems and opportunities facing the region over the next five years;
 - b. Identify and analyze short and long-term policy issues facing the region;
 - c. Identify specific achievements obtained to date as a result of CORECA;
 - d. Assess managerial and administrative adjustments IICA has made in its role as coordinating institution of CORECA;
 - e. Identify specific activities CORECA could undertake immediately, and over the coming five years, which would improve its capabilities for conducting agricultural policy studies, developing procedures for analysis of common agricultural policy issues and assessing individual country and regional impacts of alternative policies;
 - f. Develop a preliminary list of potentially important agricultural studies as priority areas for CORECA attention;
 - g. Develop a strategy to guide ROCAP's appropriate role in strengthening CORECA; and,
 - h. Determine the appropriate role for ROCAP in supporting agricultural policy formulation and coordination in the region.

III. TIMING:

Work under this Work Order will be carried out during the period October 15 - November 15, 1987. The specialist will be stationed in Guatemala, but will be required to travel throughout the CA/P region.

IV. REPORT:

The specialist will be required to submit a draft report of findings prior to his/her departure from the region. Five copies of final report will be submitted in English to ROCAP no later than 15 days thereafter.

APPENDIX B: LIST OF DOCUMENTS REVIEWED

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Leonard, H. Jeffrey, Natural Resources and Economic Development in Central America, International Institute for Environment and Development, Washington, D.C., 1987.

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U.S. Department of Agriculture, FAS Attache Report, Costa Rica: General Agricultural Situation, Washington, D.C., March 1987.

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APPENDIX C. CENTRAL AMERICAN REGIONAL ORGANIZATIONSGUATEMALA

- The Central American Research Institute for Industry (ICAITI): specializes in industrial development, applied technology and energy problems.
- The Nutrition Institute for Central America and Panama (INCAP): supports regional activities in the fields of nutrition, food production and processing, and nutrition education and planning.
- The Latin American Agribusiness Development Corporation (LAAD): finances non-traditional agribusiness development with emphasis on exports.
- The Secretariat for Central American Integration (SIECA): is responsible for implementing the treaties of the Central American Common Market and provide staff work to develop regional policies on such matters as tariffs and trade, industrial incentives, uniform agricultural prices, and harmonization of country fiscal policies.

EL SALVADOR

- The Organization of Central American States (ODECA): is the political counterpart of the Central American Common Market.

HONDURAS

- The Central American Bank for Economic Integration (CABEI): engaged in long-term lending, in the past mainly for social and productive infrastructure, but increasingly focused on private sector activities.
- The Panamerican Agricultural School (Zamorano): provides "hands on" undergraduate training which affords students combined practical, theoretic experience in agriculture, animal science, and fisheries.

COSTA RICA

- The Tropical Agricultural Research and Training Center (CATIE): plays an active role in the promotion of applied research and technology advancement in animal, crop and forestry production and watershed management in Central America.
- The Central American Business Administration Institute (INCAE): provides graduate training as well as specialized professional level training in business administration and export management.
- The Interamerican Institute for Agricultural Cooperation (IICA): provides technical assistance in agriculture throughout Latin America and the Caribbean as an affiliated organization of the Organization of American States.
- The Central American Institute of Public Administration (ICAP): provides training and technical assistance in public sector management systems and techniques.
- Private Enterprise Federation of Central America and Panama (FEDEPRICAP): a recently revitalized umbrella business organization which focuses on trade and investment policy development, export and investment promotion and other issues of common interest to the region's private sector.

PANAMA

- The Latin American Export Bank (BLADEX): finances short-term pre-export and export credit requirements for non-traditional Latin American exports.

APPENDIX D. LIST OF PEOPLE INTERVIEWED

Armando Reyes Pachelo
IICA Country Representative, Guatemala
Guatemala City

Robert Cater
Advisor to Minister of Agriculture
Guatemala

Dr. Juan Antonio Aguirre
IICA Country Representative, Honduras

J. Mario Ponce C.
Executive Director
El Ateneo del Agro-Industria (ADAI)
Tegucigalpa, Honduras

Gilberto Goldstein
Tegucigalpa, Honduras

Robert Villeda Toledo
Advisor to the Minister of Agriculture
Honduras

Edgar Alvarado
Executive Director
UNAGRO
Guatemala City, Guatemala

Government of Costa Rica

Oswaldo Pandolfo Rimolo
Vice Ministerio, Agricultura y Ganaderia

USAID/Guatemala

Harry Wing
Agricultural Development Officer

Brian D. Rudert
Deputy Agricultural Development Officer

USAID/Honduras

David Flood
Deputy Agricultural Development Officer

Richard Peters
Agricultural Development Officer

USAID/Costa Rica

Kevin Kelly
Program Development Officer

Ross Wherry
Acting Rural Development Officer

USAID/El Salvador

Ken Ellis
Rural Development Officer

Mike Wise
Assistant Rural Development Officer

SIECA

Lic. Raul Fierra Franco
Secretario General

Manuel Martinez y Martinez
Director, Departamento Agricola

IICA, Costa Rica

Rodolfo Martinez Ferrate
Director, Operaciones del Area Central

Carlos Pomareda
Director, Policy Analysis Program (Program I)

Roger Guillen Bustos
Especialista en Planificcion del CORECA

Helio Fallas
Especialista en Analisis de Politicas Agricolas

Jose Antonio Holguin
Coordinador del Plan de Accion en Costa Rica

F. Ricardo Caceres
Especialista en Administracion para el Desarrollo

INCAE

John C. Ickis
Director, Academicio

Geronimo M. Collado
Professor and Agribusiness Program Director